联华超市股份有限公司

LIANHUA SUPERMARKET HOLDINGS CO., LTD.

Stock Code: 0980

INTERIM REPORT 2017

Contents

Corporate Information

Directors

Executive Directors

Ms. Qi Yue-hong

Non-Executive Directors

Mr. Ye Yong-ming (Chairman)
Ms. Xu Zi-ying (Vice Chairman)
Mr. Zhang Ye (Resigned on 28 August 2017)
Mr. Dong Zheng
Mr. Qian Jian-qiang
Ms. Zheng Xiao-yun
Mr. Wong Tak Hung

Independent Non-Executive Directors

Mr. Xia Da-wei
Mr. Lee Kwok Ming, Don
Ms. Sheng Yan
Mr. Zhang Jun

Board Committees

Audit Committee

Mr. Lee Kwok Ming, Don (Chairman)
Mr. Xia Da-wei
Mr. Zhang Jun
Ms. Zheng Xiao-yun

Remuneration and Appraisal Committee

Mr. Xia Da-wei (Chairman)
Ms. Xu Zi-ying
Ms. Sheng Yan
Mr. Zhang Jun

Strategic Committee

Mr. Ye Yong-ming (Chairman)
Ms. Xu Zi-ying
Ms. Qi Yue-hong
Mr. Zhang Ye (Resigned on 28 August 2017)
Mr. Dong Zheng
Mr. Qian Jian-qiang

Nomination Committee

Mr. Ye Yong-ming (Chairman)
Ms. Sheng Yan
Mr. Xia Da-wei
Mr. Zhang Jun

Supervisors

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

Joint Company Secretary

Mr. Stephen Mok
Ms. Hu Li-ping

Authorized Representatives

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

International Auditor

Deloitte Touche Tohmatsu

Legal Advisors to the Company

As to Hong Kong Laws

Eversheds

As to People's Republic of China ("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

Corporate Information

Registered and Business Office

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Shareholders' Enquiries

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17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Share Information

Listing Place
The Stock Exchange of Hong Kong Limited
("Stock Exchange" or "SEHK")

Listing Date
27 June 2003

SEHK Stock Code
980

Number of H Shares Issued
372,600,000 H shares

Financial Year-end Date
31 December

Management Discussion and Analysis

Operating Environment

Based on the data from the National Bureau of Statistics of the People's Republic of China, in the first half of 2017, China's gross domestic product (GDP) achieved a year-on-year growth of 6.9%, representing an increase of 0.2 percentage point compared to the same period of last year. China's economy operated within a reasonable range, which had seen a stable performance with a good momentum for growth. The stability, coordination and sustainability of the economic development were strengthened, and the operating efficiency of real economic enterprises rebounded significantly. However, judging from data from various sources, the foundation for short-term economic recovery is still not solid enough.

Based on the data from the National bureau of Statistics of the People's Republic of China, in the first half of 2017, total retail sales of consumer goods nationwide had a nominal year-on-year growth of 10.4%, representing an increase of 0.1 percentage point compared to the same period of last year, of which the retail sales of consumer goods of enterprises above a designated size had a year-on-year growth of 8.7%, representing an increase of 2.2 percentage points compared to the same period of last year.

Due to the steady development of the economy, the growth of residents' income increased. Based on the data from the National Bureau of Statistics of the People's Republic of China, nationwide disposable income per capita had an actual growth of 7.3% in the first half of 2017, representing a year-on-year increase of 0.8 percentage point, and it was 0.4 percentage point higher than the GDP growth rate compared to the same period of last year. In the first half of 2017, nationwide consumption expenditure per capita had a real increase of 6.1%, representing a decrease of 0.4 percentage point compared to the same period last year. As shown in the "Interim Report of Analyses and Projections on the Macroeconomic Situation of China" published by Shanghai University of Finance and Economics on 6 July 2017, the expanding household debts had become heavy burdens on the residents. For young families, housing mortgages had become the main cause for their liquidity deterioration, and the household liquidity tightening had brought forth important impacts on the real economy.

In the first half of 2017, the sales situation of large-scale retail enterprises improved significantly and the physical retailing sales showed signs of structural recovery. The deep integration of online and offline business had become a norm of the physical retail sector; the cross-sector development of multiple business segments had become the mainstream, and the information technology had taken the lead in driving the development. Based on the monitoring data from the China National Commercial Information Centre, the retail sales of the 50 key retail enterprises in the first half of 2017 had a year-on-year cumulative growth of 2.8%, representing an increase of 5.9 percentage points compared to the same period of last year. The buying behavior of major young consumer groups was shifting continuously to online platforms, and the growth of online retail sales also accelerated. Based on the data from the National Bureau of Statistics of the People's Republic of China, in the first half of 2017, online retail sales had a year-on-year growth of 33.4%, representing an increase of 5.2 percentage points when compared with 28.2% in the corresponding period of last year.

To keep up the consumption upgrades and increasingly personalized demands of consumers, China's physical retail sector sped up explorative practices in new retail model during the first half of 2017. With the support of data and technology, and through integration of online and offline operation, speedy distribution, provision of omni-channel membership services, reduction of customers acquisition cost, enhancement of the supply of commodities supplied and operation efficiency, providing consumers with a more efficient, convenient and interesting consumption experience, the retail sector attracted increasing customer flows and expanded sales.

Management Discussion and Analysis

Financial Review

Turnover and consolidated income

During the period under review, the Group's turnover was approximately RMB13,238 million, decreased by RMB845 million when comparing with the same period of last year (a decrease of approximately 6.0% year over year). It was mainly due to: 1) a decrease in sales of approximately RMB331 million arising from shutting down stores; and 2) a decrease in same store sales by 3.80% year over year as a result of online sales competition and a decrease in the sales retail area of the transformed stores. Despite the Group had made continuous efforts in optimizing the supply chain resources and advancing the integration of omni-channel online and offline sales business, however, under the situations that domestic retail sales increased by 10.4%, and on-line sales still had a two-digit growth, the same store sales, which were mainly offline sales, continued to show a downward trend.

During the period under review, affected by the year-on-year drop of turnover, the Group's gross profit amounted to approximately RMB2,006 million, representing a decrease of approximately 0.8%, while the gross margin increased by approximately 0.80 percentage point year on year.

During the period under review, consolidated income of the Group was approximately RMB3,347 million, representing a decrease of approximately 1.7% year over year. The decrease was mainly attributable to decrease in supplier channel income as a result of decrease in sales.

During the period under review, the Group maintained solid cash flow and carried out professional management with principle of conservation.

Operating cost and net profit

During the period under review, the total distribution cost and administrative expenses of the Group amounted to approximately RMB3,111,438 thousand, decreased by approximately 3.3% or RMB106,299 thousand year on year. The decrease was mainly attributable to: (1) the headquarters and Shanghai operation center adjusted organization structures to reduce management hierarchy and achieved a good result, which led to a decrease in labor cost of approximately RMB26,191 thousand; (2) the rental expense decreased by approximately RMB44,225 thousand year over year due to store closures; and (3) the Group's further reduction efforts in energy consumption which led to a decrease in water and electricity charges by approximately RMB25,825 thousand.

During the period under review, the Group recorded an operating profit of approximately RMB164,585 thousand, with a year-on-year decrease of approximately 4.9% and an operating profit margin is 1.24%, roughly remained flat over the same period of last year of 1.23%.

During the period under review, associates' revenue attributable to the Group was RMB19,781 thousand, with a year-on-year growth of 59.2%. As of 30 June 2017, Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") recorded an operating profit of approximately RMB24,906 thousand, with a year-on-year growth of 35.3%, and had a total of 30 outlets.

During the period under review, the tax expenses of the Group was approximately RMB108 million, representing a year-on-year decrease of approximately 2.7%. The Group undertook various initiatives to minimize the impact of the latest taxation policy on enterprise, pay close attention to the government's financial support policy and sought to obtain financial support funds from various local governments in order to further lower the tax rate of the Group.

Management Discussion and Analysis

During the period under review, the Group recorded a net profit of approximately RMB76,489 thousand, representing an increase of 2.6% year over year. During the period under review, the Group recorded a net loss attributable to the shareholders of approximately RMB4,820 thousand. The turning point for turning the profit attributable to shareholders from profit to loss was mainly because the profit of the Group mainly came from its non-wholly-owned subsidiaries in Zhejiang and Guangxi province, however its wholly-owned subsidiaries outside Shanghai suffered bigger losses. On one hand, the Group promoted the integration of online and offline retail sales channels according to its strategic plan, and on the other hand, the Group, based on organic growth, reduced costs and controlled expenses. During the period under review, the Group reduced expenditure by approximately RMB106,299 thousand. During the period under review, the Group's net profit margin attributable to the shareholders was -0.04%. Based on the 11,196 million shares issued by the Group, the basic loss per share was approximately RMB0.004.

Cash flow

During the period under review, the net cash outflow of the Group was RMB338,729 thousand. It was mainly due to the increase in term deposit and purchase of financial assets at fair value through profit or loss. Cash and various balance at bank as of the end of the period was RMB6,093,171 thousand, representing a decrease of RMB592 million compared with the beginning of the year. It was mainly due to decrease in debt certificates and increase in purchase of financial assets at fair value through profit or loss.

As of 30 June 2017, the accounts payable turnover period of the Group was 62 days and the inventory turnover period was approximately 42 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 30 June 2017, there were not arbitrage financial instruments in issue.

Retail businesses operations

Hypermarkets

During the period under review, the hypermarket segment of the Group recorded a turnover of approximately RMB8,185,786 thousand, accounting for approximately 61.8% of the Group's turnover, representing a decrease of approximately 7.1% year over year. Same store sales had a year-on-year decrease of 3.67%. The hypermarket segment was focused on structural optimization of its commodity categories to attract customers and advancing the integration of the online and offline business to increase the sales. The hypermarket segment of the Group recorded a gross profit of approximately RMB1,191,672 thousand. The gross profit margin increased by 0.83 percentage point year over year to 14.56%. The consolidated income margin increased by 1.72 percentage points year over year to 25.29%, which was mainly attributable to the effect of the decrease in sales on the operating profit mitigated by the gross profit margin growth. This segment recorded an operating profit of approximately RMB112,344 thousand, representing a year-on-year increase of approximately 45.0%. The operating profit margin increased by 0.49 percentage point year over year to 1.37%. This was mainly due to: 1) the transformed stores optimized the profitability structures and their profitability was improved; meanwhile, the transformed stores in Shanghai recorded a decrease in operating loss of approximately RMB22,950 thousand compared to that of last year; 2) organic growth through controlling expenses, of which, water and electricity charges decreased by approximately

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RMB16,872 thousand year over year; 3) initial success was achieved with respect to the merchants solicitation business, and income increased by approximately RMB11,723 thousand year over year; and 4) streamlined product inventory system, improved the quality of inventories and sped up the turnover of the products.

As of 30 June	2017	2016
Gross Profit Margin (%)	14.56	13.73
Consolidated Income Margin (%)	25.29	23.57
Operating Profit Margin (%)	1.37	0.88

Supermarkets

During the period under review, the turnover of the Group's supermarket segment reached approximately RMB4,061,937 thousand with a year-on-year decrease of approximately 4.4%, accounting for approximately 30.7% of the Group's turnover. Same store sales decreased by 3.60%. The gross profit of the supermarket segment was approximately RMB647,825 thousand, with a year-on-year increase of approximately 0.9%. The gross profit margin was 15.95%, with a year-on-year increase of 0.83 percentage point, which was the main reason for the increase in gross profit. The consolidated income margin of the supermarket segment was 24.66%, with a year-on-year decrease of 0.19 percentage point. The operating profit of the segment was approximately RMB137,929 thousand. The operating profit margin was 3.40%. During the period under review, the supermarket segment followed the Group's strategic plans to: 1) expedited the store transformation and updated to increase profitability; 2) utilize the advantages of outlets to promote integration of online and offline business to boost sales growth, of which, the "Bailian To Home" business recorded a year-on-year growth; and 3) strengthened fresh produce, optimized the structure of product categories, improved the marketing and sales promoting approach orders, led to an improvement in consolidated results.

As of 30 June	2017	2016
Gross Profit Margin (%)	15.95	15.12
Consolidated Income Margin (%)	24.66	24.85
Operating Profit Margin (%)	3.40	3.56

Convenience Stores

During the period under review, the turnover of the Group's convenience store segment recorded a year-on-year decrease of approximately 6.2% to RMB945,756 thousand, which accounted for approximately 7.1% of the Group's turnover. In particular, same store sales had a year-on-year decrease of 5.71%. During the period under review, the convenience store segment reinforced the reform of existing stores, increased investment in the facilities of convenience services, vigorously promoted core commodities and core services, and utilized the advantages of outlets to promote value-added services. The Group's convenience store segment recorded a gross profit of approximately RMB160,129 thousand, with a year-on-year decrease of RMB3,243 thousand. The gross profit margin increased by 0.73 percentage point year over year to 16.93%. The consolidated income margin increased by 0.70 percentage point year over year to 23.35%. Due to rigid growth of labor cost and high rental cost, the segment witnessed a decrease in revenue and an increased in cost and expenditure, and recorded an operating loss of approximately RMB63,461 thousand. Its operating profitability remained at a relatively low level.

As of 30 June	2017	2016
Gross Profit Margin (%)	16.93	16.20
Consolidated Income Margin (%)	23.35	22.65
Operating Profit Margin (%)	-6.71	-3.17

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Capital structure

As at 30 June 2017, the Group's cash equivalents were mainly held in Renminbi. Except for the bank borrowings of RMB2,000 thousand by a non-wholly-owned subsidiary of the Group, there were no other bank borrowings.

During the period under review, shareholders' equity of the Group decreased from approximately RMB2,753,879 thousand to approximately RMB2,731,730 thousand, which was mainly due to the profit for the period of approximately RMB76,489 thousand, dividend payment to non-controlling interests amounting to approximately RMB113,870 thousand.

Details of the Group's Pledged Assets

As of 30 June 2017, the Group did not pledge any assets.

Exposure to 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 any financial instruments to hedge its foreign exchange risks. The directors believe that the Group is able to meet its foreign exchange requirements.

Share capital

As of 30 June 2017, the issued share capital of the Company was as follows:

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

Contingent liabilities

As of 30 June 2017, the Group did not have any material contingent liabilities.

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Outlet Development

During the period under review, the Group continued to adhere to its quality-focused development strategy. On one hand, the Group actively established new outlets in key development areas to consolidate its market position. In the first half of 2017, the Group opened 115 new stores, of which 83 were new franchised stores, and 32 new directly operated stores. Among the new stores, 61 stores were located in the Yangtze River Delta, accounting for 53.0% thereof. On the other hand, 138 loss-making stores were shut down so as to adapt to the changes in the market environment and improve the quality of the overall physical network of stores. Among the closed stores, 39 directly operated stores were closed down with a net reduction of 7 stores, and 99 franchised stores were closed down with a net reduction of 16 stores. The main reasons for their closures were the expiration of their tenancy agreements and/or operational difficulties.

During the period under review, the Group improved the operation quality and economic benefits of hypermarkets by means of making adjustment, optimization upgrading as well as sorting out those stores with comparatively bigger losses. During the period under review, two hypermarkets were opened, while three were closed.

During the period under review, the Group focused on transforming and upgrading the operation of the directly-operated supermarket. The franchised supermarkets focused primarily on accelerating the construction of the supporting system, and committed to the sustainable business development. During the period under review, 63 new supermarkets were opened, including 13 directly operated stores and 50 franchised stores. The supermarket business continued to take the lead in the markets of Shanghai, Hangzhou and Liuzhou.

During the period under review, the convenience store segment focused mainly on the adjustment of the outlet structure, and optimization of commodity structure, continually extended the sales of fresh food, imported commodities and branded commodities, accelerated introduction of new products, and adopted innovative marketing. During the period under review, 50 new convenience stores were opened, including 17 directly operated stores and 33 franchised stores.

As of 30 June 2017, the Group has owned 3,595 stores in total, a decrease of 23 outlets compared to the end of 2016. Approximately 81.6% of the Group's stores are located in eastern China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	151	563	805	1,519
Franchised operation	–	1,392	684	2,076
Total	151	1,955	1,489	3,595

Note: The data above-mentioned were as of 30 June 2017.

People-oriented Concept

During the period under review, the Group continued to adhere to its people-oriented concept, and adopt innovative incentives to strengthen the capabilities of its organization. The Group implemented vigorously the reform of the store incentive mechanism, conducted pilot trials of a store partner system in hypermarkets to promote the stores to carry out their business activities with profits as a core target, and promoted store manager and store assistant joint-contracting models in supermarkets to incentivize stores to decrease costs and increase profit, the effects of which were remarkable.

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During the period under review, the Group strengthened its evaluation and incentives for its operation and management departments, conducted detailed analysis on personnel expenses, input and output against the key performance indicators for each department, and simulated profit for evaluation. In addition, the overall profit target were set for each department. The logistics department was also included in the evaluation, which shared benefits with other departments. In the benefit-sharing design, the front-line staff's income were linked to their performance. The reform of the evaluation method stimulated the enthusiasm of every employee, through which satisfactory results were achieved.

During the period under review, the Group focused on optimizing the allocation of human resources, and giving full play to the initiative of its employees. With its strategies as a guide, the Group improved both of its evaluation system and market-oriented professional selection mechanism to select young, excellent professionals with outstanding performances and development potentials. The Group also developed the evaluation criteria for professionals of different types at different levels for different jobs. The Group perfected its two-dimensional "Performance plus ability" evaluation system, under which evaluations were conducted reasonably and scientifically according to job values, work performances and work attitudes so as to effectively stimulate its personnel's initiatives, and strengthen the training of its professionals. Around its core business team, the Group's "Hundred-Professional" Plan was implemented for the development of the Lianhua professional team, so as to create an innovative management team, build a professional team with strong competitiveness, and develop a competitive professional team, and a team of store managers with high qualifications and adequate innovative spirits. In addition, the Group enhanced its talent building, through horizontal, inter-platform internal communication.

Innovative Reform

During the period under review, guided by customers' demands, the Group continued to focus on traditional poster marketing and differentiated marketing, carefully planned and organized festival marketing and theme marketing, and other large-scale marketing and promoting activities. The Group also actively highlighted cost-effective commodity sources to enhance consumers' loyalty and satisfaction. For hypermarkets, a variety of discount-day and theme marketing and promotional activities were carried out actively. For supermarkets, with promoting level 1 DM commodities as starting point, through strengthening promotion and exhibition of, and stocking up on major commodities, the sales volume of experienced growth. For convenience stores, festival seasons were used to organize various marketing and promotional activities. Inventories were stocked up in advance to ensure successful sales on holidays and festivals.

During the period under review, the Group steadily upgraded its stores. For hypermarkets, adjustment and upgrades were carried out. For hypermarkets with growth potentials, well-known brands were introduced, new and fashionable baby and children zones, personalized children's entertainment zones, premium imported foods zones and premium wine and alcohol zones were set up. At the same time, customer routes were re-designed, and props and equipment for fresh produce business were upgraded. Community service functions were also enhanced. To improve the operating conditions of stores with losses, various measures were adopted, such as optimizing operating structures through narrowing self-operated spaces and extending spaces of merchants solicitation, and through optimizing resource allocations, significant effects were achieved in reduction costs. As for supermarkets, through enhancing fresh produce operations, and introducing brand owners for cooperation, efforts were put into building "community kitchens", thus improving the quality of the fresh food business, as well as boosting the ability to attract new

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customers. Through upgrading brands and introducing new suppliers, commodity categories and varieties were improved, and through innovating System VI, a new brand image was established, and operating costs were effectively controlled by rational allocation of resources.

During the period under review, the Group actively accelerated the integration of the online and offline business operations to build the omni-channel. Based on its physical stores, the Group actively expanded its online channels by using e-commerce technology, focusing on the development of the "direct delivery to home" business, as well as the concept of "Place orders on the internet, and take commodities away from physical stores". The Group actively look for breakthrough points of online fresh food operation. Fresh food suppliers was introduced, new SKUs were expanded, and quantities, channels and exhibition of online commodities were optimized. In addition, operation supporting systems were improved, and business promotion approaches were innovated. Online sales volume of the "Handpicked Commodity Basket was promoted. In addition, specific criteria were set for evaluation and motivation of "To home" business. The Group actively and effectively carried out activities to expand memberships, and accelerated connecting of physical stores in the Zhejiang province with the internet, in order to realize rapid growth in both the number of orders and sales volume of the "Bailian To Home" business.

During the period under review, the Group promoted innovative development. To better cater to the trend of consumption upgrading and meet the demands of young consumer groups, the Group took the lead in establishing the Green & Health store, a new operation format, in Hangzhou. The Green & Health store promotes the concept of healthy lifestyle through selling healthy and quality food and packaged products The Group made full use of the existing merchandise resources and newly introduced supplier resources, prepared and sold foods on the spot, explored processes of on the spot cooking, and developed one-stop services from farms to dining tables, so as to combine fresh food processing and dining on the spot, thus enhancing the quality of supermarket and customers' experience.

Refinement and Pragmatism

During the period under review, the Group proactively implemented supply chain development, developed compliance bases, optimized existing bases, sped up construction of local bases, established long-term stable supply relationships with the bases, and optimized the base structures to build a stable base network of supplying high quality fresh foods. Regional companies also sped up their supply chain development. On one hand, they procured jointly with the procurement department of the headquarters to strive for preferential negotiation conditions; on the other hand, they proactively built localized procurement chain to expand local procurement scales, sped up introduction of new products and commodities with local characteristics, and constructed fresh food distribution centers to expand and strengthen the local fresh business.

During the period under review, the Group energetically optimized its structure to enhance its commodity management level. This included implementing innovative modes to cooperate with branded suppliers, pursuing the Joint Business Plan (JBP) with nationwide suppliers, reasonably planning shelf resources, implementing new product introduction and introducing marketing plans to raise the rate of new product contributions to the Group's operation performance. The Group expanded sales of individual brands' pivotal line of products to gain stable commodity benefits, and also expedited the transformation of its own brand operation from OEM to self-development. With quality lives as a guide, the Group optimized the division of "Superior life" so as to achieve differentiated competitive advantages and expand the proportion of branded sales. For

Management Discussion and Analysis

convenience stores, with core commodity categories of fresh foods, imported and branded commodities etc. as a handle, the Group enhanced its abilities to develop new commodities, integrated its purchase channels, raised its distribution efficiency, and expanded the core category sales proportion, and its overall contributions to the total gains.

During the period under review, the Group endeavored to raise the standard of foundation management. The administrative levels were reduced, and the business model in the Shanghai region was flattened. The Group also comprehensively sorted out, adjusted and optimized system processes, straightened out the responsibility relationships between the operation centers and headquarters to further clarify the relationships of rights, responsibilities and benefits. To consolidate the reform results, the Group unified data standards and data sources to initiate the trial run of the store sales reporting online, and it also paid close attention to lifting the basic information management level for better business services. The Group attached great importance to safety work and strictly safeguarded food safety. The Group efforts in checking new commodities and on-the-spot inspections of suppliers were stepped up, which were effectively in preventing substandard goods from being sold. The Group made great efforts to strengthen fire safety, increased security checks, and identified potential risks. Follow-up actions and rectification measures were taken.

Turning Loss to Gain

During the period under review, the Group made great efforts to optimize its positions, and reasonably allocated its human resources to strictly control its labor costs. The Group strictly controlled, streamlined and improved efficiency of its headquarters. For hypermarkets, its architecture was re-evaluated and adjusted, screening of stores' personnel was completed so that labor costs were cut down year on year. For supermarket, an on-the-spot employment mode was actively explored and innovated. For certain jobs of stores, whose responsibilities are simple with high repeatability and substitutability, the Group trialed an on-hour basic part-time employment system on hour basis so as to achieve the objectives of lowering labor costs and raising labor efficiency.

During the period under review, the Group continued to control fees and reduce costs, and commodity losses were lessened through better management. Lease costs were cut down through negotiations, while the stock costs were lowered through accelerating commodity circulation. Investment costs were controlled through careful plans and calculations, while operating expenditures were decreased at each specific procedure and IT development costs were reduced by combing and optimizing the current information management system.

Employment, Training and Development

As of 30 June 2017, the Group had a total of 42,067 employees, a decrease of 1,966 employees during the period under review. Total employment expenses amounted to approximately RMB1,435,785 thousand.

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

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During the period under review, the Group focused on the implementation of establishing a "learning organization". The setup of the company's training organization, division of functions and responsibilities, refinement of institutional and other line integration work were completed. The training level of the senior management, professional at management level and front-line store employees were determined according to the new enterprise organization structure. According to the class-hour evaluation system, the number of training hour per year required at each level was specified, and evaluation results were regarded as one of the important bases for deciding promotion, transfer, and contract renewal, etc. of the cadres and staff. In addition, the training courses for each level, which had to meet the needs of different jobs, were laid down. A curriculum system was being developed step by step. The Group also produced a whole-year training plan catered for the senior management, commodity procurement department, administrative office and frontline staff etc. The Group had set down an annual plan for rotational training in line with practical job related needs. Training courses for professionals covered new theories, new knowledge and new technology.

Strategy and Planning

In the context of deepening the implementation of the supply-side structural reform and accelerating the execution of the innovation-driven development strategy, China's economic operation will continue to have positive change which will increase in the second half of 2017. And the Chinese economy's development momentum, which is in positive progress while maintaining stable performance, will be further consolidated and expanded. As predicted by many institutions, the Chinese economy will continue maintain a steady growth in the second half of this year, and annual economic growth will be approximately 6.8%. Accordingly, the Group believes that the consumer market situation in the second half of 2017 will be similar to the first half this year, and economic growth will be within a reasonable range.

Thus, in the second half of 2017, while continuing to focus on its working policy of "people-oriented concept, innovative reform, refinement and pragmatism, and turning loss to gain", with customers' demands as a guide, and with controlling upstream resources, strengthening channels and broadening channels as the growth points, the Group will promote the upgrade of brands, merchandise categories and channels, expand sales and profits, cut costs and increase efficiency, and strive to achieve the four objectives of promoting performance, customer satisfaction, employee confidence and its brand, and implement all key tasks.

In the second half of 2017, the Group will continue to adhere to its people-oriented concept, innovate its incentive mode to enhance its organizational capacity, and constantly improve its remuneration incentive system. The remuneration structural system of the headquarters will be redesigned in the sequence of management support, business support and operations. With its performance-oriented culture as a guide, the Group will strive to promote the performance evaluations in three dimensions, which covers all levels of the Group, and set up a sharing mechanism of joint creating, bearing and sharing to promote employee enthusiasm and efficiency. With team building as a guide, the Group will optimize its human resource management, foster its professionals through introduction from outside in combination with self-cultivation, and develop the professional evaluation and selection criteria so as to enhance the overall qualities and skills of its personnel. With creating an innovative team and a learning organization as a focus, the Group will strengthen its team building process, improve the evaluation system of "performance plus ability" for scientific evaluation and effective incentives and enhance its team's competitiveness and capability.

Management Discussion and Analysis

In the second half of 2017, with expanding sales as its main line of economic work, the Group will continue to actively innovate its marketing approaches, enhance exchanges with customers, implement multi-dimension marketing by means of combining the traditional media and emerging media, and promoting online and offline marketing, in order to disseminate the business philosophy of "by your side and at your fingertips". Guided by customers' demands, the Group continue to conduct targeted traditional poster marketing and differentiated marketing. The Group shall increase community marketing, with serving the community groups within its business areas as a guide, and with store group(s) as a unit, the Group will go deep into the communities to strengthen interactions with the community residents. The Group will actively plan and organize targeted marketing activities to enhance consumers' loyalty and cohesion, and meticulously plan and carefully organize festival/holiday marketing, theme marketing and other large-sized promotional activities, so as to give full play to synergies. The Group will conduct membership marketing to boost consumers' loyalty and satisfaction.

In the second half of 2017, the Group will continue to implement upgrading and optimization of its stores in accordance with its requirements of accurate positioning, structural optimization, customers' experience upgrading, service improvement and performance enhancement. The Group will track the status of the stores retrofitted, regularly evaluate the results of upgrading and retrofitting, during the process of which problems will be addressed in a timely manner. The Group will also, on the foundation of assuring the quality of store upgrading and retrofitting, speed up its exploration of an upgraded version of stores to facilitate store transformation and upgrading. At the same time, the Group will organize and allocate its important resources, meticulously make an overall plan for coordinated arrangements, pushing forward the transformation of both hypermarkets and supermarkets so as to raise the ratio of output to input, and ensure the sustainability of the performance enhancement of the transformed stores. Also, the Group will, through innovating service functions, integrating market chains and operating the fresh food category business well, accelerate the transformation of convenience stores.

In the second half of 2017, the Group will actively innovate its value chain, strengthen its supply chains to improve its procurement quality, continue to expand direct procurement, and optimize commodity structure to heighten commodity management level. The Group will expand its cross-border direct procurement channels, grow the imported commodity business, and strengthen cooperation with KeyAccount(KA) jointly developing business plans and jointly increasing their market share. The Group will handpick key commodities, implement joint procurement to reduce procurement costs, and pay attention to category management and optimize brand portfolio to highlight the categories of reflecting the current trends. The Group will enhance the promotion of new products to speed up the selection of the superior and elimination of the inferior, so as to promote the cycle of commodities. The Group will accelerate the construction of localized bases, optimize its supply chains, utilize upstream resources, enrich commodity varieties, increase the sales volume of its competitive products, and constantly raise the management level for fresh produce. The Group will quicken the construction of central kitchens, as well as the construction of processing systems in stores, improve the fresh food operating structure to enlarge the proportion of fresh food processing business, raise the added-values of fresh products, and propel improvements in fresh produce operations from extensive management to intensive management. The Group will actively push forward the construction of both takeaway factories and bread factories, expedite the development of the core-value chain of convenience stores and promote the upgrading of convenience stores. The Group will allocate high-quality investor resources to support the transformation and upgrading of stores, so as to increase incomes from introduced investments.

Management Discussion and Analysis

In the second half of 2017, the Group will continue to actively expand its to-home business to enhance its online commodity management level. The synchronization management of online and offline inventories as well as a quick replacement mechanism for online commodities will be set up and the sorting of inventories of stores will be dynamically managed to ensure the accuracy of sellable inventories. The Group will transform its marketing model from being driven by promotion to "being driven by traffic plus repeated buys", accelerate the development of diversified tools for marketing and promotion. The Group will propel the practices of entering communities and accurate delivery to home, so as to augment users' loyalty and repurchase rate. Overall, loyal customers' shopping experience will be strengthened through preferences offered to targeted customers, such mobile phone apps including "進口鯨選" (whale-choice for imported commodities) and "生鮮優選" (preferred choice of fresh produce) will be developed, and the optimization of channel pages will be completed. An incentive system will be set up, which is specific to the business of delivery to home, in order to raise the enthusiasm of stores to operate the to-home business.

In the second half of 2017, the Group will continue to insist on innovative development, actively expand its channels, and promote the upgrading of its business model. Diversified development modes will be adopted for supermarkets and convenience stores including direct operation, joint venture, franchisee, and merger. Through integration of regional market resources, the Group will actively expand its business to new areas, and expedite the construction of supermarkets and convenience stores. The Group will seize the market opportunity of consumption upgrades to develop premium supermarkets. The Group will strengthen its on-the-spot fresh products processing business, and optimize the structure of normal temperature commodities, putting its efforts into creating the business model of Lianhua Living Museum. The Group will, with management upgrades as a foundation, service upgrades as a security measure, and with promotion of fresh produce operations as its point of strength, carry out the transformation and upgrading of its franchisees in a planned and orderly way so as to achieve a steady increase of gains from the franchise business.

In the second half of 2017, the Group will continue to strengthen and improve its logistics support system. By promoting the integrated construction of the Jiangqiao Logistics, the Group will further optimize its business processes and information systems, cooperating with suppliers to efficiently respond to orders, rationally plan distribution/delivery routes, improve their service quality, raise satisfaction rates for both of online and offline orders and improve the overall efficiency of distribution. The Group will speed up the construction of the Hangzhou Yangxunqiao Logistics Center, striving to complete the Center and put it into use within 2018. The Group will further improve the functions of the fresh produce distribution center in the Guangxi province, set up systematic operating standards and system processes, achieve online operations of all commodities, and support its stores to grow its pure fresh produce business. The Group will accelerate the development of local supply chains in the Jiangsu and Anhui province, and strive to complete the integration of suppliers in greater East China. The procurement department of the headquarters will support regional companies to build their localized supply chains, providing business flow support to help regional companies accelerate the transformation and upgrading of their stores.

Management Discussion and Analysis

In the second half of 2017, the Group will continue to consolidate its basic management to improve its operational quality. The Group will promote the work of improving both the quality and usage of basic data, solidify the achievements of "unified standard and data homology" and "timeliness, integrity and accuracy", and implement data quality monitoring;. The Group will strengthen management of commodity sources, and intensify management on suppliers' permits and licenses in order to heighten its commodity quality management level,. The Group will intensify its self-building and service awareness, elevate related staff's quality and safety awareness, and push forward the orderly implementation of ERP and OA projects.

In the second half of 2017, the Group will continue to strictly control its costs, decrease costs and increase profit. The Group will continue to tap its potentials through "picking" details, "squeezing" water content, and "compressing" capacities to achieve good cost control. The Group will, through integration of its internal organization structures, functions and operational processes, streamline positions to reasonably reduce its work force so as to control its labor costs. The Group will reduce commodity wastage through better management, cut down tenancy expenditures through initiative negotiations, compress inventory costs through accelerating commodity circulation, reduce investment costs through careful planning and calculations, and cut the operational costs through focusing on details.

In the second half of 2017, the Group will continue to comprehensively promote the development of its training system, putting its efforts in building a learning-oriented organization. Through organizing professional business training course, the Group will focus on enhancing the capabilities of all staff and intensify its efforts in education and training. The Group will extend its training channels and enlarge training coverage. The Group will facilitate a docking link between the demand for and the supply of training to raise training efficiency. Using the fresh produce tier-one personnel as a breakthrough to improve the business of the Company, the Group will intensify the development of highly-skilled technicians to foster value adding staff.

Other Data

Disclosure of interests

Directors, Supervisors and Chief Executive of the Company

As at 30 June 2017, save and except Mr. Xia Da-wei, an independent non-executive director, holds 8,694 shares of Shanghai Bailian Group Incorporated Company ("Shanghai Bailian")(representing approximately 0.0005% of the total issued shares of the Shanghai Bailian), none of the directors, supervisors or chief executive 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 (within the meaning of 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 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") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

As at 30 June 2017, (i) Mr. Ye Yong-ming, the chairman and a non-executive Director of the Company, was the chairman of Bailian Group and the chairman of Shanghai Bailian; (ii) Ms. Xu Zi-ying, the vice chairman and a non-executive Director of the Company, was a director and the president of Bailian Group and the vice chairman 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 a director, the chief financial officer and secretary of the board of Shanghai Bailian; (v) Mr. Lv Yong, a supervisor of the Company, was the chief financial officer of Bailian Group; and (vi) Ms. Tao Qing, a Supervisor, was the director of the auditing center of Bailian Group. As disclosed below, Bailian Group and Shanghai Bailian had interests in the shares of the Company as at 30 June 2017 as recorded in the register required to be kept under section 336 of the SFO.

Other Data

Substantial Shareholders of the Company

So far as the directors are aware, as at 30 June 2017, the following persons (not being a director, chief executive 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
Alibaba Group Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Beneficial owner
Alibaba.com China Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Beneficial owner
Alibaba.com Investment Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Beneficial owner
Alibaba.com Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Beneficial owner
Alibaba (China) Technology Co., Ltd. (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Beneficial owner
Bailian Group (Note 1)	domestic shares	500,760,000	44.73%	67.04%	–	Beneficial owner
Corornation Global Fund Managers (Ireland) Ltd	H shares	37,130,454(L)	3.32%	–	9.97%(L)	Investment manager
China Galaxy International Asset Management (Hong Kong) Co., Limited (Note 3)	H shares	34,647,000(L)	3.09%	–	9.30%(L)	Interest of corporation controlled/Investment manager
China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP) (Note 3)	H shares	33,914,000(L)	3.03%	–	9.10%(L)	Interest of corporation controlled
Fidelity China Special Situations Plc	H shares	32,011,000(L)	2.86%	–	8.59%(L)	Investment manager
FIL Limited	H shares	32,011,000(L)	2.86%	–	8.59%(L)	Investment manager
Citigroup Inc	H shares	30,234,222(L) 54,000(S) 20,010,097(P)	2.70% 0.00% 1.79%	–	8.11%(L) 0.01%(S) 5.37%(P)	Custodian/Approved lending agent/ Interest of corporation controlled/Person having a security interest in shares
ICBC International Asset Management Limited	H shares	26,472,000(L)	2.36%	–	7.10%(L)	Investment manager
Julius Baer International Equity Fund	H shares	12,191,558(L)	1.09%	–	5.89%(L)	Investment manager

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

Other Data

Notes:

1. As at 30 June 2017, Bailian Group directly and indirectly holds approximately 51.16% of the shares in Shanghai Bailian. As at 30 June 2017, Shanghai Bailian held 224,208,000 shares of the Company. Thus Bailian Group directly and indirectly holds approximately 500,760,000 shares of the Company, representing approximately 44.73% issued share capital of the Company.

   As at 30 June 2017, (i) Mr. Ye Yong-ming, the chairman and a non-executive Director of the Company, was the chairman of Bailian Group and the chairman of Shanghai Bailian; (ii) Ms Xu Zi-ying, the vice chairman and a non-executive Director of the Company, was a director and the president of Bailian Group and the vice chairman 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 a director, the chief financial officer and secretary of the board of Shanghai Bailian; (v) Mr. Lv Yong, a Supervisor, was the chief financial officer of Bailian Group; and (vi) Ms. Tao Qing, a Supervisor, was the director of the auditing center of Bailian Group.

2. The Company has been informed that on 26 May 2017, Shanghai Yiguo E-Commerce Co., Ltd.* (上海易果電子商務有限公司) entered into: (i) a share transfer agreement with Alibaba (China) Technology Co., Ltd.* (阿里巴巴(中國)網路技術有限公司) pursuant to which Shanghai Yiguo E-Commerce Co., Ltd. agreed to transfer 201,528,000 domestic shares of the Company to Alibaba (China) Technology Co., Ltd.; and (ii) a share transfer agreement with Bailian Group Co., Ltd* (百聯集團有限公司) pursuant to which Shanghai Yiguo E-Commerce Co., Ltd. agreed to transfer 22,392,000 domestic shares of the Company (which accounts for not more than 2% of the issued share capital of the Company) to Bailian Group Co., Ltd. The Company has been informed by Shanghai Yiguo E-Commerce Co., Ltd., Alibaba (China) Technology Co., Ltd. and Bailian Group Co., Ltd. on 15 June 2017 that the relevant share transfer procedures in respect of the transfer of the domestic shares of the Company from Shanghai Yiguo E-Commerce Co., Ltd. to Alibaba (China) Technology Co., Ltd. and Bailian Group Co., Ltd. in China Securities Depository and Clearing Corporation Limited have been completed.

   Alibaba Group Holding Limited holds 100% of the shares in Alibaba.com Limited, Alibaba.com Limited holds 100% of the shares in Alibaba.com Investment Holdings Limited, Alibaba.com Investment Holdings Limited holds 100% of the shares in Alibaba.com China Limited, Alibaba.com China Limited holds 100% of the shares in Alibaba (China) Technology Co.,Ltd. Alibaba (China) Technology Co.,Ltd. held 201,528,000 shares of the Company, representing 18% issued share capital of the Company. Thus, Alibaba Group Holding Limited, Alibaba.com Limited, Alibaba.com Investment Holdings Limited and Alibaba.com China Limited are all deemed to be interested in the shares held by or deemed to be interested by Alibaba (China) Technology Co., Ltd..

3. China Galaxy International Asset 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 Asset Management (Hong Kong) Co., Limited. directly and indirectly holds approximately 34,647,000 shares of the Company, representing approximately 3.09% issued share capital of the Company.

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 number of H shares of the Company held as at 30 June 2017 by holders of H shares have been adjusted accordingly, if necessary.

* *For identification purpose only*

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 30 June 2017.

Other Data

The 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;

Other Data

(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.

Interim Dividend

The board of directors of the Company (the "Board") does not recommend the distribution of interim dividend for the six months ended 30 June 2017.

Subsequent Events

On 17 July 2017, the major and connected transactions in relation to the acquisition of 100% equity interest in Yiwu City Life Supermarket Co., Ltd and the disposal of 100% equity interest in Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. were approved by the shareholders of the Company on 17 July 2017. The legal procedures and steps of the relevant agreement and the equity transfer contemplated thereunder have been completed through Shanghai United Assets and Equity Exchange. As at the date of this report, the parties are in the course of undergoing the registration procedures for the equity transfer at the State Administration for Industry and Commerce of the PRC.

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 interim report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Audit Committee

The audit committee of the Company (the "Audit Committee") has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2017 of the Group. The Audit Committee is of the view that the interim accounts of the Group for the six months ended 30 June 2017 is in compliance with the applicable accounting standards, the requirements of the Stock Exchange and the Laws of Hong Kong, and the Company has made appropriate disclosures thereof.

Other Data

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

The Company has adopted the Model Code as code of conduct for securities transactions by all directors of the Company. After specific enquiries to the directors, the Board is pleased to confirm that all the directors have fully complied with the provisions under the Model Code during the period under review.

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

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

Provision A4.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The articles of association of the Company provides that each director shall be appointed at the general meeting of the Company and for a term of not more than 3 years, and eligible for re-election. Having taken into account the continuity of the implementation of the Company's operation and management policies, the articles of association contains no express provision for the mechanism of directors' retirement by rotation, thus deviating from the aforementioned provision of the Code.

For Provision A.6.7 of the Code:

Mr. Zhang Xuan-song, non-executive director, Mr. Zhang Jing-yi, non-executive director, Mr. Gu guo-jian, independent non-executive director, and Mr. Wang Jin, independent non-executive director, were unable to attend the fifteenth meeting of the fifth session of the Board convened on 14 March 2017 by the Company due to their other business commitments.

Mr. Qian Jian-qiang, non-executive director, Mr. Wong Tak Hung, non-executive director, were unable to attend the seventeenth meeting of the fifth session of the Board convened on 29 March 2017 by the Company due to their other business commitments.

Mr. Zhang Ye, non-executive director, was unable to attend the first meeting of the sixth session of the Board convened on 12 June 2017 by the Company due to his other business commitments.

Mr. Zhang Ye, non-executive director, Mr. Qian Jian-qiang, non-executive director and Mr. Lee Kwok Ming, Don, independent non-executive director, were unable to attend the second meeting of the sixth session of the Board convened on 28 August 2017 by the Company due to his other business commitments.

After receiving the relevant materials for the Board meeting, they have authorized other directors of the Company to attend the meetings and vote on their behalf. The matters considered at the Board meeting were ordinary matters and all resolutions were passed. The Company had sent the related minutes to all members of the Board after the Board meeting so any director who was unable to attend the meeting was fully informed of the resolutions passed at the meeting.

Other Data

For Provisions A.6.7 and E.1.2 of the Code, Mr. Zhang Ye, non-executive director, was unable to attend the 2016 annual general meeting of the Company convened on 12 June 2017 due to his other business commitments. The Company has provided the relevant materials relating to the 2016 annual general meeting to all members of the Board before the meeting. All ordinary resolutions and one special resolution were passed 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 fully informed of the resolutions passed at the meeting.

For Provisions A.6.7 and E.1.2 of the Code, Mr. Qian Jian-qiang, non-executive director, Mr. Wong Tak Hung, non-executive director, and Mr. Xia Da-wei, independent non-executive director, were unable to attend the 2017 extraordinary general meeting of the Company convened on 17 July 2017 due to their other business commitments. The Company has provided the relevant materials relating to the 2017 extraordinary general meeting to all members of the Board before the meeting. All ordinary resolutions were passed at the annual general meeting. The Company had sent the related minutes to all members of the Board after the extraordinary general meeting so any director who was unable to attend the meeting was fully informed of the resolutions passed at the meeting.

Changes in Information of Directors, Supervisors and General Manager

The changes in information of directors, supervisors and general manager since the disclosure made in the 2016 annual report are set out below:

Name of Director/Supervisor/General Manager	Details of Changes
Ms. Qi Yue-hong	– Appointed as the general manager of the Company since 3 January 2017 – Ceased as the vice chairman of the board of the Company on 12 June 2017
Ms. Xu Zi-ying	– Appointed as non-executive director and vice chairman of the board of the Company since 12 June 2017 – Appointed as vice chairman of the board of Shanghai Bailian since 20 June 2017
Ms. Zheng Xiao-yun	– Appointed as director of Shanghai Bailian since 20 June 2017
Mr. Zhang Ye	– Appointed as non-executive director of the Company since 14 March 2017 – Ceased as non-executive director of the Company on 28 August 2017
Ms. Sheng Yan	– Appointed as independent non-executive director of the Company since 14 March 2017
Mr. Zhang Jun	– Appointed as independent non-executive director of the Company since 14 March 2017
Mr. Dong Zheng	– Appointed as non-executive director of the Company since 28 August 2017

Other Data

Name of Director/ Supervisor/General Manager	Details of Changes
Mr. Zhou Jing-bo	– Appointed as non-executive director of the Company since 14 March 2017 – Ceased to be non-executive director of the Company on 12 June 2017
Mr. Lin Song	– Ceased to be general manager of the Company on 3 January 2017
Mr. Zhang Xuan-song	– Ceased to be non-executive director of the Company on 12 March 2017
Mr. Zhang Jing-yi	– Ceased to be non-executive director of the Company on 12 March 2017
Mr. Gu Guo-jian	– Ceased to be independent non-executive director of the Company on 12 March 2017
Mr. Wang Jin	– Ceased to be independent non-executive director of the Company on 12 March 2017

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

By Order of the Board
Mr. Ye Yong-ming
Chairman

28 August 2017, Shanghai, the PRC

Report on Review of Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the condensed consolidated financial statements of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 48, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28 August 2017

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

	NOTES	Six months ended 30 June 2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Turnover	4	13,237,885	14,083,485
Cost of sales		(11,232,272)	(12,062,668)
Gross profit		2,005,613	2,020,817
Other revenue	4	1,054,150	1,153,741
Other income and gains	5	286,761	230,094
Selling and distribution expenses		(2,750,690)	(2,904,896)
Administrative expenses		(360,748)	(312,841)
Other expenses		(70,439)	(13,861)
Share of profits of associates		19,781	12,423
Finance costs		(62)	(61)
Profit before taxation	6	184,366	185,416
Income tax expense	7	(107,877)	(110,856)
Profit for the period		76,489	74,560
Other comprehensive income (expenses)			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain (loss) on available-for-sale financial assets		20,309	(1,863)
Income tax relating to items that may be reclassified subsequently		(5,077)	466
Share of other comprehensive income of associates		–	50
Other comprehensive income (expense) for the period, net of income tax		15,232	(1,347)
Total comprehensive income for the period		91,721	73,213
(Loss) profit for the period attribute to:			
Owners of the Company		(4,820)	2,944
Non-controlling interests		81,309	71,616
		76,489	74,560
Total comprehensive income for the period attributable to:			
Owners of the Company		8,977	1,597
Non-controlling interests		82,744	71,616
		91,721	73,213
(Loss) earnings per share – basic and diluted	9	RMB(0.004)	RMB0.003

Condensed Consolidated Statement of Financial Position

At 30 June 2017

	NOTES	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	10	2,975,642	3,082,366
Construction in progress	10	258,122	221,066
Land use rights	10	322,474	329,348
Intangible assets	10	199,997	198,783
Interests in associates		520,574	500,793
Available-for-sale financial assets	11	94,276	73,967
Term deposits	12		
– restricted		843,000	270,000
– unrestricted		459,000	1,185,000
Prepaid rental		33,580	33,190
Deferred tax assets		71,119	68,222
Other non-current assets	13	15,022	15,751
		5,792,806	5,978,486
Current assets			
Inventories		2,257,119	3,065,232
Trade receivables	14	130,272	82,633
Deposits, prepayments and other receivables		734,281	904,210
Amounts due from fellow subsidiaries	15	23,751	15,768
Amounts due from associates	16	143	58
VAT refundable		360,747	203,980
Financial assets at fair value through profit or loss	17	2,342,368	1,977,894
Term deposits	12		
– restricted		470,000	1,101,000
– unrestricted		1,484,000	952,851
Bank balances and cash		2,837,171	3,175,900
		10,639,852	11,479,526
Total assets		16,432,658	17,458,012

Condensed Consolidated Statement of Financial Position

At 30 June 2017

	NOTES	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Capital and reserves			
Share capital	18	1,119,600	1,119,600
Reserves		1,352,214	1,343,237
Equity attributable to owners of the Company		2,471,814	2,462,837
Non-controlling interests		259,916	291,042
Total equity		2,731,730	2,753,879
Non-current liability			
Deferred tax liabilities		62,643	86,455
Current liabilities			
Trade payables	19	3,447,698	4,117,867
Other payables and accruals	20	2,284,511	2,365,021
Coupon liabilities	21	7,656,526	7,941,014
Deferred income		44,424	23,008
Amounts due to fellow subsidiaries	15	65,101	62,708
Amounts due to associates	16	850	1,417
Bank borrowing		2,000	2,000
Tax payable		137,175	104,643
		13,638,285	14,617,678
Total liabilities		13,700,928	14,704,133
Total equity and liabilities		16,432,658	17,458,012
Net current liabilities		(2,998,433)	(3,138,152)
Total assets less current liabilities		2,794,373	2,840,334

Condensed Consolidated Statement of Changes in Equity

At 30 June 2017

	Attributable to owners of the Company							
	Share capital RMB'000	Capital reserve RMB'000 (note a)	Other reserve RMB'000 (note b)	Statutory common reserve fund RMB'000 (note c)	Retained profits RMB'000	Total attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016 (audited)	1,119,600	258,353	(225,041)	559,800	1,202,459	2,915,171	283,915	3,199,086
Total comprehensive (expenses) income for the period	–	–	(1,347)	–	2,944	1,597	71,616	73,213
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	(105,774)	(105,774)
At 30 June 2016 (unaudited)	1,119,600	258,353	(226,388)	559,800	1,205,403	2,916,768	249,757	3,166,525
At 1 January 2017 (audited)	1,119,600	258,353	(227,420)	559,800	752,504	2,462,837	291,042	2,753,879
Total comprehensive (expenses) income for the period	–	–	13,797	–	(4,820)	8,977	82,744	91,721
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	(113,870)	(113,870)
At 30 June 2017 (unaudited)	1,119,600	258,353	(213,623)	559,800	747,684	2,471,814	259,916	2,731,730

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. recognition of changes in fair value of 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.

No transfer has been made to the statutory common reserve fund in respect of the net profit for the six months ended 30 June 2017 and 2016 as such transfer will be made, upon directors' approval, at the year-end date based on the annual profit.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash used in operating activities	(41,782)	(145,840)
Investing activities		
Placement of unrestricted term deposits	(758,000)	(1,497,000)
Withdrawal of unrestricted term deposits	952,851	530,750
Purchase of financial assets at fair value through profit or loss	(2,200,000)	(1,800,000)
Addition of property, plant and equipment and construction in progress	(164,955)	(169,925)
Purchase of intangible assets	(1,140)	(1,380)
Proceeds on redemption of available-for-sale financial assets	–	7,509
Proceeds on disposal of financial assets at fair value through profit or loss	1,884,016	30,014
Proceeds on disposal of property, plant and equipment	8,665	1,575
Dividends received from associates	–	41
Dividends received from equity investments classified as available-for-sale financial assets	–	11
Proceed from disposal of an associate	–	8,476
Net cash used in investing activities	(278,563)	(2,889,929)
Cash used in a financing activity		
Dividends paid to non-controlling shareholders	(18,384)	(21,792)
Net decrease in cash and cash equivalents	(338,729)	(3,057,561)
Cash and cash equivalents at 1 January	3,175,900	4,447,365
Cash and cash equivalents at 30 June	2,837,171	1,389,804

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

Application of amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

3. SEGMENT INFORMATION

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

	Segment revenue (note)		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Hypermarkets	8,886,810	9,578,708	112,344	77,475
Supermarkets	4,364,797	4,572,238	137,929	151,158
Convenience stores	993,317	1,063,857	(63,461)	(31,914)
Other operations	47,111	22,423	10,579	1,007
	14,292,035	15,237,226	197,391	197,726

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

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

	Six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Segment results	197,391	197,726
Unallocated interest income	35,019	31,221
Unallocated income	–	2,809
Unallocated expenses	(67,825)	(58,763)
Share of profits of associates	19,781	12,423
Profit before taxation	184,366	185,416

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

4. TURNOVER AND OTHER REVENUE

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Turnover		
Sales of merchandises	13,237,885	14,083,485
Other revenue		
Income from suppliers	699,055	803,041
Gross rental income from leasing of shop premises	331,375	326,019
Royalty income from franchised stores	21,515	21,595
Commission income from coupon redemption at other retailers	2,205	3,086
	1,054,150	1,153,741
Total revenue	14,292,035	15,237,226

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest income on bank balances and term deposits	97,067	121,037
Government subsidies (Note i)	44,879	28,240
Change in fair value of financial assets at FVTPL	48,490	43,308
Gain on disposal of an associate (Note ii)	–	2,809
Dividend from unlisted equity investments	–	11
Gain on redemption of available-for-sale financial assets	–	509
Gain on disposal of property, plant and equipment	3,580	–
Salvage sales	13,703	13,849
Early termination of an operating lease contract by lessor (Note iii)	54,830	–
Others	24,212	20,331
Total	286,761	230,094

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

5. OTHER INCOME AND GAINS (continued)

Notes:

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

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

(iii) On 28 March 2017, a subsidiary of the Group entered into an agreement with its lessor on early termination of the lease contract at the request of lessor. According to the agreement, the lessor would pay RMB54,830,000 as compensation, which is based on the valuation report from an independent valuer. The compensation has been received during the period.

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
After charging:		
Amortisation and depreciation		
Amortisation of other non-current assets	**730**	730
Amortisation of intangible assets – software (included in selling and distribution expenses/administrative expense) (Note 10)	**5,387**	4,977
Amortisation of land use rights (Note 10)	**4,375**	3,116
Depreciation of property, plant and equipment (Note 10)	**191,775**	207,016
	202,267	215,839
Cost of inventories recognised as an expense	**11,232,272**	12,062,668
Minimum lease payments in respect of rented premises	**783,875**	861,918
Staff costs	**1,435,785**	1,461,976
After crediting:		
Share of profits of associates		
Share of profit before taxation	**20,906**	14,654
Less: Share of taxation	**1,125**	2,231
	19,781	12,423

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax on PRC Enterprise Income Tax ("EIT")	**139,663**	116,560
Deferred tax credit	**(31,786)**	(5,704)
	107,877	110,856

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

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%.

As of 30 June 2017, the Group had unused tax losses for which no deferred tax asset had been recognised due to the unpredictability of future profit streams.

8. DIVIDEND

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

9. EARNINGS PER SHARE – BASIC AND DILUTED

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings		
(Loss) profit for the period attributable to owners of the Company	**(4,820)**	2,944

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**1,119,600,000**	1,119,600,000

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

10. MAJOR CAPITAL EXPENDITURE

	Property, plant and equipment RMB'000	Construction in progress RMB'000	Land use rights RMB'000 (Note a)	Intangible assets		
				Goodwill RMB'000	Software RMB'000	Total RMB'000
Opening carrying amount as at 1 January 2016 (audited)	2,691,762	773,418	341,812	151,941	48,353	200,294
Additions	54,630	89,904	–	–	1,380	1,380
Transfers	5,444	(13,810)	–	–	8,366	8,366
Disposals	(7,525)	–	–	–	–	–
Depreciation/amortisation charge (Note 6)	(207,016)	–	(3,116)	–	(4,977)	(4,977)
Impairment	(2,613)	–	–	–	–	–
Closing carrying amount as at 30 June 2016 (unaudited)	2,534,682	849,512	338,696	151,941	53,122	205,063
Opening carrying amount as at 1 January 2017 (audited)	3,082,366	221,066	335,580	129,743	69,040	198,783
Additions	99,388	54,366	19	–	1,140	1,140
Transfers	11,849	(17,310)	–	–	5,461	5,461
Disposals	(5,085)	–	–	–	–	–
Depreciation/amortisation charge (Note 6)	(191,775)	–	(4,375)	–	(5,387)	(5,387)
Impairment(Note b)	(21,101)	–	–	–	–	–
Closing carrying amount as at 30 June 2017 (unaudited)	2,975,642	258,122	331,224	129,743	70,254	199,997

Notes:

(a) Land use rights were further analysed for reporting purposes as:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Non-current assets	322,474	329,348
Current assets (included in deposits, prepayments and other receivables)	8,750	6,232
	331,224	335,580

(b) The impairment on property, plant and equipment recognised during the period mainly due to the early termination of an operating lease contract by the lessor (Note 5) and close of certain retail shops.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Non-current		
Legal person shares, at cost (Note a)	312	312
Unlisted equity investments, at cost (Note b)	46,823	66,823
Listed equity investments, at fair value	47,141	6,832
– Listed equity investments with restricted period (Note c)	41,031	–
– Listed equity investments	6,110	6,832
Total	94,276	73,967

Notes:

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

(b) During the period, an unlisted equity investment with carrying amount of RMB20,000,000 was classified under listed equity investment (see note(c) below) as the company was listed on the Shanghai Stock Exchange on 23 January 2017. The remaining balances of RMB46,823,000 represent investments in certain unlisted companies in the PRC. The unlisted equity investments are measured at cost less any identified impairment loss at the end of the reporting period because the range of reasonable fair value estimates is so significant that directors are of the opinion that their fair values cannot be measured reliably.

(c) The listed equity investment is measured at fair value by reference to the stock price as at 30 June 2017 taking into account the liquidity discount on the restricted shares. The restricted period is one year and commenced from 23 January 2017, the date when the equity investment was listed in the Shanghai Stock Exchange.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

12. TERM DEPOSITS

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

As at 30 June 2017, restricted term deposits amounting to RMB1,313,000,000 (31 December 2016: RMB1,371,000,000) 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 1.75% to 4.80% (31 December 2016: from 1.80% to 6.80%) per annum. The carrying amounts of the term deposits approximate their fair value.

13. OTHER NON-CURRENT ASSETS

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

14. TRADE RECEIVABLES

The aging analysis of the trade receivables net of allowance for doubtful debts at the end of the reporting period, arising principally from sales of merchandise to franchised stores and wholesalers with credit terms ranging from 30 to 60 days (31 December 2016: 30 to 60 days), is as follows:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 30 days	**127,663**	77,159
31 – 60 days	**1,781**	1,981
61 – 90 days	**11**	290
91 days – one year	**817**	3,203
	130,272	82,633

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

15. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES

Amounts due from (to) fellow subsidiaries are trade in nature, unsecured, interest free, with credit terms ranging from 30 to 60 days (31 December 2016: 30 to 60 days). As at 30 June 2017, balances of both amounts due from (to) fellow subsidiaries are all aged within 60 days (31 December 2016: 60 days).

16. AMOUNTS DUE FROM (TO) ASSOCIATES

Amounts due from/to associates represent balances arising from expenses paid by the Group on behalf of certain associates and purchases of merchandise from associates respectively. Balances are all aged within 90 days (31 December 2016: 90 days) and the credit terms of the trade balances range from 30 to 90 days (31 December 2016: 30 to 90 days). Such balances with associates are unsecured and interest free.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Equity securities listed in Shanghai Stock Exchange	**2,232**	2,524
Unlisted financial products (Note)	**2,340,136**	1,975,370
Total	**2,342,368**	1,977,894

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 RMB48,490,000 (30 June 2016: RMB43,308,000), credited to "other income and gains" in the current interim period.

18. SHARE CAPITAL

	Number of share RMB1.00 each	**Share capital** RMB'000
Registered:		
As at 1 January 2016, 31 December 2016 and 30 June 2017	1,119,600,000	1,119,600
Issued and fully paid:		
As at 1 January 2016, 31 December 2016 and 30 June 2017	1,119,600,000	1,119,600

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

19. TRADE PAYABLES

The aging analysis of trade payables at the end of the reporting period, arising mainly from purchase of merchandise with credit terms ranging from 30 to 60 days (31 December 2016: 30 to 60 days), is as follows:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 30 days	1,358,272	2,065,618
31 – 60 days	706,520	757,589
61 – 90 days	317,905	367,604
91 days – one year	1,065,001	927,056
	3,447,698	4,117,867

20. OTHER PAYABLES AND ACCRUALS

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Payroll, staff welfare and other staff cost payable	257,230	352,942
Value added tax and other payable	68,829	102,971
Rental payable	788,531	819,737
Deposits from lessees, franchisees and other third parties	200,825	198,158
Dividend payable to a non-controlling shareholder	95,486	–
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	27,283	29,523
Prepayments received from franchisees and other third parties	451,282	478,730
Payables for acquisition of property, plant and equipment and low value consumables	122,415	133,025
Store closure provision	27,745	34,447
Accruals	183,751	116,107
Advance from customers	39,467	55,234
Other miscellaneous payables	21,667	44,147
	2,284,511	2,365,021

21. COUPON LIABILITIES

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

22. OPERATING LEASE

(1) The Group as lessee

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

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within one year	1,526,375	1,576,898
In the second to fifth years inclusive	5,019,003	5,224,563
Over five years	5,365,555	6,163,478
	11,910,933	12,964,939

(2) The Group as lessor

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

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within one year	252,195	216,021
In the second to fifth years inclusive	514,743	480,321
Over five years	269,129	312,171
	1,036,067	1,008,513

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

23. CAPITAL COMMITMENTS

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment, construction of buildings and land use rights:		
– contracted for but not provided	246,387	267,550

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

24. RELATED PARTY TRANSACTIONS

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

(1) Related party transactions

	Notes	Six months ended 30 June 2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Sales to fellow subsidiaries	(a)	43,007	22,775
Purchases from associates	(a)	1,775	2,943
Purchases from fellow subsidiaries	(a)	48,402	41,643
Rental expenses and property management fee paid to fellow subsidiaries	(b)	45,451	47,225
Rental income from fellow subsidiaries	(c)	9,769	11,101
Commission income received from fellow subsidiaries	(d)	323	362
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	(e)	4,361	4,453
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	(e)	5,250	6,041
Interest income earned from a fellow subsidiary	(f)	14,175	10,056
Purchases from Yonghui Superstores Co., Ltd. ("Yonghui Superstores")	(g)	N/A	25,816
Management fee incurred with Yonghui Superstores	(g)	N/A	202
Logistics fee incurred with Yonghui Superstores	(g)	N/A	186
Platform usage fee paid to fellow subsidiaries	(h)	1,672	–
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account upon membership points earned by the customers	(i)	4,258	–
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account upon redemption of membership points by the customers	(i)	1,785	–

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

24. RELATED PARTY TRANSACTIONS (continued)

(1) Related party transactions (continued)

Notes:

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

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

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

(d) The commission income was received from fellow subsidiaries controlled by Bailian Group in relation to the redemption of the coupons issued by the Group and a fellow subsidiaries controlled by Bailian Group in retail outlets of these related companies. The commissions were charged at a rate of 0.5% to 1% (2016: 0.5% to 1%) of the sales made through the coupons in the retail outlets of these companies.

(e) According to the business agreement on the settlement of coupon liabilities entered into between the Group and a fellow subsidiary controlled by Bailian Group, when the coupons issued by one party are redeemed in exchange for products or services to the retailers contracted by the other party or when the coupon liabilities are settled through the other party's network, a commission would be charged at a rate of 0.5% (2016: 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) On 23 December 2016, Yonghui Superstores entered into a share transfer agreement with Shanghai Yiguo E-commerce Co., Ltd. ("Shanghai Yiguo"), pursuant to which Yonghui agreed 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, Accordingly, Yonghui was no longer a related party of the Group.

The amounts represented purchase of various kinds of merchandise from and management fee and logistics fee paid/payable to Yonghui Superstores for the prior period from 1 January 2016 to 28 December 2016. The transaction amounts were all determined in accordance with the terms of underlying agreement at the market price.

(h) 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.

(i) These represent the transaction amounts being transferred between Bailian Finance and the Group in respect of the membership points earned/redeemed by the customers of Lianhua Group. Under the membership points agency and settlement service agreement between Bailian Finance and the Group, the Group will transfer the transaction amounts earned by the customers on consumption in Lianhua Group to Bailian Finance. Alternatively, Bailian Finance will transfer the transaction amounts on redemption of the membership points by the customers to the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

24. RELATED PARTY TRANSACTIONS (continued)

(2) Related party balances

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

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Cash and cash equivalents in a fellow subsidiary	271,806	134,464
Unrestricted term deposits in a fellow subsidiary	320,000	270,000

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

24. RELATED PARTY TRANSACTIONS (continued)

(4) Key management compensation

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**1,604**	1,785
Post-employment benefits	**164**	125
Other long-term benefits	**166**	121
	1,934	2,031

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

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Financial assets	Fair value as at 30/06/2017 RMB'000	Fair value as at 31/12/2016 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
1) Investments in bank financial products classified as financial assets at fair value through profit or lost in the condensed consolidated statement of financial position	Assets – 2,340,136	Assets – 1,975,370	Level 3	Discounted cash flow. Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio, discounted at a rate that reflects the credit risk of various counterparties	Actual yield of the underlying investment portfolio and the discount rate
2) Investment in equity shares listed in Shanghai Stock Exchange classified as financial assets at fair value through profit or lost in the condensed consolidated statement of financial position	Assets – 2,232 Equity securities: – Real estates (2,210) – Agricultural (22)	Assets – 2,524 Equity securities: – Real estates (2,497) – Agricultural (27)	Level 1	Quoted bid prices in an active market	N/A
3) Investment in equity shares listed in Shanghai Stock Exchange classified as available-for-sales in the condensed consolidated statement of financial position	Assets – 6,110	Assets – 6,832	Level 1	Quoted bid prices in an active market	N/A
4) Investment in equity shares listed in Shanghai Stock Exchange classified as available-for-sales with restricted period in the condensed consolidated statement of financial position	Assets – 41,031	N/A	Level 3	Restricted shares with restricted period. The listed equity investment is measured at fair value by reference to the stock price as at 30 June 2017, discounted by the liquidity discount rate of 13.51% computed with Black Scholes option pricing model	Liquidity discount rate

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Fair value measurements and valuation process

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

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

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

26. EVENTS AFTER THE REPORTING PERIOD

On 2 May 2017, Hangzhou Lianhua Huashang Group Co., Ltd. (*杭州聯華華商集團有限公司) ("Lianhua Huashang"), a subsidiary of the Company, entered into the acquisition agreement with Bailian Group, pursuant to which Lianhua Huashang conditionally agreed to purchase, and Bailian Group conditionally agreed to sell, 100% equity interest in Yiwu City Life Supermarket Co., Ltd. (*義烏都市生活超市有限公司) ("Yiwu City Life") for a cash consideration of RMB970,780,000. On the same day, the Company entered into the disposal agreement with Bailian Group, pursuant to which Bailian Group conditionally agreed to purchase, and the Company conditionally agreed to sell, 100% equity interest in 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) ("Lianhua Live and Fresh") for a cash consideration of RMB378,600,000.

Both the acquisition of the Yiwu City Life and the disposal of Lianhua Live and Fresh had been completed on 26 July 2017.

Since the main tangible asset of Yiwu City Life is Yiwu property, the acquisition of which will be accounted for as acquisition of assets. Such transaction would not give rise to goodwill or bargain purchase gain. Meanwhile, upon the completion of the disposal, Lianhua Live and Fresh will cease to be a subsidiary of the Company. Based on the Lianhua Live and Fresh consideration of approximately RMB378,600,000 for the disposal, a net gain of approximately RMB399,181,000 is expected to accrue to the Company's consolidated financial statements as a result of the closing of the disposal, and such gain to be recognised through profit and loss was determined by reference to the difference between the cash payment receivable from Bailian Group and the carrying value of the Group's equity interest in Lianhua Live and Fresh.

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

These unaudited condensed consolidated financial statements were authorised for issue by the Company's board of directors on 28 August 2017.

* *For identification purpose only*