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

Annual Report 2017

Stock Code: 0980

Lianhua Supermarket Holdings Co., Ltd. ("Lianhua Supermarket" or the "Company") commenced its business in Shanghai in 1991. In the past 26 years, it has developed into a nationwide chain retail operator with a full range of retail segments, expanding through a combination of direct operation, franchises and merger and acquisitions. As at 31 December 2017, Lianhua Supermarket and its subsidiaries (the "Group") operated a total of 3,421 outlets (excluding those operated by the Company's associated companies) spanning 17 provinces and municipalities across the nation. The Company has maintained its leading position in the fast moving consumer goods retail industry in the People's Republic of China (the "PRC"). Lianhua Supermarket was the first Chinese retail chain operator to be listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), on 27 June 2003.

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

Lianhua Supermarket operated a total of

3,421 outlets

SHANGHAI
35
1,260
826

JIANGSU
24
123
0

ZHEJIANG
62
208
202

ANHUI
9
24
0

SHANDONG
0
11
0

BEIJING
1
1
110

HEBEI
0
1
0

INNER MONGOLIA
0
5
0

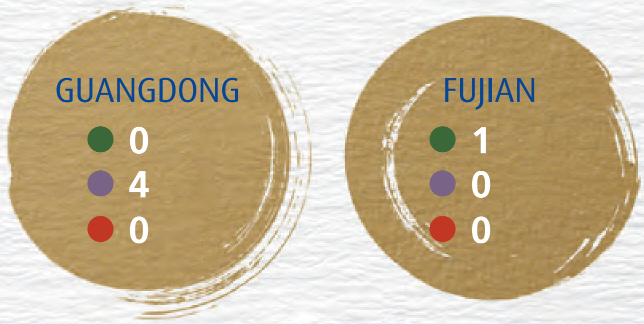
HYPERMARKET

SUPERMARKET

CONVENIENCE STORE


LIAONING
0
0
316
JILIN
0
1
0
JIANGXI
0
3
0
HENAN
8
3
0
HUNAN
0
1
0
GUANGXI
5
176
0
YUNNAN
0
1
0

Contents


GUANGDONG
0
4
0
FUJIAN
1
0
0

Corporate Information

Directors

Executive Director

Ms. Qi Yue-hong (Resigned on 27 September 2017)
Mr. Xu Tao

Non-Executive Directors

Mr. Ye Yong-ming *(Chairman)*
Ms. Xu Zi-ying *(Vice Chairman)*
Mr. Zhang Xuan-song (Resigned on 14 March 2017)
Mr. Zhang Ye (Resigned on 28 August 2017)
Mr. Dong Zheng
Mr. Zhou Jing-bo
(Ceased to be with effect from 12 June 2017)
Mr. Qian Jian-qiang
Ms. Zheng Xiao-yun
Mr. Zhang Jing-yi (Resigned on 14 March 2017)
Mr. Wong Tak Hung

Independent Non-Executive Directors

Mr. Xia Da-wei
Mr. Lee Kwok Ming, Don
Mr. Gu Guo-jian (Resigned on 14 March 2017)
Ms. Sheng Yan (Resigned on 28 March 2018)
Mr. Chen Wei
Mr. Wang Jin (Resigned on 14 March 2017)
Mr. Zhang Jun

Board Committees

Audit Committee

Mr. Lee Kwok Ming, Don *(Chairman)*
Mr. Xia Da-wei
Mr. Gu Guo-jian (Resigned on 14 March 2017)
Mr. Zhou Jing-bo (Ceased to be with effect from 12 June 2017)
Mr. Wang Jin (Resigned on 14 March 2017)
Mr. Zhang Jun
Ms. Zheng Xiao-yun

Remuneration and Appraisal Committee

Mr. Xia Da-wei *(Chairman)*
Ms. Xu Zi-ying
Ms. Qi Yue-hong
(Ceased to be with effect from 12 June 2017)
Mr. Gu Guo-jian (Resigned on 14 March 2017)
Ms. Sheng Yan (Resigned on 28 March 2018)
Mr. Chen Wei
Mr. Wang Jin (Resigned on 14 March 2017)
Mr. Zhang Jun

Strategic Committee

Mr. Ye Yong-ming *(Chairman)*
Ms. Xu Zi-ying
Ms. Qi Yue-hong (Resigned on 27 September 2017)
Mr. Zhang Xuan-song (Resigned on 14 March 2017)
Mr. Zhang Ye (Resigned on 28 August 2017)
Mr. Dong Zheng
Mr. Xu Tao
Mr. Gu Guo-jian (Resigned on 14 March 2017)
Mr. Qian Jian-qiang

Nomination Committee

Mr. Ye Yong-ming *(Chairman)*
Ms. Sheng Yan (Resigned on 28 March 2018)
Mr. Chen Wei
Mr. Gu Guo-jian (Resigned on 14 March 2017)
Ms. Qi Yue-hong
(Ceased to be with effect from 12 June 2017)
Mr. Xia Da-wei
Mr. Wang Jin (Resigned on 14 March 2017)
Mr. Zhang Jun

Supervisors

Mr. Yang A-guo *(Chairman)*
Mr. Lv Yong (Resigned on 28 November 2017)
Ms. Tao Qing
Mr. Shi Hao-gang

Company Secretaries

Ms. Hu Li-ping
Mr. Stephen Mok (Resigned on 22 December 2017)

Authorised Representatives

Ms. Qi Yue-hong (Resigned on 27 September 2017)
Mr. Xu Tao
Ms. Hu Li-ping

International Auditor

Deloitte Touche Tohmatsu

Legal Advisers to the Company

As to Hong Kong laws
Eversheds
Baker & McKenzie

As to PRC laws
Grandall Law Firm (Shanghai)

Investors and Media Relations Consultant

Christensen China Limited

Principal Bankers

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

Registered and Business Office

Registered Office in the PRC

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

Place of Business in the PRC

5th to 14th Floors
No. 1258 Zhen Guang Road
Shanghai, PRC

Principal Place of Business in Hong Kong

16th Floor, Methodist Building,
36 Hennessy Road,
Wanchai,
Hong Kong

Telephone

86 (21) 5262 9922

Fax

86 (21) 5279 7976

Company Website

lianhua.todayir.com

Shareholder's Enquiries

Contact Information of the Company

Office of the Board of Directors
Tel: 86 (21) 5278 9576
Fax: 86 (21) 5279 7976

Hong Kong Share Registrar and Transfer Office

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

Share Information

Listing Place

The Stock Exchange of Hong Kong Limited

Listing Date

27 June 2003

SEHK Stock Code

980

Number of H shares Issued

372,600,000 H shares

Year-end Date

31 December

Results Announcements

Interim Results for 2017 were published on 28 August 2017
Annual Results for 2017 were published on 28 March 2018

Dividends

Interim Dividends: Nil
Proposed Final Dividends: Nil

Major Achievements In 2017

JANUARY

Shanghai Lianhua Quik Convenience Stores Co.,Ltd ("Lianhua Quik"), a subsidiary of the Company, was awarded the honorable title of "Citizens' Most Trusted Chain" by Shanghai Chain Enterprise Association, as well as the honorable title of "Key Enterprise's Contribution Award" by the Municipal People's Government of Hongkou District, Shanghai.

The cashier group of the Xianxia store operated by Shanghai Century Lianhua Supermarket Development Co., Ltd. ("Century Lianhua"), a subsidiary of the Company, was awarded the honorable title of "Workers' Pioneer" by the Shanghai Federation of Trade Unions.

The Chaohu store and the Chaohu Changjiang Road store operated by Anhui Century Lianhua Supermarket Co., Ltd. ("Lianhua Anhui Co."), a subsidiary of the Company, were awarded the honorable title of "Enterprise Model of Clearly Marked Price" by the Pricing Bureau of Chaohu City of Anhui Province and the Consumers Association of Chaohu, as well as the honorable title of "Enterprise Model of Honest Operations" by the Bureau of Commerce of Chaohu City of Anhui Province and the Chaohu City Market Supervision and Management Bureau.

FEBRUARY

Guangxi Lianhua Supermarket Joint Stock Co., Ltd. ("Lianhua Guangxi Co."), a subsidiary of the Company, was awarded the honorable title of "Advanced Enterprise in Commercial Services Industry of Liuzhou City" by the Municipal Commission of Commerce of Liuzhou City of Guangxi Province.

MARCH

The Jiangyan store of Lianhua Supermarket (Jiangsu) Co., Ltd. ("Lianhua Jiangsu Co."), was awarded the title of "Price Integrity Pioneer of Jiangsu Province" by the Pricing Bureau of Jiangsu Province.

The Jingjiang Jiangping store of Lianhua Jiangsu Co. was awarded the title of "2016 Enterprise Model of Honest Operations in Circulational (Commercial) Industry of Taizhou" by the Bureau of Commerce of Taizhou, and was the only hypermarket in Jingjiang District to have received this award.

Hangzhou Lianhua Huashang Group Co., Ltd. ("Lianhua Huashang") was awarded the title of "2016 Outstanding Unit of Public Security and Safety of Zhejiang Province" by Zhejiang Provincial Public Security Department, the Office of Community Management and Comprehensive Administration Commission of Zhejiang Province and the Public Security Comprehensive Management Commission of Zhejiang Province.

APRIL

On 19 April, a newly established fresh produce distribution center developed by Lianhua Guangxi Co. commenced operation.

Century Lianhua, Shanghai Lianhua Supermarket Development Co., Ltd ("New Supermarket") and Lianhua Quik, all of which are subsidiaries of the Company, were awarded the honorable title of "18th Session of Civilized Units" by the Shanghai Municipal People's Government.

MAY

Yu Xiufang, store manager of the Shenbin store of Lianhua Quik, was awarded the honorable title of "Shanghai 1st May Labour Medalist" by the Shanghai Federation of Trade Unions. The Xianxia store of Century Lianhua was awarded the honourable title of "Shanghai 1st May Labour Recognition" by the Shanghai Federation of Trade Unions.

On 3 May, the Company held "Innovative Reform Youth Lianhua", the final of a youth comprehensive skill contest and 98-year anniversary of the May Fourth Movement Celebration Fair.

On 26 May, Shanghai Yiguo E-commerce Co., Ltd ("Shanghai Yiguo") (i) entered into a share transfer agreement with Alibaba (China) Technology Co., Ltd. ("Alibaba"), agreeing to transfer 201,528,000 domestic shares of the Company to Alibaba; and (ii) entered into a share transfer agreement with Bailian Group Co., Ltd. ("Bailian Group"), agreeing to transfer 22,392,000 domestic shares of the Company to Bailian Group.

On 27 May, the grand opening of Lianhua Huashang Hangzhou Guoda City Plaza Life Supermarket was held, which was a brand new pilot of boutique supermarket of the Company to explore such industry, of which the dining business accounted for about 60%.

Lianhua Quik was awarded the honorable title of "5 Star Integrity Enterprise of the Association" by the Shanghai Chain Enterprise Association.

The Jiangyan store of Lianhua Jiangsu Co. was awarded the honorable title of "Accurate Weighing Model Unit of Jiangsu Province" by the Jiangsu Provincial Bureau of Quality and Technical Supervision.

Lianhua Huashang was awarded the honorable title of "11th Consumer Trustable Unit of Zhejiang Province" and "11th Consumer Trustable Unit of Hangzhou" by the Zhejiang Provincial Protection Commission of Consumers' Rights and Interests and the Hangzhou Protection Commission of Consumers' Rights and Interests respectively.

New Supermarkets was awarded the title of "2016 Shanghai Harmonious Commercial Enterprise" by the Shanghai Commercial Enterprise Management Association and the Shanghai Commercial Development Research Center.

JUNE

On the "6.17 Big Promotion", a marketing event for the Company's 26th Anniversary, the Company hit a new high in its sales and achieved a fruitful outcome of single-day sales of more than RMB379 million.

Hangzhou Lianhua Quik Convenience Stores Co., Ltd ("Hangzhou Lianhua Quik"), a subsidiary of the Company, was awarded the title of "2016 National Business Integrity and Prosperous Double Excellence Model" by the China General Chamber of Commerce. Ningbo Lianhua Quik Convenience Stores Co., Ltd ("Ningbo Lianhua Quik"), a subsidiary of the Company, was awarded the title of "2016 National Business Brand Model of Quality" by the China General Chamber of Commerce.

JULY

Lianhua Huashang was awarded the title of "Sentinel Unit of National Price Monitoring" by Pricing Bureau of Zhejiang Province.

AUGUST

On 15 August, Whale-Choice Future Store, a brand new consuming pattern of Lianhua Huashang was launched, which is an one-stop contemporary physical retail shop with 20,000 sq.m. with the theme of "integrating with advanced technology, gourmet food, 2nd generation shopping and targeting customers of the post-90s generation".

Lianhua Quik entered into a strategic agreement with Yanshang Group, to explore the convenience store industry in Guizhou.

SEPTEMBER

The Chaouhu Changjiang Road store of Lianhua Anhui Co. was awarded the honorable certificate of "2017 Grade A Enterprise of Labor Protection" by the Human Resources and Social Security Bureau of Chaohu City.

NOVEMBER

Zhang Fengling, an employee of Lianhua Guangxi Co., Li Dong, an employee of Lianhua Anhui Co., Hao Hongtu, Shou Chun and Sun Quan, employees of Lianhua Huashang were awarded the honorable titles of "2017 CCFA Gold Medal Store Manager" by China Chain Store & Franchise Association.

The Zhenjiang Dantu store of Lianhua Jiangsu Co. was awarded the title of "Accurate Weighing Model Unit of Jiangsu Province" by the Jiangsu Provincial Bureau of Quality and Technical Supervision.

Lianhua Huashang was awarded the title of "2016 Key Trading Enterprise of Zhejiang Province" by the Department of Commerce of Zhejiang Province.

DECEMBER

On the 11th Zhejiang Chain Industry Meeting and the New Era Business Summit organized by Chain Association of Zhejiang Province on 21 December, the Nanhuan Road store in Xiaoshan and the World Trade Plaza store in Xinchang of Lianhua Huashang were awarded the title of "Star Stores of Chain Industry in Zhejiang Province", Chen Xiaoying in Heping store in Hangzhou was awarded the title of "Ten Best Store Manager of Chain Industry in Zhejiang Province" and 14 store managers were awarded the title of "2016-2017 Excellent Store Manager of Chain Industry in Zhejiang Province".

Sun Longqiang, the store manager of Bailian Central store of Century Lianhua, was awarded the title of 2017 "Individual Award for Quality Commercial Services in Shanghai" by the Shanghai Commercial Association.


LEADING


ORGANIC
WELOVEFOOD
GARDENS
WE LOVE VALUE
1.99
WE LOVE VALUE
2.29

CHAIRMAN'S STATEMENT

I am pleased to present the annual results of Lianhua Supermarket Holdings Co., Ltd. for the year ended 31 December 2017.

For Lianhua, 2017 was a year coping with changes, seeking for changes and achieving progress while ensuring stability. The Group actively grasped the opportunities brought by the reform in the retail industry and proactively established its omni-channel model, while coped with inadaptability of the system and mechanism through market-oriented reform and adhered to the general working policy of "people-oriented concept, innovative reform, refinement and pragmatism, and reduction in loss and increase in profit". As a result, the Group achieved progress in all its work and saw significant improvement in its overall performance over the corresponding period of last year. In particular, we reduced losses by approximately RMB167 million compared with 2016. In 2017, we effectively stopped the trend of decline in our performance.

In 2017, the Group established a new business model of "supermarket + catering + social", built a new brand, attracted new customer base, operated with new technologies and embraced the advent of new retail era through innovation and proactive change. The Group opened Green & Health store and Century Lianhua Whale-Choice Store (世紀聯華鯨選店) in Hangzhou, representing valuable explorations of new retail.

In 2017, the Group also proactively established its omni-channel model. Through optimizing the supply chain and lowering the stock-out rate, we have improved shopping experience. Benefiting from the positive progress in the "Delivery to Home" business, we delivered significant growth in online sales.

In 2017, the Group continued to promote the transformation and upgrade of its physical stores. As at the end of 2017, all hypermarkets and three fifths of the standard supermarkets in Shanghai have completed their transformations, which included improvements in shopping environment, adjustments in commodity structure, enhancement of service standard and optimization of resource allocation. The notable improvement in performance of the transformed stores further strengthened the Group's confidence in continuing to promote the transformation and upgrade of its physical stores.

In 2017, the Group proactively optimized its fresh procurement supply chain, vigorously pushed for the development of supply bases and established a quality and stable supply system for fresh produce through construction of compliant base. Our stores are committed to improving the quality of their on-site management over fresh produce and the assurance of good quality has contributed to the year-on-year increase of sales of fresh produce.

In 2017, the Group devoted itself to the optimization of commodity structure and to promoting the improvement of commodity revenue. The Group vigorously developed its private brand commodities through operating pavilions for private brand products. The Group expanded the sale of imported commodities through expansion of procurement channels of imported commodities, enriching the varieties of imported commodities and organizing themed marketing campaign with interactions. The proportion of sales of private brand commodities and imported commodities has been further increased.

In 2017, the Group substantially reduced its labor costs by optimizing processes, streamlining posts, flexible staffing and rational deployment of human resources. Meanwhile, the Group effectively controlled the operation costs with careful calculation, great attention on detail management and prevention of misuse and waste of funds. The Group achieved remarkable results in reducing costs and enhancing efficiency in 2017.

In 2017, the Group, under the leadership of the Board, promoted the market-oriented reform of the employment system from the top to the bottom. The management team of the Company has transformed to be dominated by managers, young people and professionals. The Company has made progress in core team construction, with strengthened cohesion and combat effectiveness of the management team.

In 2017, the Group enhanced its supervision and compliance operation with a high sense of social responsibility. Each of the business units and functional departments strengthened its safety awareness and earnestly fulfill its safety obligations. No major safety accidents were recorded in 2017. In 2017, the Group recorded a revenue of approximately RMB25,225 million, representing a decrease of approximately 5.4% from the corresponding period of previous year. The operating profit was approximately RMB111 million. The annual loss attributable to the shareholders of the Company was approximately RMB283 million. The loss per share amounted to approximately RMB0.25.

Looking ahead in 2018, the macroeconomic situation will continue to be stable and sound. With the service industry's proportion in GDP continuing to expand, the contribution of this sector to economic growth will become even more pronounced. The trend of consumption upgrades as a result of China's growing middle class is going to continue. In general, the opportunities for retailers will outweigh the challenges.

From the perspective of the development trend of the industry, 2017 was the starting year of the new retail era, and 2018 is expected to be the year when the retail industry will deepen its transformation. Innovations, collaborations, mergers, integrations and technologies will pave the way for business revivals and deeply influence the current and future business operation models of retailers. The Group's strategies for establishing a new retail model is to cultivate first-class digital capabilities, accelerate the integration of the online and offline business operations, create unique in-store experiences and grasp cutting-edge technologies to reshape the connotation of retail.

Looking ahead in 2018, challenges will mainly come from ourselves. For instance, the capabilities of innovation, organization, development and supply chain of the Group may be incompatible with the transformation of the new retail. In 2018, the Group will promote the Company's transformation and sustainable expansion in accordance with the established strategies, focusing on the following five major aspects:

(I) Promoting commodity category planning and accelerating supply chain development. The Group will continue to build its fresh food supply chain, optimize its source procurement network for fresh produce, build compliant self-operated bases, control the supply of upstream resources, internally control commodity quality, strengthen the businesses of vegetables, fruits, meat products and aquatic products, reinforce the businesses of baked foods and fresh food, intensify supply chain construction for the fresh food processing factories, improve commodity category development capabilities and expand overseas procurement channels. The Group will maintain close cooperation relationships with strategic suppliers through the implementation of the JBP project, integrate online and offline commodity resources and develop a major commodity offering for the omni-channel operation, in order to meet the diverse needs of consumers. Meanwhile, the Group will focus on business segments, provide commodity category solutions for hypermarkets and standard supermarkets, and increase the proportion of sales of private brand commodities and imported commodities, so as to meet consumers' demands in the new round of consumption upgrades.

(II) Promoting excellent implementation. The Group will rapidly improve operation standards to synergize the up-front implementation of commodity category planning, enhance fresh produce operating capacity, optimize annual marketing plans, conduct marketing and promotion campaigns in communities and drive improvements in same store sales. The Group will continue to promote its ERP project and increase the order fulfillment rate of stores through systematical optimization of the overall management process and efficiencies and improvement in information flow in each segment of supply chain.

(III) Promoting sustainable transformation and outlet expansion. The Group will accomplish the transformation and upgrade of hypermarkets within Shanghai through innovative segment design, supply chain upgrades and development of hypermarket 3.0 model. Through business segmentation, the Group will vigorously develop selected standard supermarkets and community fresh produce based standard supermarkets with supplement of community convenience stores, and will also develop franchise stores with close relationship and explore B2B businesses, in a bid to build a new business system of standard supermarkets. The Group intends to explore new business models and provide consumers with shopping experience in an omni-channel scenario through ongoing innovations in commodity offering and function portfolio. The Group will promote the national development strategy of convenience stores by building core supply chains, integrating service functions and developing brand new convenience stores.

(IV) Omni-channel development and digital marketing. The Group will continue to develop an omni-channel sales approach for the new retail model, actively enrich the product pool, especially for online sales commodity category planning, and increase the proportion of sales of fresh produce on one hand. On the other hand, the Group will also enhance shopping experience, improve the diversion effect of offline marketing, promote the in-depth integration of online and offline business operations, fully exert the advantages of physical stores in network and flow, expand the size of members and upgrade the experience of members to formulate sustainable omni-channel solutions. Meanwhile, the Group will increase digital marketing and data application to enhance insights and analysis of customer groups and strengthen brand building and construction.

(V) Improving organization capacity building and creating such a consumer-centric corporate culture and organizational framework with the whole team supporting front-line work. The Group will continue to promote the concurrent measures of market-based talent recruitment and internal promotion, promote the improvement in the organization's strategic planning, commodity category development, operation execution and omni-channel development capabilities, and unswervingly promote the contractual system reform. The Group will further streamline the level of management, promote the process of flattening organization and improve the efficiency of information communication, to build a dynamic organizational structure that meets the needs of competition and establish a remuneration and assessment mechanism that is adapted to the requirements of marketization in a highly competitive market environment.

In 2018, the Group will continue to spare great efforts in reducing costs, increasing revenue and enhancing the standards of foundation management. The Group will undertake its social responsibilities and monitor food security on an ongoing basis. The Group will strive to build a food safety regulatory system that keeps consumers safe and relieved in accordance with all sorts of standards and regulations issued by the state.

In 2018, the Group will align its services to customers' demand, focus on execution, pursue the implementation, act from the heart, grow with passion, adhere to our mission of creating values for customers, staff, shareholders and the society, and strive to achieve a sustainable improvement in performance.

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

By order of the Board

Ye Yong-ming
Chairman

28 March 2018, Shanghai, the PRC


SeafoodWorld

GROWING

Five Years Financial Highlights

Unit: RMB'000 For the year ended 31 December	**2017**	2016	2015	2014	2013
Turnover	**25,225,388**	26,666,069	27,222,699	29,152,454	30,383,420
Hypermarkets	**15,263,388**	16,291,815	16,612,065	17,513,911	18,234,857
– Percentage to turnover (%)	**60.51**	61.10	61.02	60.08	60.02
Supermarkets	**8,001,927**	8,323,560	8,623,925	9,544,941	10,151,879
– Percentage to turnover (%)	**31.72**	31.21	31.68	32.74	33.41
Convenience stores	**1,874,299**	1,982,848	1,968,663	2,013,456	1,934,450
– Percentage to turnover (%)	**7.43**	7.44	7.23	6.91	6.37
Other businesses	**85,774**	67,846	18,046	80,146	62,234
– Percentage to turnover (%)	**0.34**	0.25	0.07	0.27	0.20
Gross profit	**3,757,839**	3,937,505	4,021,565	4,241,145	4,362,590
Gross profit margin (%)	**14.90**	14.77	14.77	14.55	14.36
Consolidated income margin (%) (Note 1)	**26.54**	24.51	24.50	24.46	24.02
Operating (loss) profit (Note 1)	**110,807**	(220,251)	(148,831)	241,816	265,805
Operating (loss) profit margin (%) (Note 1)	**0.44**	(0.83)	(0.55)	0.83	0.87
(Loss) profit attribute to shareholders of the Company	**(282,760)**	(449,955)	(496,991)	31,033	52,953
Comprehensive (expenses) profit attributable to shareholders of the Company	**(269,685)**	(451,284)	(487,190)	31,033	52,953
Net (loss) profit margin (%) (Note 1)	**(1.12)**	(1.69)	(1.83)	0.11	0.17
(Losses) earnings per share (RMB)	**(0.25)**	(0.40)	(0.44)	0.03	0.05
Interim dividend per share (RMB) (Note 2)	**–**	–	–	–	–
Final dividend per share (RMB) (Note 2)	**–**	–	–	–	–

Unit: RMB'000 As at 31 December	**2017**	2016	2015	2014	2013
Net assets	**2,488,833**	2,753,879	3,199,086	3,674,386	3,648,620
Total assets	**16,954,480**	17,458,012	17,604,856	18,428,359	20,520,759
Total liabilities	**14,465,647**	14,704,133	14,405,770	14,753,973	16,872,139
Net cash flow	**401,607**	(1,271,465)	(697,905)	267,777	2,288,339
Average (loss) return on total assets (%)	**(1.64)**	(2.57)	(2.76)	0.16	0.26
Average (loss) return on net assets (%)	**(12.15)**	(16.73)	(15.73)	0.92	1.56
Gearing ratio (%) (Note 3)	**0.01**	0.01	0.01	0.01	0.01
Liquidity ratio (times)	**0.73**	0.79	0.70	0.77	0.73
Turnover of trade payables (days)	**62**	61	59	58	59
Turnover of inventories (days)	**41**	43	41	40	40

Notes:

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

2. The total shares of the Company increased to 1,119,600,000 shares from 622,000,000 shares due to the bonus issue effective in September 2011. Meanwhile the directors do not recommend the payment of the final dividend at the Board meeting held on 28 March 2018.

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

Management Discussion and Analysis

Operating Environment

Based on the data from the National Bureau of Statistics of the PRC, in 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 last year, ending six consecutive years of Chinese economic deceleration and the first year-over-year increase. In 2017, the Chinese government, upholding the general mandate of seeking improvements and maintaining stabilization with a focus on supply-side structural reform, properly increased the aggregate demand, deepened reform and innovation, bolstered the real economy and prevented and dissolved risks. The economic structure has been continuously optimized and new driving forces have grown steadily. Overall quality of growth witnessed obvious improvements, and the resilience of development has been strengthened. The development of the Chinese economy has appeared to stabilize, with improvements beginning to show.

Based on data from the National Bureau of Statistics of the PRC, in 2017, total retail sales of consumer goods nationwide had a nominal year-on-year growth of 10.2%, representing a decrease in growth rate of 0.2 percentage point compared to the same period of last year. In particular, the retail sales of consumer goods of enterprises above a designated size had a year-on-year growth of 8.1%, keeping flat with the same period of last year.

In 2017, economic development in the PRC accelerated and the growth in citizen income also accelerated. Based on data from the National Bureau of Statistics of the PRC, the national per capita disposable income had an actual growth of 7.3% in 2017, representing a year-on-year increase of 1.0 percentage point, and was also 0.4 percentage point higher than the GDP growth rate in the same period. Based on the data from the National Bureau of Statistics of the PRC, the national CPI in 2017 had a year-on-year increase of 1.6%, representing a decrease in growth of 0.4 percentage point compared to the same period of last year. As indicated by Nelson's China Consumer Confidence Index Report, under the "New Normal", consumer confidence in China continued to rise and hit a new high in the fourth quarter of 2017. The introduction of new products in consuming market has expedited, a new generation of consumers who are willing to try new products has risen, and overall innovation in the market has sped up. Consumption upgrade, health and greenness, and retail reform were the three trends that led the market in 2017.

In light of the increasing demand for high-quality products from consumers, the physical retail sector continues to speed up its transformation and upgrade. In 2017, various physical retail enterprises proactively initiated innovation and transformation including development of new business segments and omni-channel model, reconstruction of supply chains, as well as promotion of extending channels to rural areas. New business segments and new operational models have developed rapidly. In addition, various physical retail enterprises made continuous adjustments to their commodity structures and business segment structures, and proactively applied new technologies to innovate marketing and shopping scenarios to enhance customers' shopping experience, which helped drive the market recovery of physical retail. According to data published by the Ministry of Commerce of the PRC, in 2017, 2,700 typical retail enterprises that were monitored by the Ministry of Commerce of the PRC recorded a year-on-year increase in sales of 4.6%, representing an increase of 3 percentage points with respect to growth rate as compared with the same period of last year, and operating profit and total profit of these enterprises saw an increase of 8.0% and 7.1%, respectively, recording an increase in growth rate of 6.5 and 11 percentage points, respectively, compared with that of the same period last year. In particular, the growth rate of the sales of the supermarket segment was 3.8%, representing an increase of 1.9 percentage points compared with the same period of last year.

In 2017, retail enterprises proactively connected their online and offline businesses as well as upstream and downstream channels to promote cross-industry integration of multiple segments in a convergent and collaborative way. They also increased their adoption of modern information technologies to develop new physical stores, mobile terminals, TV shopping platforms and other sales channels so as to strengthen the consumers' omni-channel shopping experience. In addition, retail enterprises proactively promoted the extension of their supply chains towards production, reduced costs and adjusted production according to demand to achieve "One Thousand Appearances for One Thousand Stores". Certain supermarkets also launched new model of "Supermarket + Catering" to attract consumers and increase sales.

Financial Review

Turnover & consolidated income

During the period under review, the Group's turnover was approximately RMB25,225 million, representing a decrease of RMB1,441 million compared with the corresponding period of last year and a decrease of approximately 5.4% year over year. This was mainly because: (1) the Group carried out comprehensive reform and transformation in its offline stores while actively developing its online business, and as such, store sales showed negative growth during the transformation period; and (2) in order to improve its operational quality and profitability, the Group made structural adjustments to its store layouts through allocating resources rationally, sorting out stores with comparatively bigger losses and expanding new stores.

During the period under review, affected by the year-on-year decrease of its turnover, the Group's gross profit amounted to approximately RMB3,758 million, representing a decrease of approximately RMB180 million compared with the corresponding period of last year and a decrease of approximately 4.6% year over year. In spite of this, the gross profit margin increased by 0.13 percentage point when compared with the corresponding period of last year, reaching 14.90%. The increase of gross profit margin was mainly due to the decrease in fresh produce wastage and the enhanced control over the gross profit margin of commodities.

During the period under review, the consolidated income of the Group was approximately RMB6,695 million, representing an increase of approximately RMB160 million when compared with the corresponding period of last year and an increase of approximately 2.5% year over year. The consolidated income margin increased by 2.03 percentage points year over year to 26.54%.

During the period under review, the year-on-year decrease of product sales led to a decrease in commodity revenue. And affected by insufficient demand for pre-paid cards, the Group's sales of pre-paid cards continued to show a downward trend, resulting in the decrease of the Group's cash inflow. During the period under review, the Group recorded net cash outflow. However, benefiting from the accumulation of cash flow in previous years, the

Group still maintained a sufficient operating capital. During the period under review, as the Group adopted a stable and professional management strategy for its capital management, capital earnings amounted to approximately RMB287 million, representing a decrease of approximately RMB45 million when compared with the corresponding period of last year.

Operating cost and net profit

During the period under review, the total distribution costs and administrative expenses of the Group amounted to approximately RMB6,364,312 thousand, representing a decrease of approximately RMB306,025 thousand year over year. The decrease was mainly attributable to: (1) decrease in labour cost of approximately RMB100,710 thousand as a result of optimizations in corporate structure of the Group; (2) decrease in energy expenses of approximately RMB64,172 thousand through actively promoting energy-saving and consumption-reduction policies in stores; and (3) decrease in rental expenses of approximately RMB127,188 thousand as a result of the closure of some stores with substantial losses through rational adjustments of store layouts.

During the period under review, the Group recorded an operating profit of approximately RMB111 million. The loss was reduced by approximately RMB331 million compared with the corresponding period of last year. This was mainly due to the increase in other income and the decrease in distribution costs. The operating profit amounted to RMB331 million after eliminating provisions for losses due to store closures.

During the period under review, the revenue of associated companies attributable to the Group was approximately RMB8,458 thousand with a year-on-year increase of approximately RMB9,145 thousand. Shanghai Carhua Supermarket Co., Ltd ("Shanghai Carhua") achieved a slight increase in operating profit during the period under review. As of 31 December, 2017, there were a total of 30 stores operated by Shanghai Carhua.

During the period under review, the tax expense of the Group was approximately RMB270 million, representing a year-on-year increase of approximately RMB155 million or an increase of 134.8% year over year. The increase was mainly due to the increase in taxation of RMB91 million resulting from the gain on the disposal of the equity interests in Lianhua Live and Fresh.

During the period under review, the Group accelerated the integration of its online and offline business operations to build its omni-channel capabilities, and focused on the development of its "Delivery to Home" and "Buy Online and Pick up in Stores" businesses. The Group explored the new business model of O2O with integration of online and offline business, and proactively sought cross-boundary and cross-sector cooperation to improve business operations. The Group also actively optimized its staff and store structures to reduce redundant costs. During the period under review, the Group recorded a net loss attributable to the shareholder of the Company of approximately RMB283 million. The loss decreased by approximately RMB167 million year over year. Based on the 1,119.6 million shares issued by the Company, the basic loss per share was approximately RMB0.25.

Cash flow

During the period under review, the net cash outflow of the Group was approximately RMB401,607 thousand, mainly due to the decrease in the sales of pre-paid cards year over year. The cash and various bank balance as at the end of the period was approximately RMB5,657,507 thousand.

As at 31 December 2017, the accounts payable turnover days of the Group were approximately 62 days, and the inventory turnover days were approximately 41 days.

During the period under review, the Group did not use any financial instruments for hedging purposes and did not issue any hedging instruments as at 31 December 2017.

Retail business operation

Hypermarkets

During the period under review, the hypermarket segment of the Group recorded a turnover of approximately RMB15,263,388 thousand, accounting for approximately 60.5% of the Group's turnover, which represented a year-on-year decrease of approximately 6.3%. In particular, same store sales had a year-on-year decrease of approximately 4.85%. The year-on-year decrease in sales was mainly due to the Group's proactive re-organization of store layout and the closure of some stores with expired leases which the landlords would not renew or with much higher rentals under the hypermarket segment. During the period under review, the hypermarket segment recorded a gross profit of approximately RMB2,268,679 thousand. The gross profit margin increased by 0.41 percentage point year over year to 14.86%. The consolidated income was approximately RMB4,010,132 thousand. The consolidated income margin increased by 0.68 percentage point to 26.27%. During the period under review, the hypermarket segment recorded distribution costs and administrative expenses of approximately RMB3,850,109 thousand, representing a decrease of RMB411,790 thousand year over year. The loss attributable to the closure of stores as a result of the reorganization of the store network under the hypermarket segment was RMB218,815 thousand. During the period under review, the operating loss of the segment was approximately RMB45,655 thousand. The loss decreased by RMB103,163 thousand year over year compared with the corresponding period of last year, while the operating profit margin increased by 0.61 percentage point year over year to –0.30%. The hypermarket segment improved and expanded the sales of fresh produce through the upgrading and transformation of stores and adjustments to the commodity structure. Meanwhile, in line with the transformation and upgrading of stores, the Group allocated quality resources to attract new businesses in a rational manner to improve its revenue structure.

	As of 31 December	
	2017	2016
Gross Profit Margin (%)	**14.86**	14.45
Consolidated Income Margin (%)	**26.27**	25.59
Operating Profit Margin (%)	**–0.30**	–0.91

Supermarkets

During the period under review, the supermarket segment of the Group recorded a turnover of approximately RMB8,001,927 thousand, accounting for approximately 31.7% of the Group's turnover, which represented a year-on-year decrease of approximately RMB321,633 thousand and a decrease of 3.9% compared with the corresponding period of last year. The total number of directly-operated stores and franchised stores decreased by 6.7%, which was the main reason for the decrease in sales. The year-over-year decrease of franchised sales and wholesale amounted to RMB230,355 thousand. In particular, same store sales decreased by approximately 1.58% year over year. During the period under review, the Group carried out comprehensive upgrades on existing stores and actively adjusted its commodity structure. The Group also continued to promote the implementation of the "Bailian Delivery to Home" project to improve same store sales.

During the period under review, the supermarket segment recorded a gross profit of approximately RMB1,150,230 thousand. The gross profit margin decreased by 0.56 percentage point to 14.37% year over year. The consolidated income was approximately RMB1,736,287 thousand, representing a year-on-year decrease of approximately RMB86,446 thousand compared with the corresponding period of last year. The consolidated income margin decreased by 0.20 percentage point year over year to 21.70%. During the period under review, the year-on-year decrease in sales led to the decrease in commodity revenue, while the rigid increase in labour costs and huge increase in rentals of mature stores compressed the profit margin of the supermarket segment, which led to the year-on-year decrease in operating profit. During the period under review, the operating profit of the supermarket segment was approximately RMB47,268 thousand with a year-on-year decrease of approximately RMB54,337 thousand. The operating profit margin decreased by 0.63 percentage point to approximately 0.59%.

	As of 31 December	
	2017	2016
Gross Profit Margin (%)	**14.37**	14.93
Consolidated Income Margin (%)	**21.70**	21.90
Operating Profit Margin (%)	**0.59**	1.22

Convenience Stores

During the period under review, the convenience store segment of the Group recorded a turnover of approximately RMB1,874,299 thousand, accounting for approximately 7.4% of the Group's turnover, which represented a year-on-year decrease of approximately 5.5%. In particular, same store sales decreased by approximately 3.0% year over year. During the period under review, the convenience store segment continued to improve the operational quality and brand image of existing stores, constantly optimized and adjusted store functions and shifted the focus of the structure of product offerings to young customers. The convenience store segment recorded a gross profit of approximately RMB327,767 thousand. The gross profit margin increased by 0.84 percentage point year over year to 17.49%. The consolidated income was approximately RMB443,772 thousand. The consolidated income margin increased by 1.22 percentage points year over year to 23.68%. During the period under review, the distribution costs and administrative expenses increased by approximately RMB39,482 thousand when comparing with the corresponding period of last year, which was mainly due to (1) the increase in the policy-orientated salary and other factors which led to the increase in labour cost of approximately RMB9,419 thousand year over year to RMB295,076 thousand; and (2) the year-over-year increase in depreciation and amortisation expenses of approximately RMB9,659 thousand. The convenience store segment suffered an operating loss of approximately RMB155,833 thousand with a year-on-year increase in loss of approximately RMB41,021 thousand. The operating profit margin decreased by 2.52 percentage points to approximately –8.31%.

	As of 31 December	
	2017	2016
Gross Profit Margin (%)	**17.49**	16.65
Consolidated Income Margin (%)	**23.68**	22.46
Operating Profit Margin (%)	**–8.31**	–5.79

Capital Structure

As at 31 December 2017, the Group's cash equivalent was mainly held in Renminbi. Except for bank borrowings of RMB2,000 thousand by a non-wholly owned subsidiary of the Group, there were no other bank borrowings of the Group.

During the period under review, the equity attributable to owners of the Company decreased from approximately RMB2,753,879 thousand to approximately RMB2,488,833 thousand, mainly due to the loss in the period amounting to approximately RMB151,025 thousand, the dividend distributed to non-controlling interests amounting to approximately RMB128,477 thousand and the increase of capital reserve by approximately RMB14,456 thousand.

Details of the Group's Pledged Assets

As of 31 December 2017, the Group did not pledge any assets.

Foreign Exchange Risks

Most of the income and expenditures of the Group are denominated in Renminbi. During the period under review, the Group did not experience any material difficulties or negative effects on its operations or liquidity as a result of fluctuation in exchange rates. The Group neither entered into any agreements nor purchased any financial instruments to hedge its foreign exchange risk. The directors of the Company (the "Directors") believe that the Group is able to meet its foreign exchange demands.

Share Capital

As of 31 December 2017, the issued share capital of the Company was as follows:

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

Contingent Liabilities

As at 31 December 2017, the Group did not have any material contingent liabilities.

Operating Review

Development of sales network

During the period under review, the Group continued to adhere to its quality-focused development strategy. The Group actively established new outlets in key development areas to consolidate its market position. The Group opened 295 new stores, 84 of which were new directly-operated stores and 211 of which were new franchised stores. Among the locations of the new stores, 222 stores were located in the Yangtze River Delta, accounting for 75.25% of the new stores. In addition, the Group adapted to the changes in market environment and reorganized the stores with substantial losses to improve the quality of overall physical stores. As a result, 492 stores were closed. Among the closed stores, 100 were directly-operated stores and 392 were franchised stores. Directly-operated stores had a net reduction of 16 stores, and franchised stores had a net reduction of 181 stores. The main reasons for closing those stores were the expiration of their tenancy agreements and the active closure and adjustment of stores with difficulties in operation.

Region	Segment	Newly opened stores during the period under review		Closed stores during the period under review	
		Count	Operating Areas *(m²)*	Count	Operating Areas *(m²)*
Major East China Zone	Hypermarkets	6	41,874	6	45,819
	Supermarkets	121	71,336	245	69,022
	Convenience Stores	111	6,897	160	7,219
North China Zone	Hypermarkets	0	0	2	13,770
	Supermarkets	1	160	1	100
	Convenience Stores	6	292	21	1,040
Northeast China Zone	Supermarkets	0	0	1	8,530
	Convenience Stores	21	905	16	711
Middle China Zone	Supermarkets	2	6,000	6	6,860
South China Zone	Hypermarkets	1	6,000	1	9,055
	Supermarkets	26	10,986	31	10,725
Southwest China Zone	Supermarkets	0	0	2	11,983
Total		295	144,450	492	184,834

During the period under review, the Group improved the operational quality and economic benefits of the hypermarket segment by means of making adjustments, rationally allocating resources and sorting out stores with comparatively bigger losses. During the period under review, 5 hypermarkets were opened, while 12 were closed.

During the period under review, the supermarket segment focused on sustainable development. The directly-operated business primarily focused on transformation and upgrading. The franchised business primarily focused on steady enhancement. During the period under review, 153 new supermarkets were opened, including 23 directly-operated stores and 130 franchised stores. The supermarket business continued to be a market leader in the markets of Shanghai, Hangzhou and Liuzhou.

During the period under review, the convenience store segment mainly focused on the adjustment of outlet structure and optimization of commodity structure, continually expanded the sales of fresh produce, imported commodities and branded commodities, accelerated introduction of new products and adopted innovative marketing. During the period under review, 137 new convenience stores were opened, including 56 directly-operated stores and 81 franchised stores.

During the period under review, the completed investment of the Group was approximately RMB468.30 million, approximately RMB201.89 million of which was for new store development, approximately RMB173.45 million of which was for the upgrade and reform of stores, approximately RMB1.24 million of which was for the Anhui Logistics Central Warehouse Project, and approximately RMB91.72 million of which was for the Yangxunqiao Logistics Project.

As of 31 December 2017, the Group had 3,421 stores in total, representing a decrease of 197 stores compared to the end of 2016. Approximately 81.38% of the Group's stores are located in eastern China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	145	556	809	1,510
Franchised operation	–	1,266	645	1,911
Total	145	1,822	1,454	3,421

Note: The data mentioned above were as of 31 December 2017.

People-oriented concept

During the period under review, the Group, adhering to its people-oriented concept, innovated motivation approaches in order to improve the enthusiasm of employees and promote better performance. The Group continuously promoted the "three dimensions" performance assessment plan which covered the whole company including operation teams in member companies and departments and offices both in the headquarter and front-line stores. The Group also explored motivational model reforms and created a sharing mechanism featuring joint creation, joint sharing and joint undertakings through division of operation units, clarification of budget for each department and utilizing the output of small units as a performance assessment indicator. With respect to reform of the motivation mechanism in front-line stores, the hypermarket business segment implemented a store partner system in certain regions to promote the stores to carry out their business activities with performance as a core target. The supermarket segment promoted store manager and store assistant joint-contracting models to incentivize stores to decrease costs and increase profit, the effects of which were remarkable.

During the period under review, the Group focused on optimizing the allocation of human resources and strengthened talent team construction. Based on the needs of strategic development, the Group focused on the improvement of its market-oriented talent introduction and selection mechanism, introduced, cultivated and selected young and excellent professionals with outstanding performance and development potential and reinforced construction of its professional talent pool at each level. The Group also established a professional training platform and emphasized the cultivation of a studious, innovative, dedicated and energetic youth talent team. The Group aimed at cultivating multi-dimensional talents so as to speed up the horizontal and vertical flow of internal personnel. In order to expand the space for practice, the Group explored the rotation program between the headquarter and subsidiaries and among member companies. The Group also set up assisting internship positions with the aim of attracting talented college students and constructing the youth talent pool.

Innovative reform

During the period under review, the Group steadily promoted the upgrade of its stores. The hypermarket segment made its transformation plan according to the principles of precise positioning, division of stores and "one plan for one store". For hypermarkets with growth potential, well-known brands were introduced, and new and fashionable baby and children zones, personalized entertainment zones for children, upgraded imported foods zones and premium wine and alcohol zones were set up. Meanwhile, the layout of stores was optimized, customer routes were re-designed, instruments and equipment for fresh produce business were upgraded and neighborhood service functions were also enhanced. For loss-making stores, the Group promoted improvements in the cost and revenue structure of those stores through adjustments of operation structure and optimization of resource allocation. The supermarket segment focused on building supermarkets in communities by introducing brand suppliers, selling freshly cooked food, constructing "Kitchens in the Neighborhood" and promoting the transformation of fresh produce operation from selling raw materials to selling cooked food. The convenience store segment actively explored the "1.0" new convenience store model utilizing "Internet Plus" through continuous improvements in the operation quality and brand image of existing stores. More personalized elements were added to the convenience store segment on the basis of continuously optimization of store functions. The targeted customer group is inclined towards young people.

During the period under review, the Group proactively expanded its sales. With all operating units making joint efforts and collaborating with each other, the "6.17 Big Promotion" was a huge success, achieving a new record of daily sales, which increased the confidence of the Group to reform, transform and develop innovatively.

During the period under review, the Group actively accelerated the integration of online and offline business operations and built up its omni-channel capabilities. For its physical stores, the Group focused on the development of its "Delivery to Home" and "Buy Online and Pick up in Stores" businesses through active expansion of online channels with electronic business technologies. The Group explored the new business model of O2O featuring the integration of online and offline and proactively sought cross-boundary and cross-industry cooperation. In addition, the Group actively looked for breakthroughs in online fresh produce operation, introduced suppliers for fresh produce, expanded the online sales of fresh produce and SKUs and optimized the number of products eligible for "Delivery to Home". The "Selection Basket" business was refined to improve the cost performance of shopping and to increase orders. The supply chain was optimized to reduce the rate of products in shortage. In addition, specific criteria were established for evaluation and motivation for the "Delivery to Home" business. The Group actively and effectively carried out activities to expand membership and accelerated the connection with physical stores, realizing rapid growth in both the number of orders and sales volume of the "Delivery to Home" business.

During the period under review, the Group proactively promoted innovative development of traditional retail and explored the innovation and transformation of business segments. To better cater to the trend of consumption upgrade and meet the demands of young consumer groups, the Group proactively promoted the upgrade and innovation of segments. In terms of innovation in the supermarkets segment, the Group opened the Green & Health store in the first half of the year, which was a new operation model centering on the essence of retail and promoting the concept of a delicate lifestyle through selling healthy and quality food and packaged products. Additionally, the Group made full use of existing commodity resources and newly introduced supplier resources to prepare and sell foods on-site, in order to explore the transformation of fresh produce from raw materials to cooked food and develop one-stop services from farms to dining tables. The value chain of fresh produce operations continued to be improved and the effects of markets started to emerge. With respect to innovation in hypermarkets, the Group opened a "Whale-Choice Future Store"（鯨選未來店） in the second half of the year. In this store, commodity structure, commodity quality, store service and other elements were upgraded with the idea of building a professional store. As for categories, valuable exploration was conducted in the form of integration pavilion. Also, the Group created a new retail model comprising of "supermarket + catering + social" to gather customers with on-spot cooking and to attract younger customers with the theme of "creating a new way of life", thus optimizing the customer structure. In terms of operational model, the Group concurrently launched the Lianhua Whale-Choice App with the stores to achieve rapid delivery of orders and satisfy customers' demand for one-stop consumption.

Refinement and pragmatism

During the period under review, the Group proactively promoted the construction of its supply chain with emphasis on the characteristics of base construction, stability of quality and long-term cooperation. Regional companies also sped up their supply chain development. Joint procurement was conducted with the procurement department of the headquarter to strive for preferential negotiation conditions. In addition, the Group proactively improved localized procurement systems and sped up the introduction of new products and products with local characteristics. Local distribution centers were also set up. In particular, the Group accelerated the construction of local fresh produce distribution centers to expand and strengthen the local fresh produce business.

During the period under review, the Group actively optimized its structure and enhanced its commodity management level. This included strengthening strategic operations with brand suppliers nationwide and pursuing the Joint Business Plan (JBP). With the focus of expanding sales, the Group strengthened the collaboration between commodity purchases and operations, sped up the introduction of new products and enhanced the proportion of sales of new products and the contribution of new products to overall performance. The Group integrated high quality suppliers, developed branded products and innovated the distribution model of branded products and improved the operation quality of branded products with the integration pavilion "High-quality Life". The proportion of sales of branded products was increased. The proportion of sale and gross profit margin of imported products were increased through expanding the procurement channels of imported products, improving the marketing and strengthening cooperation with suppliers. The inventory turnover indicator was improved through vigorously streamlining unmarketable goods and optimization of inventory structure.

During the period under review, the Group strengthened regulation over food safety processes, performed strict review of new products, and intensified on-site reviews of suppliers to strictly control food safety. The Group combined daily self-inspection of stores, supervision from the Company and third-party checks to proactively establish its position as an "Honest Supermarket". With the combination of daily and special inspection, regular and irregular inspection and centralized and scattered inspection, overall safety controls have been enhanced. In addition, the Group allocated specific budget and increased investments in safety to improve safety conditions and create an environment for safe production.

Reduction in loss and increase in profit

During the period under review, the Group implemented strict controls over a number of channels and made great efforts to optimize its position with reasonable determination of employment scale. The Group adopted trial implementation of hourly employment (part-time employment), reduced the number of employees and increased the efficiency of employees through close management of workload. The Group also strove to reduce labor costs through application for various re-employment subsidy policies.

During the period under review, the Group continued to control fees for a number of channels and achieved remarkable results. The installation of LED lamps in batches and investment in intelligent refrigeration equipment reduced the energy costs of stores. The rentals were reduced by way of increasing subletting areas and strengthening negotiations on rental reduction. The provision of special training and management reduced the wastage of commodity. Inventory costs were lowered through accelerating commodity circulation. Investment costs were controlled through careful plans and calculations. IT development costs were reduced by streamlining and optimizing the current inventory management system. Operating expenditures were reduced through streamlining business processes and intensifying budget control.

Employment, training and development

As of 31 December 2017, the Group had a total of 40,766 employees, representing a decrease of 3,267 employees during the period under review. Total employment expenses amounted to approximately RMB2,856,797 thousand.

During the period under review, the Group continued to push forward and improve its motivation mechanism, adopt innovative ways of motivation, and perfect the incentive assessment system to fully motivate employees' enthusiasm and creativity, thus promoting sales and enhancing efficiency.

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, reorganization of organizational procedures and other integration work were completed. A training organization and management system consisting of multiple levels was established at the headquarter of the Company. As per the new corporate organization structure, the Group executed an annual "class-hour evaluation system". Training based on the five levels of management, namely senior management, professional management in operations and procurement, store managers, front-line staff, and new employees, was implemented. According to the requirements of the "class-hour evaluation system", clear annual requirements of class hours for each level were established and the evaluation result are now regarded as an important basis for promotion, transfer and contract renewal of management and employees. To ensure that training needs of the employees were met, categories of training courses which meet the needs of the positions were set for each level. And a curriculum system is being developed step by step. The Group also produced a whole-year training plan catered for senior management, the commodity procurement department, administrative management offices and departments, and frontline staff. The Group set an annual plan for rotational training in line with practical work-related needs. The professional business training included new theories, new knowledge and new technologies. Through the integration of "Internet Plus" in all sections of training, the training channels were widened, coverage was enlarged and training efficiency was improved.

During the period under review, the Group reinforced the cultivation of talents with advanced skills and employees with value. The Group offered various professional training programs, continued to ensure guidance by senior workers for the technical talents in each position, increased the efforts of cultivating technical talents and enhanced the comprehensive quality of employees. Based on positional requirements, the Group provided targeted skill training to continuously enhance the proportion of employees with relevant certificates and improve their competence for the positions. Centering on the enhancement of business operations of the Company and starting from the skill positions of front-line fresh produce employees, the Group provided special training, organized competitions of fresh food preparation skills and improved work in terms of "Skill Ranking + Performance Commission". Meanwhile, leveraging on external training platforms, the Group implemented rotational training for store managers and special training for front-line employees in stores, striving to cultivate employees with value.

Principal risks

The business, financial condition, operating results or prospects may be affected by risks and uncertainties relating to the Group. The Group incorporates its risk management procedures into the formulation of strategies, business planning, investment decision-making, internal control and day-to-day operation management. The principal risks encountered by the Group and the mitigating measures are set out below:

Risks relating to the logistic system and distribution center

The Group reviews its warehousing and logistic distribution practice on a regular basis to provide support to its business. Risks include significant fluctuation of daily warehouse in-out quantities, a prolonged shortage of safe stock, an excessive investment inventory and an excessive inventory with more turnover days due to insufficient control of the warehouse distribution system and uncertainties, which might increase the operation risk and inventory risk.

Mitigating measures

The Group has reinforced the infrastructure construction for its distribution center and constantly enhanced informationization management of its logistics business. Through a series of upgrading and transforming efforts for the integrated logistics system to enable the electronization, real-time transmission, visualized storage of logistics information as well as the provision of precise logistic data, the Group has established a highly professional and socialized logistics distribution center control system to realize accurate and prompt inventory management and efficient centralized supply chain practice in chain operation. In addition, we reinforce the monitoring and tracking of daily distribution services, warehouse in-out, inventory status and order transmission and response, and thus effectively control possible risks arising from the operation of logistics system.

Risks relating to the development of network

The Group's operating results rely to a large extent on its ability to develop the potential for its retail sales in a way favorable to the Group. In recent years, the number of the Group's outlets, in particular the franchised outlets continued to decline, which had a relatively significant adverse impact on its operating results. The development of network is subject to a number of major factors such as the population density and growth potential of the outlet, consumption power of residents, traffic convenience, rental costs, lease term, marketing costs, availability of suitable premise, competition environment and human resources costs. The business development and prospects of the Group depends on the aforesaid factors, representing the key risk factors with an effect on the profit of the Group.

Mitigating measures

The Group adheres to the quality-oriented and innovation-driven growth strategies. First, the Group actively opens new outlets in key areas to enhance its market position. Second, the Group adapts to changes in market conditions and reorganizes stores that recorded great losses, thus improving the overall quality of physical stores. Third, the Group aims to boost the competitiveness of its stores through renovating, adjusting and optimizing efforts. It improves the single-store profitability of hypermarkets through adjusting operation structure and optimizing resources allocation. The supermarket segment focuses on enhancing functions to serve the community as a "Household Kitchen". The convenience store segment focuses on streamlining the outlet structure and optimizing commodities offerings to expand sales of fresh produce, imported commodities and branded produce and accelerate introduction of new commodities and innovate in marketing. Forth, the Group actively promotes the transformation and upgrade of terminal stores, aggressively develop the "Delivery to Home" business and build the omni-channel mode to cater for the needs of consumers for omni-channel shopping. Fifth, the Group grasps the opportunities arising from consumption upgrade, innovate in businesses types and advocate new lifestyle to meet the diversified and personalized needs of consumers.

Risks relating to the business capabilities of E-commerce

The E-commerce business may not achieve the expected profit level as scheduled. The success of E-commerce business depends on certain factors including, among others, the ability to correctly position the new business mode in the environment of fierce competition, the ability to successfully incorporate E-commerce with its existing three business segments and create synergies, the ability to introduce the best commodity offerings suitable for the preferences of online customers at an attractive price, the ability to bargain with suppliers and secure preferential terms, the results of marketing activities, the professional ability of sales personnel of the online sales platform, the availability of a smooth offline and online supply chain as well as the competition from existing operators and new entrants. As the development of E-commerce business mode entails significant capital investment, the input-output imbalance is also one of the risks encountered by the Group.

Mitigating measures

In light of the increasing demand for quality from consumers, the physical retail sector is experiencing transformation and upgrading at a faster pace with rapid developments of new business types and new modes. As a part of its growth strategy, the Group actively engaged itself in innovative transformation and development of new business types to build an innovative marketing and shopping scenario through internet platform, thus setting up a safe, convenient bridge with prompt service between the Group and consumers. In practice, the Group becomes increasingly aware that the vigorous development of "Delivery to Home" business through fully leveraging on its physical network is the most important way to build its omni-channel mode. Our development of "Delivery to Home" business focuses on the online and offline sharing of commodities, flows, logistics, supply chain and marketing resources. Through better resource allocation and utilization enabled by such sharing and integration, the Group aims to mitigate the risk arising from the input-output imbalance.

Risks relating to the employees

The Group's sustained development relies on the constant efforts of its senior management and professional and technical personnel, and its ability to attract, retain, develop and motivate the talents to devote their full capabilities at all levels. Failure to do so might put restraints on the success of the Group. The Group's ability to attract, train and retain sufficient management talents for the Group's expanded operations is also an important part of its risk control.

Mitigating measures

The Group endeavors to optimize the allocation of human resources and reinforces the building of the talent team. Base on the needs of its strategic development, the Group focuses on improving the market-oriented introduction and selection mechanism for talents to select young, excellent talents with outstanding performances and development potentials and increases efforts in building a talents pool at each level. The Group has established a professional training platform to cultivate a studious, innovative, dedicated and energetic youth talent team. The Group adheres to its people-oriented concept and adopts innovative incentives to motivate employees for better performance. Through division of operation units, clarification of budget for each department and utilizing the output of small units as a performance assessment indicator, the Group continues to promote the company-wide "three dimensions" performance assessment program covering the operation team of member enterprises, departments and units at headquarters and frontline stores. The Group makes brave reform of the store incentive mechanism to introduce a sharing mechanism of joint-contribution, joint-sharing and joint-undertaking. In respect of the incentive mechanism reform for front-line stores, the Group has conducted pilot trials of a store partner system in hypermarkets in certain areas to promote the stores to carry out their business activities with profits as a core target, and has lunched the store manager and store assistant joint-contracting models in supermarkets to incentivize stores to decrease costs and increase profit, the effects of which are remarkable.

Compliance risk management

The corporate compliance group of the Group, in conjunction with the Group's legal advisor, regularly reviews the Group's compliance of relevant laws and regulations, the Listing Rules, public disclosure requirements and the Group's standards of compliance practices.

Strategy and Planning

2018 is the first year of thorough implementation of the spirit of the 19th National Congress of the Communist Party of the PRC and also is a critical year for further implementation of the "Thirteenth Five-Year Plan" on the basis of the previous year. The Chinese economy has shifted from the stage of high speed growth into the stage of high quality development. The Chinese government, adhering to "quality first, efficiency foremost", will focus on structural reforms on the supply side and promote reforms with a focus on quality, efficiency and driving force for economic development.

The Chinese economy has gradually entered the stage of high quality development. Consumption in the PRC will evolve into a new development stage with diversified demand, continuously increasing scale and structural optimization and upgrades. With the acceleration of structural reform on the supply side, continuous and stable growth in income, and innovative and coordinated regional development, there is still ample room for increase in consumption. Physical retail will also expedite the application of modern information technology with continued innovative transformation and upgrade so as to meet customers' personalized, diversified and upgrading demand. It is expected that in 2018, the PRC consumer market will maintain stable and rapid development and continue to have a fundamental impact on economic growth, resulting in stronger recovery of physical retailing.

In 2018, the Group, upholding the belief of "starting from the heart, passionate growth, with one mind, and be brave in shouldering responsibilities", will be oriented by customer-oriented, professionalization and interconnection and implement the strategy of innovation driven transformation and development. Through building the industrial chain, strengthening the supply chain, integrating the market chain and electronization of business and organization optimizations, the Group will build an omni-channel retail model. By capturing market opportunities brought about by consumption upgrades, the Group will focus on construction of a supply chain with differentiated categories, extraordinary execution, sustainable transformation and expansion and omni-channel and digital marketing and uphold the concept of "to let consumers like us more", striving to building the Company into a leading omni-channel retailer which aims at satisfying the demands of consumers in the Yangtze River Delta.

In 2018, the Group plans to open 205 new stores, 5 of which are hypermarkets and 100 of which are supermarkets and convenience stores respectively.

In 2018, the Group will vigorously build its differentiated supply chain. The Group will continue to consolidate the fresh produce base and build compliant self-operated bases to control supply source and quality. Proprietary fresh brands will be developed with a focus on vegetables, fruits, meat and aquatic products. In addition, the Group will proactively develop its fresh food processing business, strengthen construction of the supply chain of the processing plant of baking products, fresh food and cooked food and enrich the research and development capacity of fresh food processing and product mix to enhance the added value of products with a high cost performance. The Group will also gradually establish signature categories of fresh produce, increase the proportion of fresh produce, and provide a fresh supply covering all three meals of each day for customers. The Group will proactively seize opportunities brought about by consumption upgrades. Oriented by customers' demands and focusing on category management, the Group will construct a differentiated supply chain and introduce new suppliers and expand the products according to different shopping scenarios to promote the upgrade in categories and product management. In addition, based on the needs of transformation and upgrade of stores, the Group will provide commodities after careful selection and of excellent quality at reasonable prices, which will save troubles for the customers. In terms of supply chain management and optimization of gross profit, the Group will increase the scale of joint procurement and integrate the supply chain throughout regions and segments. Through implementation of the JBP (Joint Business Plan) with key suppliers, the Group will promote the discussion on cooperation strategy and innovative business model among retailers and suppliers, share resources, enlarge scale, and increase commodity revenue. The Group will continue to expand its commodity import channel, increase the proportion of direct procurement of imported commodities, enhance the marketing of imported commodities and increase the proportion of sales of products with high gross profit. In addition, the Group will intensify its brand design and tracing capacity of brand commodities and proactively build the integration pavilion for private brands to form characteristics categories of products with high competitiveness. The Group will enhance management of all segments in the supply chain, create new category combinations, upgrade the distribution channels and integrate marketing resources through building a professional team with the goal of shaping a customer preferred product structure.

In 2018, the Group will vigorously enhance the capabilities of its operating team. Through remolding the fresh produce business, the Group aims to become an expert in fresh produce. The Group is planning to strengthen the attraction of fresh produce for customers, through strengthening the management of fresh produce in stores and innovating the operation mechanism, while also strengthening the construction of categories and enhancing all employees' service awareness. Through the adjustment to marketing effectiveness, the Group will rapidly respond to the changes in market demand and implement scheduled activities according to the annual marketing plan. With the combination of internal and external resources, marketing, promotion and publicity will be thoroughly implemented in communities. The promotional resources of stores will be subject to reasonable plans to ensure commodity displays and visual publicity in a way to create a good atmosphere for all promotional activities, striving to achieve the annual marketing budget goals. The Group will gradually improve and consolidate the standard operation manual and service manual in stores to make the work easier for the employees and finally establish a completed and effective system containing operation and service standards to promote improvements in the soft environment for shopping and improve customer engagement through allowing products to be traced to their source, building mechanisms and continuous training, evaluation, practice and inspection. The Group will proactively utilize the information system to support optimization of operation process, improve the connection of the sections of supply chain, enhance the quality of order management, improve the fulfillment of orders from the stores and control the source of inventory management, realizing further improvement in inventory turnover indicators.

In 2018, the Group will be committed to building sustainable development capacity and store transformation and upgrade. The development focus is on boutique supermarkets and community supermarkets with strengthened fresh produce business and new convenience stores. The Group will promote the transformation and upgrade of certain supermarkets to boutique supermarkets based on the conditions of core business districts and customers' consuming power. The Group will speed up the development of supermarket outlets according to the regional plan of Shanghai and, on the basis of segment determination, promote the construction of flagship supermarkets and sample supermarkets. The new model stores will be established according to new market demands and duplication and promotion will be sped up. The Group is planning to engage in strong cooperation and integrate market resources in order to build core supply chain, inject new retail elements, optimize the customer group structure and accelerate the exploration and practice of new convenience stores. The main task for hypermarkets is transformation and upgrade. Based on the different situation of business districts and property conditions of hypermarkets, the Group will provide services, optimize resources allocation, and adjust the operation structure in order to implement differentiated transformation plans. The capacity of on-spot cooking and selling will be enhanced, stores will be modularized and the shopping experience will be improved. In 2018, the Group will, in accordance with the changes in market environment, expedite the construction of its franchise business support system and build new franchise stores with the direction of enhancing the quality of the supermarket franchise business. The allocation of commodities, logistics, information, funds and other important resources will be strengthened. Through building a professional team, focusing on service and building the brand, the Group aims to realize improvements in quality and quantity and promote the increase in revenue from franchising.

In 2018, the Group will continue to make efforts to build an omni-channel sales model for new retail. The Group will optimize and improve its business capacity of the "Fast Delivery to Home" business in its exploration and practice and construct a sustainable business mode of "Fast Delivery to Home" with iteration and developments combined with the characteristics of its operation management system and supply chain. The Group will proactively promote the in-depth integration of its online and offline businesses to give full play to the flow advantage

of offline physical stores and endeavor to increase members, enrich product pool, optimize the product plan for online sales and innovate the marketing model with online and offline interaction to promote the stable increase of revenue from the online business. The Group will vigorously explore accurate digital marketing and fully utilize big data and technologies to improve user experience and operation efficiency. The Group will study and leverage on the outlet coverage advantage of physical stores and plan the layout of order fulfillment and delivery network of online business to enhance the service level of online business and continuously enrich brand connation and reputation.

In 2018, the Group will further streamline the level of management, promote flattening of the organization and information communication efficiency according to the requirements on promoting the optimization of organization to gradually improve organization functions and enhance commodity, marketing and operation capacity. The Group will explore and build a remuneration assessment mechanism in line with marketization requirements and reinforce the contractual management of market-oriented introduction of talents. The Group will further improve the measures of talent cultivation including promotion, rotation and reserve and explore the transferring mechanism of application of internal employees. The innovation mechanism will be promoted to boost the operation and development strategy. The motivation model for performance increment will be enlarged and refined to extend the coverage of benefit sharing and reflect the concept of joint participation and joint operation. The Group will continue to optimize the personnel structure and improve labor efficiency. The labor efficiency of stores will be improved through streamlining the employment model. Flexible employment measures will be adopted to make the labor costs more reasonable. The Group will optimize the mobile learning model, explore internal training credit promotion system and perfect the training system of professional technical talents while gradually improving the capacity enhancement system. The Group will build the human resources sharing mechanism of Lianhua and a recruitment resources sharing mechanism to further enhance the construction of a management team for companies in other cities and provinces.

In 2018, the Group will continue to strictly control costs and expenditures, put more emphasis on the analysis of investment and yield, control of various operating expenditures and the reasonableness of rental costs. The rental costs will be lowered through renewal of lease for premium outlets and negotiation on rental reduction for the outlets incurring losses. More attention will also be paid to reasonableness of employment. The employment method will be more flexible. Hourly worker, contract worker and other flexible means will be applied to reduce labor costs.

Environmental Policy, and Performance and Compliance of Laws and Regulations

Details of the environmental policy and performance of the Group in 2017 are set out in the Environmental, Social and Governance Report on page 194 to page 224 of the annual report.

The Group strives to comply in all material respects with the relevant laws and regulations which are regarded as having a significant impact on the Group, and had not encountered material breach or non-compliance during the period under review.

Subsequent Events

From 1 January 2018 to the date of the annual report, there was no non-financial event that may cause material effects on the results of the Company.


MOVING

Profiles of Directors, Supervisors and Senior Management

Executive Director

Mr. Xu Tao, aged 44, graduated from Beijing Jiaotong University with a bachelor's degree in information management system in 1997. From 1998 to 2010, Mr. Xu worked at Unilever Company, successively served as financial management manager, sales operations manager, senior finance manager of food business department, head of internal control in Greater China and finance director of food planning department. From 2010 to 2014, Mr. Xu worked at Rentokil Initial, where he served as excellence executive finance director in Asia and general manager of Greater China. From 2014 to September 2017, Mr. Xu worked at Mannings China, where he has served as executive director of China and chief executive officer of China. Mr. Xu has extensive experience in corporate management and operations and finance of retail sector. Mr. Xu was appointed as an executive director and the general manager of the Company on 27 September 2017.

Non-Executive Directors

Mr. Ye Yong-ming, aged 53, is a member of the Communist Party of China and holds a master's degree in EMBA with China Europe International Business School. Mr. Ye has been the secretary of Party Committee, chairman of the Board and president of Bailian Group since September 2015, and has been chairman of the Board of Shanghai Bailian Group Co., Limited (上海百聯集團股份有限公司, "Shanghai Bailian", a company listed on the Shanghai Exchange with stock code 600827) since December 2015. He has served successively as a vice president of SAIC Motor (Shanghai Automatic Industrial Corporation Motor,上海汽車集團股份有限公司，a company listed on the Shanghai Stock Exchange with stock code 600104), general manager of SAIC General Motors Corporation Limited, deputy general manager, general manager and deputy secretary of Party Committee of SAIC Sales Co., Ltd.（上海汽車工業銷售總公司）, executive manager of Shanghai Volkswagen, general manager of SAIC-Volkswagen Sales Co., Ltd.（上海上汽大眾汽車銷售有限公司）, vice president (in charge of vehicle services) and a member of the Party Committee of SAIC Motor. Mr. Ye was appointed as a non-executive Director and chairman of the Board on 17 November 2015.

Ms. Xu Zi-ying, aged 49, graduated from the Department of Administrative Engineering of Shanghai Jiaotong University with a master's degree in Industry Administrative Engineering. During the period from September 2000 to December 2003, Ms. Xu Zi-ying served as deputy director and director of the High Technology Industry Development Office of Shanghai Development Planning Commission. From December 2003 to October 2007, Ms. Xu Zi-ying served as director of the High Technology Industry Department of Shanghai Development and Reform Commission. From October 2007 to April 2008, Ms. Xu Zi-ying served as deputy chief economist and director of the High Technology Industry Division of Shanghai Development and Reform Commission. From April 2008 to October 2013, Ms. Xu Zi-ying served as vice president of Shanghai Electric (Group) Company. From October 2013 to March 2017, Ms. Xu Zi-ying served as deputy director and a member of the Party Committee of the Shanghai Municipal Commission of Economy and Information. Ms. Xu Zi-ying has been the president, deputy secretary and director of Bailian Group since April 2017. She has been the vice chairman of Shanghai Bailian and the chairman of Shanghai First Pharmaceutical Co., Ltd. (上海第一醫藥股份有限公司, "First Pharmaceutical", a company listed on the Shanghai Exchange with stock code 600833) since June 2017. Ms. Xu Zi-ying was appointed as a non-executive Director and vice chairman of the Board on 12 June 2017.

Mr. Dong Zheng, aged 39, graduated from Cambridge University with a MBA degree in 2010. From March 2015 till now, Mr. Dong Zheng served in Alibaba Group (阿里巴巴集團), as chief strategy officer of BBC Business Group (BBC電商事業群) and then business assistant to the CEO of Alibaba Group. Alibaba Group is a company listed on The New York Stock Exchange, stock code: BABA. Previously, from July 2010 to March 2015, Mr. Dong Zheng served in McKinsey & Co. (麥肯錫公司) and his last position was global associate partner. Mr. Dong Zheng was appointed as a non-executive Director on 28 August 2017.

Mr. Qian Jian-qiang, aged 56, is a postgraduate in in Economic Management with Graduate School of Party School of the Central Committee of C.P.C. Mr. Qian has been the general manager, deputy secretary of the Party Committee and a director of Shanghai Bailian since June 2015. Mr. Qian once worked in the Organization & HR Department of Shanghai Foreign Supply Co., Ltd. (上海對外供應公司), and has been a manager of the Department Store of Shanghai Friendship Store, general manager of Shanghai Friendship Supply Co., Ltd. (上海友誼供貨有限公司), a director and general manager of Shanghai Friendship South Mall Co., Ltd. (上海友誼南方商城有限公司), assistant to the general manager of the Shopping Centre Department of Shanghai Bailian, assistant to the general manager of Shanghai Bailian, vice general manager of Shanghai Bailian, vice general manager of Shanghai Friendship Incorporated Company ("Shanghai Friendship", (上海友誼集團股份有限公司, now known as Shanghai Bailian), vice general manager and deputy secretary of the Party Committee of Shanghai Bailian. Mr. Qian possesses abundant experience in operation and management of retail commerce. Mr. Qian has been appointed as a non-executive Director since November 2015.

Ms. Zheng Xiao-yun, aged 55, is a senior accountant and holds a master's degree in accounting of the Chinese University of Hong Kong. She has been the financial director and secretary of the Board of Shanghai Bailian since June 2015 and has been the director of Shanghai Bailian since June 2017. Ms. Zheng once served as an accountant, assistant to the manager and vice manager of the Financial Department in Shanghai Forever Co., Ltd. (上海永久股份有限公司). She has served successively as financial director of Shanghai Advertisement & Decoration Co., Ltd. (上海市廣告裝潢公司), vice manager of the Financial Department of Shanghai Yibai (Group) Co., Ltd. (上海一百(集團)有限公司), financial director of Shanghai Quanfang Investment Management Co., Ltd. (上海全方投資管理有限公司), financial director of the Comprehensive Business Department of Shanghai Bailian, financial director of Shanghai Bailian Investment Management Co., Ltd. (上海百聯投資管理有限公司), financial director of Shanghai Bailian Group Asset Operation & Management Co., Ltd. (上海百聯集團資產經營管理有限公司), director of Shanghai Baihong Trading Co., Ltd. (上海百紅商業貿易有限公司), chairman of Hualian Group Asset Trust Co., Ltd. (華聯集團資產託管有限公司) and financial director of Bailian E-commerce Co., Ltd. (百聯電子商務有限公司). Ms. Zheng possesses abundant experience in financial management. Ms. Zheng has been appointed as a non-executive Director since November 2015.

Mr. Wong Tak Hung, aged 66, is the president of Wong Sun Hing Investment Co., Ltd. (王新興投資有限公司). From 1970 to 1978, Mr. Wong was the manager of Sun Hing Textile Factory (新興毛紡織造廠), and from 1978 to 1990, he was the managing director of Wong Sun Hing Company Limited (王新興有限公司). Since 1990, he has been the president of Wong Sun Hing Group (王新興集團). He has also been the chairman of Shenzhen Xin Xing Entrepreneurship Guarantee Company Limited (深圳新興創業擔保有限公司) since 2003 and he has been acting as the chairman of Guangzhou Wanling Properties Company Limited (廣州市萬菱置業有限公司) since 2004. Since 2005, he has also been acting as the chairman of Wanling Industrial (Guangdong) Company Limited (萬菱實業(廣東)有限公司). Mr. Wong joined the Group in April 1997, and he has over 30 years of business experience.

Independent Non-Executive Directors

Mr. Xia Da-wei,, aged 65, graduated from Changchun Industrial University in 1982 with a bachelor's degree in engineering. He graduated from Shanghai University of Finance and Economics in 1985 with a master's degree in economics. Mr. Xia's research direction is industrial economy and corporate strategy. Mr. Xia has been teaching at Shanghai University of Finance and Economics since 1985, and has served successively as president of the School of International Economics and Management of Shanghai University of Finance and Economics, assistant to president, vice chancellor of Shanghai University of Finance and Economics and president of Shanghai National Accounting Institute since 1993. Mr. Xia is currently a professor and doctoral tutor at the Shanghai National Accounting Institute and enjoys government subsidies from the State Council. He is also the vice president of China Institute of Industrial Economics, the vice president of China Association of Chief Accountants and the president of Shanghai Institute of Accounting. Mr. Xia also serves as an independent director of Baosteel Co., Ltd.(寶鋼股份有限公司)(a company listed on the Shanghai Stock Exchange), an independent director of Guotai Junan Co., Ltd.(國泰君安股份有限公司)(a company listed on the Shanghai Stock Exchange) and an outside director of Industrial Bank Co., Ltd.(興業銀行股份有限公司)(a company listed on the Shanghai Stock Exchange). Mr. Xia joined the Group in September 2004.

Mr. Lee Kwok Ming, Don, aged 60, is the financial director of Stella International Holdings Ltd.(九興控股有限公司), which is listed on the Stock Exchange. He is a fellow of the Hong Kong Institute of Certified Public Accountants(香港會計師公會)and an associate of the Chartered Institute of Management Accountants in the United Kingdom(英國特許管理會計師公會). He holds a master's degree of science in business administration from the University of Bath(英國巴富大學). Mr. Lee has held the position of financial director in various listed companies of the Stock Exchange. Mr. Lee has more than 30 years of financial management experience and extensive experience in mergers and acquisitions, as well as corporate finance. He joined the Group in May 2003.

Ms. Sheng Yan, aged 49, received her MBA degree from the Hong Kong University of Science and Technology. From 1991 to 1994, Ms. Sheng was a software engineer of China Southern Airlines Hubei Branch(中國南方航空公司湖北分公司). From 1994 to 1998, Ms. Sheng was a co-founding partner of Guangzhou Jiatu Electronics Co., Ltd(廣州嘉圖電子有限公司). From 2000 to 2002, Ms. Sheng was a senior consultant of Arthur Anderson Inc(安達信管理諮詢有限公司). From 2002 to 2006, Ms. Sheng was a consultant manager of BearingPoint Inc(畢博管理諮詢有限公司). Since 2006, Ms. Sheng was a global partner and executive vice president of Greater China of HayGroup Management Consulting (Shanghai) Co., Ltd(合益集團管理諮詢(上海)有限公司),which was acquired by KornFerry in 2015 and Ms. Sheng was a senior partner of KornFerry Shanghai Limited(光輝國際(人才)上海有限公司). Ms. Sheng has abundant theoretical knowledge and project implementation experience in areas of senior management team building, leadership development, leadership coaching, strategic decoding, operating model and job system, senior management team performance appraisal and incentive scheme, corporate culture development, corporation innovation and so forth. Ms. Sheng Yan was appointed as an independent non-executive Director on 14 March 2017 and resigned on 28 March 2018.

Mr. Chen Wei, aged 56, is the Professor of Management Practice at Peking University HSBC Business School (PHBS) and Director of Centre of Innovation and Entrepreneurship at PHBS. Prior to joining PHBS, Mr. Chen was the senior vice president for Didi Chuxing. Before Didi, Mr. Chen served as executive vice president and CHRO at Vanke Enterprises Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000002). Mr. Chen started up the Hay Group consulting business in China and later served as managing director for Greater China and North East Asia. He became the global executive team member in 2009 and board member in 2013 of Hay Group. Mr. Chen also worked for Coca Cola and Nike in marketing and general management earlier in his business career. Mr. Chen holds a Bachelor's degree in Psychology from East China Normal University and a Master's degree in Workforce Learning and Development from Pennsylvania State University in USA. He has also graduated from AMP (Advanced Management Program) from Harvard Business School. Mr. Chen was appointed as an independent non-executive Director on 28 March 2018.

Mr. Zhang Jun, aged 42. Mr. Zhang Jun obtained his double bachelor's degrees in Accounting and Applied Mathematics, respectively, from Shanghai Jiaotong University in 1998, and he holds the title and qualification of certified public accountant of The Chinese Institute of Certified Public Accountants. Mr. Zhang Jun has over 18 years of experience in finance and operation & management. Mr. Zhang Jun currently holds the position as president and chief operation officer at PizzaExpress China, and had served as chief financial officer of this company from December 2015 to December 2016. Prior to joining PizzaExpress China, from August 1998 to July 2002, Mr. Zhang Jun was an auditor and senior auditor of Arthur Andersen (Shanghai Office)（安達信•華強會計師事務所上海分所）. From July 2002 to August 2005, Mr. Zhang Jun was a senior auditor and audit manager of Price Waterhouse Coopers (PRC)（普華永道中天會計師事務所有限公司）. From August 2005 to October 2006, Mr. Zhang Jun was a financial manager and director of Shanghai Shen Mei Food and Beverage Co., Ltd. (Coca-Cola bottling facility)（上海申美飲料食品有限公司（可口可樂瓶裝廠））. From October 2006 to August 2007, Mr. Zhang Jun was the accounting director of Home Inns & Hotels Management Inc.（如家快捷酒店管理有限公司）, a company listed on Nasdaq, stock code: HMIN. From August 2007 to November 2014, Mr. Zhang Jun worked at Xiaonanguo Restaurants Holdings Limited（小南國餐飲控股有限公司）, a company listed on the mainboard of the Stock Exchange, stock code: 03666, as the chief financial officer from August 2007 to December 2013, as the chief strategy officer and vice president of supply chain from January 2014 to November 2014. From November 2014 to December 2015, Mr. Zhang Jun was the chief financial officer and senior vice president of Shanghai Pankoo Restaurants Management Co. Ltd（上海盤古餐飲管理有限公司）. Mr. Zhang Jun was appointed as an independent non-executive Director on 14 March 2017.

Supervisors

Mr. Yang A-guo, aged 53, in-service postgraduate degree, senior accountant and a member of Chinese Democratic Party. Mr. Yang graduated from Hangzhou Business School majoring in financial accounting in July 1985 with a bachelor's degree in economics. From August 1985 to June 1995, he worked in the finance department of Shanghai Hardware Machinery Corporation, successively served as financial officer, financial section chief, assistant to the director, deputy director and director of the finance department. From July 1995 to October 2003, he worked in the finance department of Shanghai Friendship (Group) Co., Ltd., and served as the head of the finance department, assistant minister, vice minister and minister. He worked in the financial management department of Bailian Group Limited since October 2003 and served as deputy minister, minister and executive director of the financial management department. During the period from September 2005 to July 2008, he studied at the Graduate School of Economics and Management of the Party School of the Communist Party of China. Mr. Yang has been the head of the supervisory committee of Shanghai Bailian and the chairman of the supervisory committee of Shanghai Material Trading Co., Ltd. (上海物資貿易股份有限公司, "Shanghai Material Trading", a company listed on Shanghai Stock Exchange with stock code 600822) since June 2017. Mr. Yang has been appointed as a Supervisor and Head of the Supervisors Committee of the Company on 28 November 2017.

Ms. Tao Qing, aged 53, graduated from the Party School of Central Committee of C.P.C.(中央黨校) with master's degree in economy management. Ms. Tao served for the finance department of Shanghai Hualian successively as clerk, section member, chief member and deputy section chief from September 1985 to June 1996. She was the manager of the finance division of Shanghai New Hua Lian Mansion Co., Ltd.(上海新華聯大廈有限公司)("New Hua Lian Mansion") from June 1996 to June 1999, the deputy manager of the finance department of Shanghai Hualian Co., Ltd and the chief financial officer of New Hua Lian Mansion from June 1999 to February 2000, and promoted as general manager of the finance department of Shanghai Hualian Co., Ltd and the chief financial officer of New Hua Lian Mansion in February 2000. She took the role of chief financial officer of Shanghai Jinzhao International Trading Co., Ltd.(上海金照國際商貿有限公司)from January 2001 to January 2004. Ms. Tao has been the director assistant of the auditing center, manager of the No.1 auditing division, deputy director and director of the auditing center of Bailian Group since January 2004. Ms. Tao has been the head of the supervisory committee of First Pharmaceutical, a supervisor of Shanghai Bailian and a supervisor of Shanghai Material Trading since June 2017. Ms Tao has been appointed as a Supervisor of the Company since June 2014.

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

Company Secretary

Ms. Hu Li-ping. aged 53, graduated from Macau University of Science and Technology with a Master's Degree in Business Administration in 2003. She is an accountant as approved by the Ministry of Finance of the PRC in 1998. She served as the deputy manager, manager of Financial Department and the chief financial officer of Shanghai Hualian Supermarket Company and Hualian Supermarket Co., Ltd from February 1993 to November 2013. Ms. Hu was also the chief financial officer of Shanghai Lianhua Supermarket Development Co., Ltd from June 2010 to November 2013. She has been the chief of Financial Administration Department of the Company from November 2013 to April 2016. She was also appointed as the chief of Securities Affairs Department of the Company from August 2014 to July 2015. Ms. Hu has been appointed as joint company secretary of the Company since 16 October 2014 and has been chief financial officer of the Company since June 2015. Ms. Hu was appointed as company secretary of the Company in 22 December 2017.

Senior Management

Mr. Liang Bao-long, aged 53, is a senior operator and a logistician. Mr. Liang graduated from Tongji University in management engineering. From January 1999 to December 2001, he pursued a postgraduate degree at Shanghai Academy of Social Sciences, majoring in economics. From July 1984 to February 2003, Mr. Liang was a deputy section chief of the catering department, a deputy section chief and section chief of the general affairs office, and manager of the logistics service centre of Shanghai Materials & Equipment School（上海市物資學校）. From February 2003 to March 2012, he was the assistant to general manager and deputy general manager of Shanghai Modern Logistics Development & Investing Co., Ltd.（上海現代物流投資發展有限公司）. He has concurrently worked as the general manager and deputy secretary of party general branch of Shanghai Changqiao Logistics Co., Ltd.（上海長橋物流有限公司）, and the chairman of board and the party secretary of Shanghai Bailian Distribution Co., Ltd.（上海百聯配送實業有限公司）. He has been the deputy general manager of the Company since March 2012.

Mr. Chang Yu-bing, aged 45, is a senior economist and senior operator with a bachelor's degree. From September 1994 to October 2000, Mr. Chang worked in Shanghai Trading Co., Ltd., Shanghai Overseas Joint Trading Company and Shanghai Lianhua Supermarket Co., Ltd. From November 2000 to July 2003, he served as deputy minister of outlets development department, minister of asset management headquarters of Lianhua Supermarket Co., Ltd, and minister of asset-engineering management headquarters of the Company. From August 2003 to October 2008, he served as general manager of the northeast region and development director of Shanghai Century Lianhua Supermarket Development Co., Ltd.. From November 2008 to March 2014, he served as assistant to general manager and director of merchandise of the Company. Since April 2014, he has been the general manager of Shanghai Lianhua Supermarket Development Co., Ltd., and has also served as deputy party secretary of Shanghai Lianhua Supermarket Development Co., Ltd. since August 2015. He has been appointed as deputy general manager of the Company since May 2016.

Ms. Zhang Hui-qin, aged 44, held a master's degree in Quality Management of the Hong Kong Polytechnic University. Since July 2015, she has been vice-chairman, party secretary and general manager of Hangzhou Lianhua Huashang Group Co., Ltd. From August 1996 to June 2003, Ms. Zhang worked with Jiayou Supermarkets of Hangzhou Department Stores Company as deputy superintendent of operation department, store manager of Wensan Store, chief of Qingchun Store and vice manager of operation department. From July 2003 to June 2015, Ms. Zhang worked with Hangzhou Lianhua Huashang Group Co., Ltd. as manager of operation department, assistant to the general manager, deputy general manager, standing deputy general manager and general manager. She has abundant operation and management experience in the retail commercial field. She has been appointed as deputy general manager of the Company since June 2016.

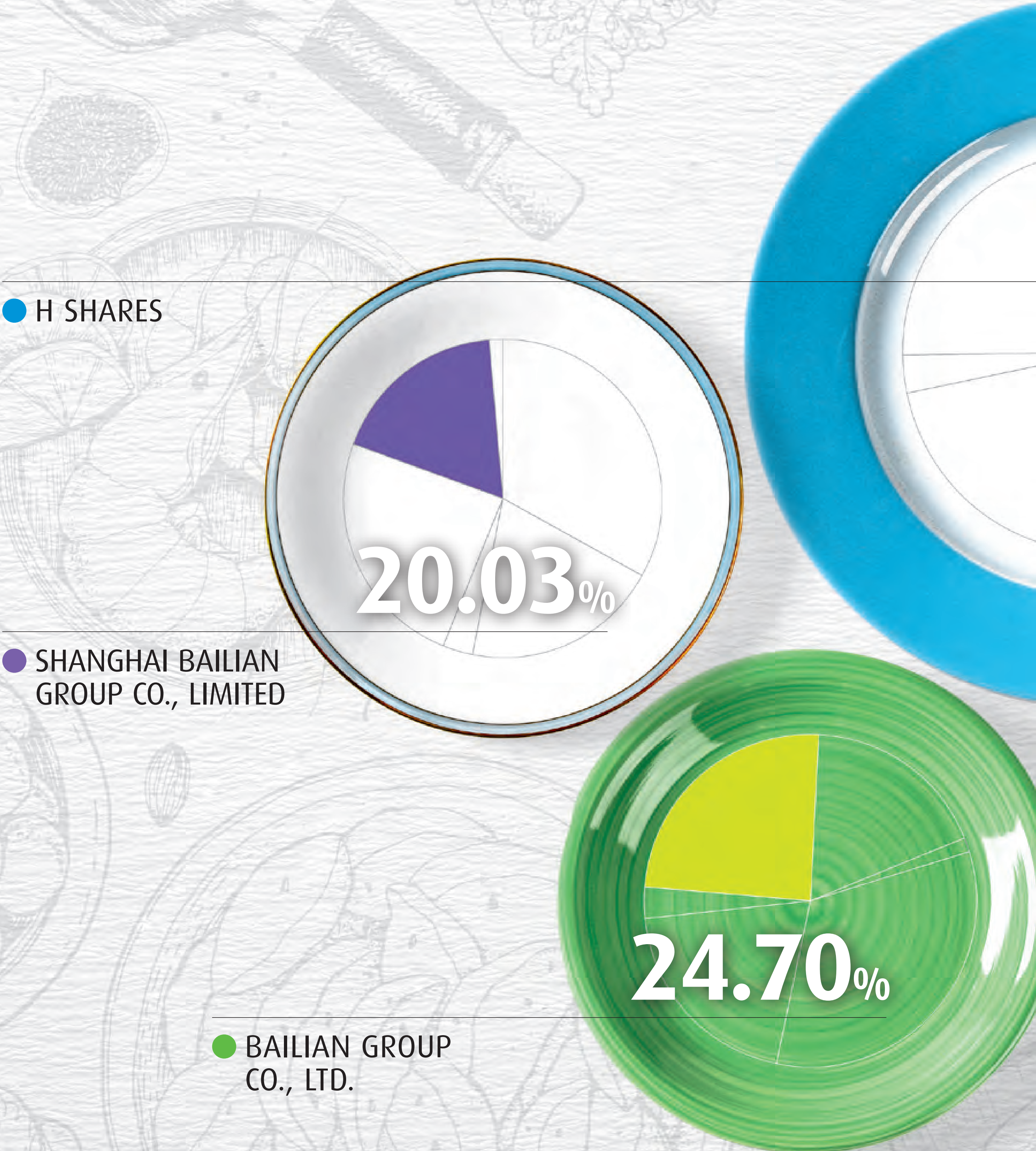
Mr. Xi Yu, aged 39, has a lawyer qualification and economist title. Mr. Xi graduated from Heilongjiang School of Business with a bachelor's degree in Economic Law in 2001 and received his master's degree of Management Engineering in Wuhan University in 2010. From September 2001 to October 2003, Mr. Xi worked with Hualian Group Limited successively holding the posts of personnel clerk, chief personnel clerk and assistant manager of the human resource department. From October 2003 to November 2016, Mr. Xi worked with Bailian Group, successively holding the positions of senior manager, deputy minister and deputy executive director of Human Resources Department. He has been appointed as deputy general manager of the Company since December 2016.

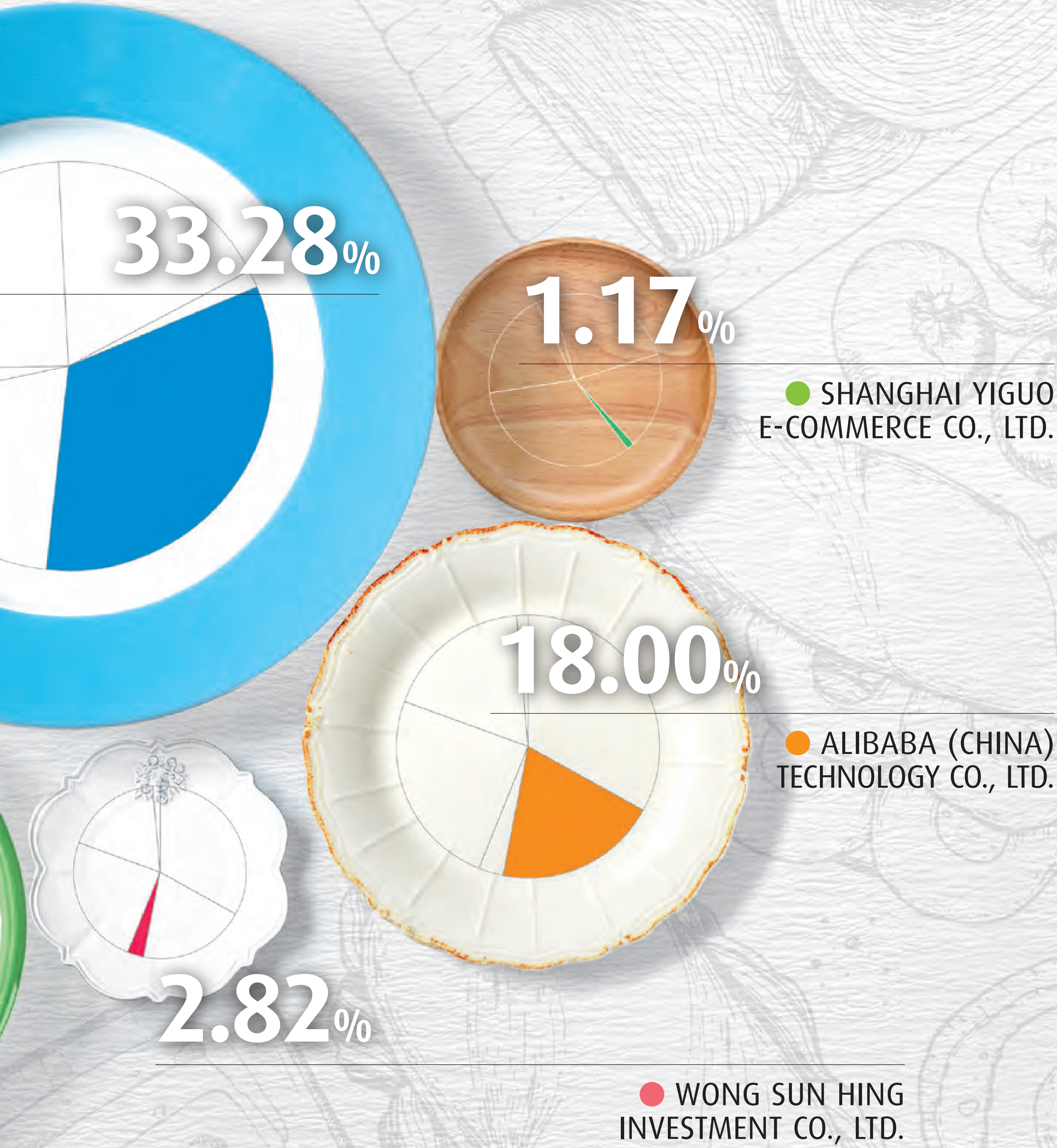
Mr. Dai Yu-peng, aged 50, holds a bachelor's degree in corporate management from Taipei Praxis University. From August 1990 to September 1997, he worked for Taiwan Wellcome Co., Ltd. From October 1997 to August 2003, he worked for RT-Mart Co., Ltd. as a senior category manager and director of Shandong store operations. From September 2003 to August 2012, he worked for Tesco Inc., where he successively served as chief product officer of the Northern District and director of the national commodity procurement department. From August 2012 to February 2014, he worked for One China Commerce (Shanghai) Co., Ltd. as the general manager. From February 2014 to May 2016, he served as a vice president at 85 Degrees C Restaurant Management Co., Ltd. (Shanghai) and was in charge of operations, commodities, marketing, internet business, group buying and new business development. Since June 2016, he has been the chief executive officer of Qingdao Weike Group Co., Ltd. Mr. Dai has extensive management experience in the commercial retail area. Mr. Dai has been appointed as deputy general manager of the Company since August 2017.

Mr. Dong Gang, aged 39, graduated from Wuchang University of Technology in 2015 with a bachelor's degree. From September 2003 to July 2015, Mr. Dong Gang worked for Tesco China. From September 2003 to March 2006, he served as store general manager, purchasing manager, regional fresh commissioner; from March 2006 to November 2008, he was the regional general manager of Shenyang; from November 2008 to May 2010, he was chief operating officer of Shandong region; from May 2010 to June 2012, he served as chief operating officer of North China Region; from June 2012 to July 2015, he served as chief operating officer of Northeast Region. From November 2015 to April 2017, Mr. Dong Gang acted as head of store operations in Shenzhen Shunfeng Commercial Co., Ltd. Mr. Dong Gang has been appointed as deputy general manager of the Company since September 2017.

Ms. Tang Hao, aged 47, is a party member of the Communist Party of China, with a master's degree of the world economy of the Graduate School of the Party School of the Central Committee of C.P.C. From July 1991 to December 2002, Ms. Tang worked in the second chemical supply company of Shanghai Chemical Industry Corporation, serving as a statistician, office clerk, and assistant to general manager. From December 2002 to December 2006, Ms. Tang worked in Shanghai Jingtong Chemical Co., Ltd., serving as deputy manager of the first branch company, deputy manager of the second branch company and deputy manager of the plastic branch company. From December 2006 to September 2014, Ms. Tang worked in Shanghai Jingtong Chemicals Development Co.,Ltd., serving as director of general office from December 2006 to February 2008, assistant to general manager and director of general office from February 2008 to August 2009, deputy general manager from August 2009 to May 2010, the deputy general manager, the deputy secretary of the Party branch and the secretary of the Discipline Commission from June 2010 to April 2012, the secretary of the Party branch, the deputy general manager and the secretary of the Discipline Commission from April 2012 to September 2014. From September 2014 to October 2017, she served as the Party member of Shanghai Modern Logistics Investment and Development Co., Ltd. and the executive director, the secretary of the Party branch and the general manager of Shanghai Jingtong Chemicals Development Co., Ltd., Since October 2017, Ms. Tang has been appointed as the deputy secretary of the Party Committee, the secretary of the Discipline Commission and union president of the Company, and secretary of the Party Committee of Lianhua Quik.

Shareholding Structure




33.28%
1.17%
SHANGHAI YIGUO E-COMMERCE CO., LTD.
18.00%
ALIBABA (CHINA) TECHNOLOGY CO., LTD.
2.82%
WONG SUN HING INVESTMENT CO., LTD.


CANDY HOUSE

REAPING

Report of the Directors

The Board is pleased to present to the shareholders its report of the Company for the year ended 31 December 2017.

Principal activities and business review

The principal activities of the Group include the operation of hypermarkets, supermarkets and convenience stores in the PRC, mainly under four major brands of "Century Mart", "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik". The principal activities and other particulars of the subsidiaries are set out in note 18 and note 46 to the consolidated financial statements of the annual report.

Further discussion and analysis of these activities, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis as set out on pages 35 to 41 of the annual report. These discussions form part of this directors' report.

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

Major suppliers and customers

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

	2017	2016
Purchases		
Largest supplier	**2.28**	2.14
Five largest suppliers	**7.47**	8.36
Sales		
Largest customer	**0.10**	0.09
Five largest customers	**0.34**	0.34

During the year ended 31 December 2017, to the best knowledge of the Directors, none of the Directors, the supervisors of the Company ("Supervisors"), their respective associates, nor any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the number of issued shares of the Company) had any direct or indirect interest in the share capital of the Group's suppliers and customers mentioned above.

The analysis of the key relationship with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends can be found in the Environmental, Social and Governance Report as set out on pages 198 to 199 of the annual report.

Five-year financial summary

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on pages 18 to 19 of the annual report.

Accounts

The audited results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 122 of the annual report.

The financial condition of the Group as at 31 December 2017 is set out in the consolidated statement of financial position on pages 123 to 124 of the annual report.

The cash flow of the Group for the year ended 31 December 2017 is set out in the consolidated statement of cash flow on pages 126 to 127 of the annual report.

Dividend distribution

The Board recommends not to distribute final dividend for the year ended 31 December 2017.

Reserves

Details of the movements in reserves during the period under review are set out in the consolidated statement of changes in equity on page 125 of the annual report.

Fixed assets

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

Charitable donations

Charitable donations made by the Group during the financial year amounted to RMB414,638.

Bank loans, overdrafts and other borrowings

As at 31 December 2017, the Group had no other bank borrowings, except for existing borrowings of RMB2,000,000 from a non-wholly owned subsidiary of the Group.

Capitalised interest

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

Listing of shares and changes

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

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

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

Information on the performance of H shares of the Company in 2017:

Highest trading price per H share during the year	HK$3.92
Lowest trading price per H share during the year	HK$2.64
Total turnover volume of H shares during the year	360 million shares
Closing price per H share as at 29 December 2017	HK$2.84

Public float

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

Share capital

As at 31 December 2017, the classes and number of shares of the Company are as follows:

Class of shares	No. of issued shares ('000 shares)	Percentage (%)
Domestic shares	**715,397.4**	63.90
Attributable to:		
Bailian Group Co., Ltd.	**276,552**	24.70
Shanghai Bailian Group Co., Limited	**224,208**	20.03
Alibaba （China） Technology Co,.Ltd	**201,528**	18.0
Shanghai Yiguo E-commerce Co., Ltd.	**13,129.4**	1.17
Unlisted foreign shares	**31,602.6**	2.82
Attributable to:		
Wong Sun Hing Investment Company Limited	**31,602.6**	2.82
H shares	**372,600.0**	33.28
Total	**1,119,600.0**	100

Number of shareholders

As at 31 December 2017, details of shareholders as recorded in the register of shareholders of the Company are as follows:

Total number of shareholders	34
Shareholders of domestic shares	4
Shareholders of unlisted foreign shares	1
Shareholders of H shares	29

Legal status of unlisted foreign shares

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Disclosure of interests

Directors, Chief Executive Officer and Supervisors of the Company

As at 31 December 2017, other than Mr. Xia Dawei (an independent non-executive Director) who held 8,694 ordinary shares of Shanghai Bailian (representing approximately 0.0005% of the total issued shares of Shanghai Bailian), none of the Directors, Supervisors or chief executive officer of the Company had any interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are regarded or deemed to have under such provisions of the SFO), or interests and short positions which were required, pursuant to section 352 of the SFO, to be entered in the Company's register referred to therein, or interests and short positions which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules.

Substantial Shareholders of the Company

So far as the Directors are aware, as at 31 December 2017, the following persons (not being a Director, chief executive officer or Supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholders	Class of shares	No. of domestic shares/unlisted foreign shares/ H shares	Approximate percentage of total voting rights of the Company	Approximate percentage of voting rights of domestic shares and unlisted foreign shares	Approximate percentage of voting rights of H shares	Capacity of Interest
Shanghai Bailian (Notes 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. (Notes 2,)	domestic shares	201,528,000	18.00%	26.98%	–	Beneficial owner
Bailian Group (Notes 1)	domestic shares	500,760,000	44.73%	67.04%	–	Beneficial owner
Citigroup Inc	H shares	57,247,598(L) 0(S) 20,214,473(P)	5.11%(L) 0.00%(S) 1.81%(P)	– – –	15.36%(L) 0.00%(S) 5.42%(P)	Person having a security interest in shares/Interest of corporation controlled/Approved lending agent
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
ICBC International Asset Management Limited.	H shares	33,705,000(L)	3.01%	–	9.05%(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

Notes:

1. As at 31 December 2017, Bailian Group directly and indirectly holds approximately 51.17% of the shares in Shanghai Bailian. As at 31 December 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, or 44.73% in proportion.

   As at 31 December 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. Yang A-guo, 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"Shanghai Yiguo"）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 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 pursuant to which Shanghai Yiguo 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. The Company has been informed by Shanghai Yiguo, Alibaba (China) Technology Co., Ltd. and Bailian Group 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 to Alibaba (China) Technology Co., Ltd. and Bailian Group 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% of issued share capital of the Company. Thus, Alibaba Group Holdings 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 shares 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 31 December 2017 by holders of H shares have been adjusted accordingly, if necessary.

Save as disclosed above, the Directors are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2017.

Competing interests

As at 31 December 2017, according to the Listing Rules, none of the Directors had any interest in any businesses which are considered to compete or are likely to compete, either directly or indirectly with the business of the Group.

Ultimate holding company

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

Pre-emptive rights

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

Management contracts

No contracts for the management and administration of the whole or any substantial part of any business of the Company existed or was entered into during the year ended 31 December 2017.

Purchase, sale or redemption of shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company for the year ended 31 December 2017.

Material acquisitions and disposals of subsidiaries and affiliated companies

Save as disclosed in note 38 and note 39 to the consolidated financial statements in the annual report, there were no material acquisitions and disposals of subsidiaries and associated companies during the financial year.

Directors and Supervisors

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

Executive Directors:

Ms. Qi Yue-hong (Note 1)
Mr. Xu Tao (Note 2)

Non-executive Directors:

Mr. Ye Yong-ming (Chairman)
Ms. Xu Zi-ying (Vice Chairman) (Note 3)
Mr. Zhang Xuan-song (Note 4)
Mr. Zhang Ye (Note 5)
Mr. Zhou Jing-bo (Note 6)
Mr. Dong Zheng (Note 7)
Mr. Qian Jian-qiang
Ms. Zheng Xiao-yun
Mr. Zhang Jing-yi (Note 8)
Mr. Wong Tak Hung

Independent Non-executive Directors:

Mr. Xia Da-wei
Mr. Lee Kwok Ming, Don
Mr. Gu Guo-jian (Note 9)
Ms. Sheng Yan (Note 10)
Mr. Chen Wei (Note 11)
Mr. Wang Jin (Note 12)
Mr. Zhang Jun (Note 13)

Supervisors:

Mr. Yang A-guo (Chairman) (Note 14)
Mr. Lv Yong (Note 15)
Ms. Tao Qing
Mr. Shi Hao-gang

Notes:

1 Ms. Qi Yue-hong ceased to be the vice chairman of the Company with effect from 12 June 2017 and resigned from the office of executive Director on 27 September 2017;

2 Mr. Xu Tao was appointed as an executive Director on 27 September 2017；

3 Ms. Xu Zi-ying was appointed as a non-executive Director and vice chairman of the Company on 12 June 2017；

4 Mr. Zhang Xuan-song resigned from the office of non-executive Director on 14 March 2017；

5 Mr. Zhang Ye was appointed as a non-executive Director on 14 March 2017 and resigned from the office of non-executive Director on 28 August 2017；

6 Mr. Zhou Jing-bo was appointed as a non-executive Director on 14 March 2017 and ceased to be the non-executive Director with effect from 12 June 2017；

7 Mr. Dong Zheng was appointed as a non-executive Director on 28 August 2017；

8 Mr. Zhang Jing-yi resigned from the office of non-executive Director on 14 March 2017；

9 Mr. Gu Guo-jian resigned from the office of independent non-executive Director on 14 March 2017；

10 Ms. Sheng Yan was appointed as an independent non-executive Director on 14 March 2017 and resigned from the office of independent non-executive Director on 28 March 2018；

11 Mr. Chen Wei was appointed as an independent non-executive Director on 28 March 2018；

12 Mr. Wang Jin resigned from the office of independent non-executive Director on 14 March 2017；

13 Mr. Zhang Jun was appointed as an independent non-executive Director on 14 March 2017；

14 Mr. Yang A-guo was appointed as a Supervisor and chairman of the Supervisory Committee of the Company on 28 November 2017；

15 Mr. Lv Yong resigned from the office of supervisor and chairman of the Supervisory Committee of the Company on 28 November 2017.

Details of the profiles of the Directors, Supervisors and senior management of the Company are set out on pages 44 to 51 of the annual report.

Directors' and Supervisors' service contracts

The Company has entered into service contract with each of the executive Directors and independent non-executive Directors with a term ending on the date of conclusion of the annual general meeting of the Company for the year 2019, and such term is renewable subject to applicable laws. Neither the Directors, nor the Supervisors have a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' and Supervisors' interests in contracts

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

Interest in shares or debentures acquired by the Directors and Supervisors

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

Permitted indemnity provision

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

Directors' remuneration

The Company's policy on remuneration is to maintain fair and competitive packages based on business needs and industry practice. For determining the remuneration packages of each Director, market rates and factors such as each Director's workload, working time and responsibility will be taken into account. In addition, factors comprising economic and market situations, individual contributions to the Group's results and development as well as individual's potential are considered when determining the remuneration packages of executive Directors. Please refer to note 10 to the consolidated financial statements of the Company for details of the Director's remuneration.

Independence of the independent Directors

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

Highest paid individuals

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

Retirement pension schemes

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

Please refer to note 37 to the consolidated financial statements of the Company for details of the retirement pension schemes.

Change of auditors

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

Significant litigation

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

Connected and related party transactions

During the year, the Group had significant transactions with related parties (as detailed in note 45 to the consolidated financial statements), certain of which fall into connected or continuing connected transactions within the meaning of Charter 14A of the Listing Rules, the details of which are set out below:

(a) Connected and related party transactions

	2017 RMB'000	2016 RMB'000
Sales to fellow subsidiaries	171,248	67,639
Purchases from fellow subsidiaries	115,664	107,760
Rental expenses and property management fee paid to fellow subsidiaries	79,798	95,505
Rental income from fellow subsidiaries	22,065	17,795
Commission income received from fellow subsidiaries	625	659
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	7,468	8,663
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	9,072	11,161
Interest income from fellow subsidiaries	26,796	23,376
Purchase from shareholder Yonghui superstores	–	146,378
Management fee paid to Yonghui superstores	–	491
Logistics fee incurred with Yonghui superstores	–	3,803
Platform usage fee paid to fellow subsidiaries	8,004	1,859
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account	8,078	3,521
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account	6,289	1,593
Financial Services Agreement-Deposits in a fellow subsidiary	1,010,351	966,729

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

(b) Related party transactions not falling into connected transactions

	2017 RMB'000	2016 RMB'000
Purchases from associates – Shanghai Lianhua Supermarket, Food Co., Ltd., Shanghai Gude Commercial Trading Co., Ltd., Sanming Taige Information Technology Co., Ltd. and Shantou Lianhua South Purchase and Distribution Co., Ltd.	4,018	7,205

Fellow subsidiaries referred above are other subsidiaries of Bailian Group.

Connected transactions

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

Major and Connected Transaction – Acquisition Agreement; and Discloseable and Connected transaction – Disposal Agreement

On 2 May 2017, Lianhua Huashang, a subsidiary of the Company, entered into the Acquisition Agreement ("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 for a cash consideration of RMB970,780,000.

On the same day, the Company entered into the Disposal Agreement ("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. ("Lianhua Live and Fresh") for a cash consideration of RMB378,600,000.

Bailian Group, together with its subsidiary, Shanghai Bailian, collectively holds 44.73% of the total issued shares of the Company. Accordingly, Bailian Group is a connected person of the Company by virtue of it being a controlling shareholder. As such, each of the acquisition and the disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio in respect of the acquisition exceeds 25% but is less than 100%, the acquisition constitutes a major transaction and connected transaction of the Company, and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

Since the highest applicable percentage ratio in respect of the disposal exceeds 5% but is less than 25%, the disposal constitutes a discloseable transaction and connected transaction of the Company, and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

The Acquisition Agreement and all transactions contemplated thereunder and in connection therewith, and Disposal Agreement and all transactions contemplated thereunder and in connection therewith were approved by the independent Shareholders of the Company at the extraordinary general meeting on 17 July 2017.

Please refer to the announcement of the Company dated 2 May 2017 and 17 July 2017, respectively, and the circular of the Company dated 31 May 2017 for relevant details of the transactions.

Continuing Connected Transactions – Financial Services Agreement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The maximum daily deposit balance placed by the Group in Bailian Finance under the Financial Service Agreement for the year ended 31 December 2017 was approximately RMB1.01 billion (including any interest occurred).

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

Continuing connected transactions－Framework Agreements between the Company and Bailian Group from 2016 to 2018

On 17 November 2015, the Company entered into various framework agreements with Bailian Group in respect of various transactions from 2016 to 2018, including transactions of supply of goods, smart cards arrangement, supply of resources, leasing and property management respectively. Specific details are as follows:

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
Supply of goods framework agreement	Bailian Group and/or its associates agreed to supply various kinds of goods, including but not limited to dried meat products, electrical appliances, electrical components, kitchen products, cosmetic and sanitary products, household products and sports products, for sale in the sales outlets of the Company.	The pricing for the supply of goods under the supply of goods framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such goods from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms provided by independent third parties.	The maximum aggregate annual amount of the transactions under the supply of goods framework agreement for each of the three years ending 31 December 2018 is RMB150.00 million.	The actual transaction amount of the transactions under the supply of good framework agreement for the year ended 31 December 2017 is RMB114,853,000

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
	The Company and/or its subsidiaries and Bailian Group and/or its associates will enter into individual supply of goods contracts setting out specific terms including the specific goods to be supplied, the price, the payment terms and schedules and other terms of delivery of goods. Such terms will be consistent with the principles and the terms of the supply of goods framework agreement. If there is any conflict between the terms of an individual supply of goods contract and the supply of goods framework agreement, the latter shall prevail.	Bailian Group and/or its associates shall pay sales rebates to the Company for the actual sale of the goods by Bailian Group and/or its associates to the Company under the supply of goods framework agreement. Such sales rebates to be paid by Bailian Group and/or its associates to the Company is determined principally by arm's length commercial negotiations between the parties according to the principles of fairness and reasonableness between the relevant parties with reference to the policy of determining sales rebates in the market. However, in any event, such sales rebates shall not be less than 1% of the actual sales figures of such particular type of goods to be supplied by Bailian Group and/or its associates to the Company under the supply of goods framework agreement. There is no maximum amount nor percentage of sales rebate under the supply of goods framework agreement.		

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
		Depending on the specific conditions or transactions contemplated under the individual supply of goods contracts, the actual payment for the sale of the goods under the supply of goods framework agreement is to be made on a monthly or agreed period basis (which period shall be determined by the market practice of the payment period of such particular type of goods purchased and shall not be less favourable than those provided by independent third parties). Details of payment terms shall be set out in the individual supply of goods contracts to be entered into between both parties with reference to the normal commercial terms of Bailian Group and/or its associates and on terms not less favourable than those available from independent third parties. In the event that such payment is made on an agreed period basis, the actual payment day shall be at least 15 days after the date of delivery of goods.		

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
Smart cards arrangement agreement	Each of the Company and Bailian Group has its own smart cards system which enables its customers to make purchases by using smart cards with prepaid values. Pursuant to the smart cards arrangement agreement, the parties agreed to accept all payments of purchases from the customers by using the smart cards issued by the other party within their respective sales networks. The relevant subsidiaries of the parties will enter into individual smart cards arrangement contracts setting out specific terms for the arrangement, including the technologies and systems required, operation details, settlement arrangements and the fees and charges. Such terms will be consistent with the principles and the terms of the smart cards arrangement agreement. If there is any conflict between the terms of an individual smart cards arrangement contract and the smart cards arrangement agreement, the latter shall prevail.	Each party shall charge the other party a management service fee of not more than 0.5% of such transaction amounts which are attributable to the other party. Such percentage shall be determined by arm's length commercial negotiations between the relevant parties with reference to the gross margin level of companies in the market using smart cards system for settlement of customers' purchases, size of transaction, application conditions and business operation conditions and set out in the individual smart cards arrangement contracts. The fee payable under the smart cards arrangement agreement is to be made by cash on a monthly basis.	The maximum fee payable by Bailian Group to the Company for each of the three years ending 31 December 2018 is RMB20 million, whereas the maximum fee payable by the Company to Bailian Group for each of the three years ending 31 December 2018 is RMB20 million.	The fees paid by Bailian Group to the Company for the year ended 31 December 2017 is RMB8,093,000, whereas the fees paid by the Company to Bailian Group for the year ended 31 December 2017 is RMB9,072,000.

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
Supply of resources framework agreement	Bailian Group agreed to supply various kinds of resources, including but not limited to office utilities, electrical appliances, industrial products, equipment, raw materials and components parts for the daily operation of the Company. The parties and/or their subsidiaries will enter into individual supply of resources contracts setting out specific terms of supply of resources including the specific goods to be supplied, the price, the payment terms and schedules and other terms of delivery of goods. Such terms will be consistent with the principles and the terms of the supply of resources framework agreement. If there is any conflict between the terms of an individual supply of resources contract and the supply of resources framework agreement, the latter shall prevail.	The pricing for the supply of resources under the supply of resources framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such resources from time to time. Depending on the specific conditions of transactions contemplated under the individual supply of resources contract, the fee payable under the supply of resources framework agreement is to be made by cash on a monthly, quarterly basis or agreed period basis and shall be consistent with the market payment terms of purchasing such particular type of resources.	The maximum aggregate annual amount of the transactions under the supply of resources framework agreement for each of the three years ending 31 December 2018 is RMB10 million.	The actual transaction amount of the transactions under the supply of resources framework agreement for the year ended 31 December 2017 is RMB811,000.

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
		Transactions contemplated under the supply of resources framework agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable from independent third parties.		
Leasing framework agreement	Pursuant to the leasing framework agreement, Bailian Group agreed to lease certain premises to the Company for the Company's establishment of various operations, including but not limited to supermarkets, convenience stores, warehouses and offices, but excluding hypermarkets. The parties will enter into individual leasing contracts setting out specific terms of leasing including the details of the relevant premises, the principles of rent determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the leasing framework agreement. If there is any conflict between the terms of an individual leasing contract and the leasing framework agreement, the latter shall prevail.	The rent for leasing certain premises under the leasing framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market rent of similar properties in the relevant area from time to time. Depending on the specific conditions of transactions contemplated under the individual leasing contracts, the fee payable under the leasing framework agreement is to be made by cash on a monthly, quarterly, half-yearly or annual basis.	The maximum aggregate annual amount of the transactions under the leasing framework agreement for each of the three years ending 31 December 2018 is RMB9 million.	The actual transaction amount of the transactions under the leasing framework agreement for the year ended 31 December 2017 is RMB3,727,000.

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
		Transactions contemplated under the leasing framework agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable from independent third parties.		
Property management framework agreement	Pursuant to the property management framework agreement, Bailian Group agreed to provide property management services, including but not limited to cleaning and sanitary services, maintenance and repair services, security and safety services and environmental greening and planting services to certain premises of the Company including offices and retail stores for a term of three years commencing from 1 January 2016 to 31 December 2018.	The fee for the provision of property management services under the property management framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the property management fees of similar properties in the market from time to time.	The maximum aggregate annual amount of the transactions under the property management framework agreement for each of the three years ending 31 December 2018 is RMB18 million.	The actual transaction amount of the transactions under the property management framework agreement for the year ended 31 December 2017 is RMB9,839,000.

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
	The parties will enter into individual property management contracts setting out specific terms of the provision of property management services including the principles of property management fee determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the property management framework agreement. If there is any conflict between the terms of an individual property management contract and the property management framework agreement, the latter shall prevail.	Depending on the size and the scale of the annual property management fee of the relevant premises and the business scale of the relevant service providers, the fee payable under the property management framework agreement is to be made by cash on a monthly or quarterly basis. Transactions contemplated under the property management framework agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable from independent third parties.		

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

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

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

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

Continuing Connected Transactions – Sales Framework Agreement

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

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

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

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

The maximum annual transaction amount payable by Hualian GMS for the financial year ending 31 December 2017, 31 December 2018 and 31 December 2019 under the Sales Framework Agreement 2016 dated 5 December 2016 is RMB30,000,000, RMB33,000,000 and RMB36,000,000, respectively.

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

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

The actual transaction amount paid by Hualian GMS under the Sales Framework Agreement 2016 for the year ended 31 December 2017 is approximately RMB11,664,000.

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

Continuing Connected Transactions – Sales Agency Framework Agreement

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

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

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

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

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

The transactions contemplated under the Sales Agency Framework Agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Omni-channel on normal commercial terms and on terms not be less favourable than those available from independent third parties. The maximum aggregate annual transaction amounts in respect of the goods to be sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group under the Sales Agency Framework Agreement for the three years ending 31 December 2018 is RMB300 million, RMB450 million and RMB600 million, respectively, the maximum platform usage fee payable by the Group under the Sales Agency Framework Agreement for the three years ending 31 December 2018 is RMB12 million, RMB18 million and RMB24 million, respectively.

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

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

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

The actual transaction amount in respect of the goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group under the Sales Agency Framework Agreement for the year ended 31 December 2017 is approximately RMB159,584,000. The actual platform usage fee paid by the Group under the Sales Agency Framework Agreement for the year ended 31 December 2017 is approximately RMB8,004,000.

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

Continuing Connected Transactions – Membership Points Agency and Settlement Service Agreement

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

According to the Membership Points Agency and Settlement Service Agreement, Bailian Finance will (i) in accordance with the instructions of the Company, withdraw corresponding fees from the Company's relevant account in Bailian Finance and transfer the same to Bailian Finance's settlement account based on the membership points granted by the Company; and (ii) in accordance with the instructions of the Company, transfer corresponding fees to the Company's relevant account in Bailian Finance from Bailian Finance's settlement account based on the membership points received by the Company. The membership points granted by the Company and Bailian Group and their respective subsidiaries can be used by customers in purchasing goods or services from the Company and Bailian Group and their respective subsidiaries.

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

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

Bailian Group is a substantial shareholder of the Company and Bailian Finance is a subsidiary of Bailian Group. Accordingly, Bailian Finance is a connected person of the Company. Therefore, the transactions under the Membership Points Agency and Settlement Service Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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

The actual amount withdrawn from the Company's relevant account in Bailian Finance to Bailian Finance's settlement account under the Membership Points Agency and Settlement Service Agreement for the year ended 31 December 2017 is approximately RMB8,078,000. The actual amount (including interests paid by Bailian Finance) transferred from Bailian Finance's settlement account to the Company's relevant account in Bailian Finance under the Membership Points Agency and Settlement Service Agreement for the year ended 31 December 2017 is approximately RMB6,289,000.

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

Continuing Connected Transactions – Property Leasing Framework Agreement

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

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

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

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

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

The maximum aggregate annual transaction amount in respect of the lease of the properties to Bailian Group by the Company under the Property Leasing Framework Agreement for each of the three years ending 31 December 2018 is RMB5 million.

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

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

The actual transaction amount of the transactions under the Property Leasing Framework Agreement for the year ended 31 December 2017 is approximately RMB2,659,000.

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

Continuing Connected Transaction – Zhejiang Yiwu Leasing Agreement and New Zhejiang Yiwu Leasing Agreement

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

On 15 July 2016, Zhejiang Century Lianhua entered into a leasing agreement with Yiwu City Life to renew the transactions under the aforementioned leasing agreement (the "Zhejiang Yiwu Leasing Agreement"), pursuant to which, Zhejiang Century Lianhua agreed to lease the Yiwu Property from Yiwu City Life commencing on 15 July 2016 to 14 July 2017 (both days inclusive).

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

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

After the closing of the acquisition of 100% equity interest in Yiwu City Life by Lianhua Huashang from Bailian Group (the "Yiwu City Life Closing"), Yiwu City Life became an approximately 74.19% indirectly owned subsidiary of the Company and was no longer a connected person of the Company. After the Yiwu City Life Closing, the transactions between Yiwu City Life and Zhejiang Century Lianhua no longer constituted connected transactions under Chapter 14A of the Listing Rules. As the Zhejiang Yiwu Leasing Agreement expired on 14 July 2017 and the Yiwu City Life Closing was expected to take place by the end of August 2017, Zhejiang Century Lianhua entered into a leasing agreement (the "New Zhejiang Yiwu Leasing Agreement") on 3 July 2017 to set out the transitional arrangement for the leasing of the Yiwu Property prior to the Yiwu City Life Closing. Pursuant to the New Zhejiang Yiwu Leasing Agreement, Zhejiang Century Lianhua agreed to lease the Yiwu Property from Yiwu City Life commencing on 15 July 2017 to 31 August 2017 (both days inclusive).

The monthly rent under the New Zhejiang Yiwu Leasing Agreement is RMB4,500,000. The rent is payable from Zhejiang Century Lianhua to Yiwu City Life by way of cash in one lump sum based on the actual term of lease.

In the event that the shops of Zhejiang Century Lianhua at the Yiwu Property operates at a loss, Yiwu City Life agreed to grant a rent reduction of no more than one third of the rent payable by Zhejiang Century Lianhua under the New Zhejiang Yiwu Leasing Agreement, i.e. the rental reduction shall be no more than RMB1,500,000 per month.

The actual amount to be paid by Zhejiang Century Lianhua to Yiwu City Life under the New Zhejiang Yiwu Leasing Agreement shall therefore range between RMB3,000,000 to RMB4,500,000 per month, depending on the amount of profit or loss generated by Zhejiang Century Lianhua.

The rent under the New Zhejiang Yiwu Leasing Agreement is determined after arm's length negotiation between the parties thereto and with reference to the market practice and prevailing market rate of similar properties in the relevant area.

Bailian Group, together with its subsidiary Shanghai Bailian, collectively holds 42.73% (or 44.73%) of the total issued shares of the Company, which made Bailian Group a substantial shareholder of the Company. As Yiwu City Life was a wholly-owned subsidiary of Bailian Group as at the date of signing the Zhejiang Yiwu Leasing Agreement and the New Zhejiang Yiwu Leasing Agreement, it was therefore a connected person (as defined in Chapter 14A of the Listing Rules) of the Company. Consequentially, the transactions contemplated under the Zhejiang Yiwu Leasing Agreement and the New Zhejiang Yiwu Leasing Agreement constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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

The actual amount paid by Zhejiang Century Lianhua to Yiwu City Life under the Zhejiang Yiwu Leasing Agreement and New Zhejiang Yiwu Leasing Agreement for the period from 1 January 2017 to 31 August 2017 is approximately RMB21,622,000.

Please refer to the announcement of the Company dated 15 July 2015, 15 July 2016 and 3 July 2017 for relevant details of the transactions.

Continuing connected transactions – Warehouse Leasing Framework Agreement

On 20 June 2017, the Company entered into the Warehouse Leasing Framework Agreement ("Warehouse Leasing Framework Agreement") with Bailian Group, pursuant to which, the Company and/or its subsidiaries agreed to lease warehouses to Bailian Group and/or its subsidiaries for use as warehouses, offices or other purposes for a term commencing from 20 June 2017 to 31 December 2019 (both days inclusive).

The maximum annual transaction amount payable by Bailian Group for the three financial years ending 31 December 2019 under the Warehouse Leasing Framework Agreement are RMB42,740,000, RMB80,000,000 and RMB80,000,000, respectively.

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

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

The actual transaction amount paid by Bailian Group under the Warehouse Leasing Framework Agreement for the year ended 31 December 2017 is approximately RMB2,815,000.

Please refer to the announcement of the Company dated 20 June 2017 for relevant details of the transaction.

Continuing connected transactions – Lease Agreements

The lease agreement dated 30 September 2003 was entered into between Century Lianhua as the lessee and Shanghai Bailian Xijiao Shopping Centre Co., Ltd. ("Bailian Xijiao",上海百聯西郊購物中心有限公司), formerly known as Shanghai Friendship Shopping Centre Development Co., Ltd.（上海友誼購物中心發展有限公司）, as the lessor in respect of the leasing of No. 88, Xian Xia West Road, Chang Ning District, Shanghai, the PRC. The annual rent under this lease agreement for each of the three years ended 31 December 2011 is subject to an annual cap of RMB16,700,000, details of which are set out in the announcement of the Company dated 28 November 2008. The annual rent (including the basic rent, the turnover rent and management fees) under the lease agreement for each of the three years ended 31 December 2014 is subject to an annual cap of RMB20,000,000, details of which are set out in the announcement of the Company dated 28 November 2011.

Century Lianhua is a subsidiary of the Company and Bailian Xijiao is a subsidiary of Shanghai Friendship, a substantial shareholder of the Company and thus such transactions constitute continuing connected transactions of the Company.

On 23 December 2014, the Board announced that the estimate annual rental payable (including the basic rent, the turnover rent and management fees) by Century Lianhua under the lease agreement for each of the three years ended 31 December 2017 will be subject to an annual cap of RMB16,000,000, after taking into account the following factors: (i) the 5% increment of the basic rent; (ii) the management fees of RMB2,400,000 per year; and (iii) the expected turnover rent payable by Century Lianhua in view of the consumption power of the residents in the neighbourhood of the premise, the customer attraction capability of the business district where the premise locates in as well as the anticipated rises in prices of consumer goods in the PRC for the three years ending 31 December 2017.

The actual rental and management fees paid by Century Lianhua under the lease agreement for the year ended 31 December 2017 is approximately RMB13,098,000.

Please refer to the announcement of the Company dated 23 December 2014 for relevant details.

On 28 November 2017, the Board announced that the estimate annual rental payable (including the basic rent, the turnover rent and management fees by Century Lianhua under the lease agreement for each of the three years ended 31 December 2020 will be subject to an annual cap of RMB16,000,000, after taking into account the following factors: (i) the 5% increment of the basic rent; (ii) the management fees of RMB2,400,000 per year; and (iii) the expected turnover rent payable by Century Lianhua in view of the consumption power of the residents in the neighbourhood of the premise, the customer attraction capability of the business district where the premise locates in as well as the anticipated rises in prices of consumer goods in the PRC for the three years ending 31 December 2020.

Please refer to the announcement of the Company dated 28 November 2017 for relevant details.

The lease agreement dated 3 December 2002 and the supplemental lease agreement dated 31 December 2008 were entered into between Century Lianhua as the lessee and Homemart Decoration and Materials Co., Ltd. (“Homemart”,好美家裝潢建材有限公司) as the lessor in respect of the leasing of No. 645, Xie Tu Road, Lu Wan District, Shanghai, the PRC (the “Lease Transaction”). The annual rent (inclusive of management fee of RMB1,125,000 per year payable to Homemart) of the premises for the periods from 1 January 2009 to 25 July 2012, from 26 July 2012 to 25 July 2017 and from 26 July 2017 to 25 July 2022 are RMB3,150,000 per year, RMB3,308,000 per year and RMB3,473,000 per year, respectively, details of which are set out in the announcement of the Company dated 31 December 2008. On 16 April 2012, Century Lianhua, Homemart and Shanghai Century Lianhua Supermarket Luwan Co., Ltd.(上海世紀聯華超市盧灣有限公司)(“Century Lianhua Luwan Company”), a wholly-owned subsidiary of Century Lianhua entered into a supplementary agreement to agree that Century Lianhua Luwan Company was to replace Century Lianhua to undertake all the related rights and obligations of Century Lianhua under the Lease Transaction with effect from the date of registration with the business registration office. Since Homemart is a subsidiary of Shanghai Friendship, a direct holding company of the Company and thus such transactions constitute continuing connected transactions of the Company.

The actual rent (inclusive of management fee) under the lease agreement and supplemental lease agreement with Homemart for the year ended 31 December 2017 is approximately RMB3,150,000.00.

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

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

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

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

The actual rent paid by Century Lianhua to Shanghai Di Lin and the management fees paid by Century Lianhua to Homemart under the lease agreement and the supplemental lease agreement for the year ended 31 December 2017 are approximately RMB3,657,000.

The lease agreement dated 15 September 2006 was entered into between Century Lianhua as the lessee and Shanghai Bailian Central Shopping Plaza Co., Ltd. ("Bailian Central",上海百聯中環購物廣場有限公司), formerly known as Shanghai Bailian De Hong Shopping Mall Co., Ltd. (上海百聯德泓購物中心有限公司), as the lessor in respect of the leasing of portion of area located within Bailian Central Shopping Plaza at No.1288 Zhenguang Road, Shanghai, the PRC for a term from 21 December 2006 to 20 December 2026. The annual rent of the premises is RMB11,989,000 per year from the first year to the third year, and starting from the fourth year onwards, a 5% increment is calculated based on the previous three-year period for every three-year period thereafter, and the management fee of the premises is RMB3,011,000 per year, details of which are set out in the announcement of the Company dated 2 March 2009. Since Bailian Central is a subsidiary of Bailian Group, an holding company of the Company's substantial shareholder, Shanghai Friendship, and thus such transaction constitutes continuing connected transactions of the Company.

The actual rent fee under the lease agreement between Century Lianhua and Bailian Central for the year ended 31 December 2017 is approximately RMB13,218,000.

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

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

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

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

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

The actual transaction amount of the transactions under the lease agreement between Century Lianhua and Bailian Nanqiao for the year ended 31 December 2017 is approximately RMB4,221,000.

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

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

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

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

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

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

The actual transaction amount of the transactions under the lease agreement between Century Lianhua and Bailian Jinshan for the year ended 31 December 2017 is approximately RMB7,266,000.

Continuing connected transactions — Lease Agreements

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

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

The relevant details are set out in the announcement of the Company dated 15 July 2011.

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

The actual transaction amount of the transactions under the lease agreement between Lianhua Yuqiao and Shanghai Bailian for the year ended 31 December 2017 is approximately RMB16,591,000.

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

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

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

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

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

(1) have been approved by the Board;

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

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

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

By order of the Board

Ye Yong-ming
Chairman

28 March 2018
Shanghai, the PRC

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

The Board is pleased to confirm that save 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 A.4.2 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.

The code provision A.6.7 of the Code is regarding the non-executive directors' regular attendance and active participation in board meetings and attendance to general meetings.

Mr. Zhang Xuan-song, the then non-executive Director, Mr. Zhang Jing-yi, the then non-executive Director, Mr. Gu Guo-jian, the then independent non-executive Director, and Mr. Wang Jin, the then independent non-executive Director, were unable to attend the 15th 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, a non-executive Director, and Mr. Wong Tak Hung, a non-executive Director, were unable to attend the 17th 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, the then 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, the then non-executive Director, Mr. Qian Jian-qiang, a non-executive Director, and Mr. Lee Kwok Ming, Don, an 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 their other business commitments.

Mr. Wong Tak Hung, a non-executive Director, was unable to attend the third meeting of the sixth session of the Board convened on 27 September 2017 by the Company due to his other business commitments.

Mr. Ye Yong-ming, a non-executive Director, Mr. Dong Zheng, a non-executive Director, Mr. Qian Jian-qiang, a non-executive Director and Mr. Zhang Jun, an independent non-executive Director were unable to attend the fourth meeting of the sixth session of the Board convened on 28 November 2017 by the Company due to their other business commitments.

Mr. Zhang Ye, the then non-executive Director, was unable to attend the 2016 annual general meeting of the Company convened on 12 June 2017 (the "2016 AGM") due to his other business commitments.

Mr. Qian Jian-qiang, a non-executive Director, Mr. Wong Tak Hung, a non-executive Director, and Mr. Xia Da-wei, an independent non-executive Director, were unable to attend the extraordinary general meeting of the Company convened on 17 July 2017 (the "1st EGM") due to their other business commitments.

Mr. Ye Yong-ming, a non-executive Director, Mr. Dong Zheng, a non-executive Director, Mr. Qian Jian-qiang, a non-executive Director, and Mr. Zhang Jun, an independent non-executive Director， were unable to attend the extraordinary general meeting of the Company convened on 28 November 2017 (the "2nd EGM") due to their other business commitments.

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

Moreover, the Company has provided the relevant materials and all necessary information relating to the 2016 AGM, the 1st EGM and 2nd EGM (the "General Meetings") to all members of the Board before the respective General Meetings. All ordinary resolutions and special resolutions considered at the General Meetings were passed smoothly. The Company sent the related minutes of the General Meetings to all members of the Board after the General Meetings so that the Director who was unable to attend the meeting was able to understand the resolutions passed at the meetings.

The Board

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

As approved at the annual general meeting on 12 June 2017, the sixth session of the Board was established and the term of office of each Director (including non-executive directors) is three years, which will expire on the date of conclusion of 2019 annual general meeting of the Company. Corresponding to the term of office, all executive directors have entered into service contracts, which are valid for a term ending on the date of conclusion of the annual general meeting of the Company for the year 2019, and such term is renewable subject to the applicable laws. Except Mr. Zhang Xuan-song, Mr. Zhou Jing-bo, Mr. Zhang Jing-yi, Mr. Gu Guo-jian and Mr. Wang Jin as the members of the fifth board of directors, the names of the directors referred herein are members of the sixth session of the Board as at the date of this report.

The principal responsibilities of the Board include:

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

– being responsible for the internal control system of the company and overseeing and reviewing its efficiency;

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

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

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

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

Board Meetings and General Meetings

The Company held seven Board meetings, 2016 annual general meeting and two extraordinary general meetings during the year. Attendance record of the Directors is as follows:

Directors	Meetings Attended/Held Board Meetings	2016 Annual General Meeting	Extraordinary General Meeting
Executive Directors			
Ms. Qi Yue-hong (Note 1)	6/6	1/1	1/1
Mr. Xu Tao (Note 2)	2/2	–	1/1
Non-executive Directors			
Mr. Ye Yong-ming (chairman)	6/7	1/1	1/2
Ms. Xu Zi-ying (vice chairman) (Note 3)	4/4	1/1	2/2
Mr. Zhang Xuan-song (Note 4)	0/1	–	–
Mr. Zhang Ye (Note 5)	3/5	0/1	1/1
Mr. Dong Zheng (Note 6)	2/3	–	0/1
Mr. Zhou Jing-bo (Note 7)	3/3	1/1	–
Mr. Qian Jian-qiang	4/7	1/1	0/2
Ms Zheng Xiao-yun	7/7	1/1	2/2
Mr. Zhang Jing-yi (Note 8)	0/1	–	–
Mr. Wong Tak Hung	5/7	1/1	1/2
Independent Non-executive Directors			
Mr. Xia Da-wei	7/7	1/1	1/2
Mr. Lee Kwok Ming, Don	6/7	1/1	2/2
Mr. Gu Guo-jian (Note 9)	0/1	–	–
Ms. Sheng Yan (Note 10)	7/7	1/1	2/2
Mr. Wang Jin (Note 11)	0/1	–	–
Mr. Zhang Jun (Note 12)	6/7	1/1	1/2

Notes:

1. Ms. Qi Yue-hong ceased to be the vice chairman of the Company with effect from 12 June 2017 and resigned from the office of executive Director on 27 September 2017;

2 . Mr. Xu Tao was appointed as an executive Director on 27 September 2017;

3. Ms. Xu Zi-ying was appointed as a non-executive Director and vice chairman of the Company on 12 June 2017;

4. Mr. Zhang Xuan-song resigned from the office of non-executive Director on 14 March 2017;

5. Mr. Zhang Ye was appointed as a non-executive Director on 14 March 2017, and resigned from the office of non-executive Director on 28 August 2017;

6. Mr. Dong Zheng was appointed as a non-executive Director on 28 August 2017;

7. Mr. Zhou Jing-bo was appointed as a non-executive Director on 14 March 2017, and resigned from the office of non-executive Director with effect from 12 June 2017;

8. Mr. Zhang Jing-yi resigned from the office of a non-executive Director on 14 March 2017;

9. Mr. Gu Guo-jian resigned from the office of independent non-executive Director on 14 March 2017;

10. Ms. Shen Yan was appointed as an independent non-executive Director on 14 March 2017;

11. Mr. Wang Jin resigned from the office of an independent non-executive Director on 14 March 2017;

12. Mr. Zhang Jun was appointed as an independent non-executive Director on 14 March 2017;

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

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

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

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

Trainings of Directors

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

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

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

Board Diversity Policy

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

The Nomination Committee has set measurable objectives based on four focus areas: gender, age, ethnicity and professional experience to implement the board diversity policy. The Nomination Committee will review the board diversity policy, as appropriate; and review the measurable objectives that the Board has set for implementing the board diversity policy, and the progress on achieving the objectives, to ensure its continued effectiveness from time to time. The Nomination Committee is of the view that the Board has had the combination of diversity and balance and is suitable for the business of the Group.

Duties of the Board and the Management of the Company

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

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

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

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

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

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

(5) formulate the basic rules of the Company;

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

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

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

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

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

Board Committees

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

As approved by ordinary resolutions at the annual general meeting on 12 June 2017, the sixth session of the Board was established. On the same day, the Board established the sixth session of the Board Committees in accordance with the requirements of the Code. As at the end of the period under review, members of each of the sixth session of the Board Committees are as follows:

Board Committees	Members				
The Audit Committee	Mr. Lee Kwok Ming, Don (Chairman)	Mr. Xia Da-wei	Mr. Zhang Jun	Ms. Zheng Xiao-yun	–
The Remuneration and Appraisal Committee	Mr. Xia Da-wei (Chairman)	Ms. Xu Zi-ying	Ms. Sheng Yan	Mr. Zhang Jun	–
The Strategic Committee	Mr. Ye Yong-ming (Chairman)	Ms. Xu Zi-ying	Mr. Xu Tao	Mr. Dong Zheng	Mr. Qian Jian-qiang
The Nomination Committee	Mr. Ye Yong-ming (Chairman)	Ms.Sheng Yan	Mr. Xia Da-wei	Mr. Zhang Jun	–

Note: The terms of those current Directors above will end on the date of the 2019 annual general meeting of the Company.

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

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

Audit Committee

The Board passed a resolution on 12 June 2017 to establish the sixth session of the Audit Committee. The Audit Committee currently comprises four members, including three independent non-executive Directors (including the chairman) and one non-executive Director. The Board confirms that each member of the Audit Committee has extensive business experience and the Audit Committee has a desirable mix of operational, accounting and financial expertise. The primary duties, roles and functions of the Audit Committee of the Company are:

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

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

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

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

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

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

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

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

(i) to review and monitor the scope, effectiveness and results of internal audit function, ensure co-ordination between the internal and external auditor and ensure that the internal audit function has adequate resource and has appropriate standing within the Group;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the year ended 31 December 2017, the Audit Committee held three meetings and performed major work including review of annual and interim financial reports, internal control, continuing connected transactions and maintaining proper relationship between the Group and external and internal auditors etc.

The Audit Committee of the Company held a meeting on 14 March 2017 to review and discuss matters such as the internal control of the Group, annual financial reports, remuneration and reappointment of domestic and international auditors and continuing connected transactions for 2016, including the review of the Company's annual financial report prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS"). The Audit Committee was of the view that the annual financial report of the Group for the year 2016 had complied with the accounting standards and requirements of the Stock Exchange and the relevant laws and had made adequate disclosures. The Audit Committee also conducted a review on the risk management and internal control system of the Company and its subsidiaries and was of the view that the Group had an effective risk management and internal control system. The Audit Committee was of the view that domestic and international auditor of the Company had carried out their work with professionalism and independence, and agreed to make recommendations to the Board in respect of their remuneration for 2016 and suggested to re-appoint the domestic and international auditors for 2017. The Audit Committee confirmed that the continuing connected transactions of the Company in 2016 did not exceed their respective caps.

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

The Audit Committee of the Company held a meeting on 12 June 2017 and Mr. Lee Kwok Ming, Don was elected as the chairman of the sixth session of the Audit Committee.

The Audit Committee of the Company held a meeting on 14 August 2017 to review and discuss with the management the matters such as internal controls and interim financial report, including the review of the Company's condensed interim financial report prepared in accordance with the HKFRSs. The Audit Committee was of the view that the Group's interim financial report for the six months ended 30 June 2017 had complied with the applicable accounting standards, requirements of the Stock Exchange and legal requirements, and had made adequate disclosures. In relation to its review of the Group's internal audit function and risk management, internal control, the Audit Committee concluded that the Group's internal audit function, risk management and internal control system were effective.

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

Set out below is the attendance record of the meetings of the Audit Committee in 2017:

Name	14 March 2017	12 June 2017	14 August 2017
Independent Non-executive Directors			
Mr. Lee Kwok Ming, Don *(Chairman)*	Present	Present	Present
Mr. Xia Da-wei	Present	Present	Present
Mr. Gu Guo-jian (Note)	–	–	–
Mr. Wang Jin (Note)	–	–	–
Mr. Zhang Jun (Note)	Present	Present	Present
Non-executive Directors			
Mr. Zhou Jing-bo (Note)	Present	–	–
Ms. Zheng Xiao-yun (Note)	–	Present	Present

Note: Mr. Gu Guo-jian resigned from the office of a member of the Audit Committee on 14 March 2017 due to anticipated absence from the PRC in long term; Mr. Wang Jin resigned from the office of a member of the Audit Committee on 14 March 2017 due to pursuing in personal endeavours in developing his own business; Mr Zhang Jun was appointed as a member of the Audit Committee on 14 March 2017; Mr. Zhou Jing-bo was appointed as a member of the Audit Committee on 14 March 2017, and ceased to be a member of the Audit Committee with effect from 12 June 2017; Ms. Zheng Xiao-yun was appointed as a member of the Audit Committee on 12 June 2017.

Remuneration and Appraisal Committee

On 12 June 2017, the Board passed a resolution to establish the sixth session of the Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee currently comprises four members, including three independent non-executive Directors (including the chairman) and one executive Director. The primary duties, roles and functions of the Remuneration and Appraisal Committee are:

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

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

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

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

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

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

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

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

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

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

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

(l) to approve the terms of executive Directors' service contracts;

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

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

(o) to consider other responsibilities authorized by the Board.

During the year ended 31 December 2017, the Remuneration and Appraisal Committee held two meetings and performed major work including determining the policy for the remuneration of Directors, assessing the performance of executive Directors and senior management of the Company, reviewing and making recommendations to the Board on their remuneration packages and approving the terms of executive Directors' service contracts etc.

The Remuneration and Appraisal Committee held a meeting on 14 March 2017. Having taken into account the factors including, but not limited to, the remuneration paid by comparable companies, amount of time required to be spent by the Director and the Director's duties, remuneration packages of other positions within the Group and performance-based remuneration, the Committee made recommendations to the Board on the remuneration packages of all executive Directors and approved the remunerations to an executive Director, a Supervisor, the senior management formed by general managers and deputy general managers for 2016.

The Remuneration and Appraisal Committee held a meeting on 12 June 2017 and Mr. Xia Da-wei was elected as the chairman of the sixth session of the Audit Committee.

Set out below is the attendance record of the meetings of the Remuneration and Appraisal Committee in 2017:

Name	14 March 2017	12 June 2017
Independent Non-executive Directors		
Mr. Xia Da-wei (Chairman)	Present	Present
Mr. Gu Guo-jian (Note)	–	–
Ms. Sheng Yan (Note)	Present	Present
Mr. Wang Jin (Note)	–	–
Mr. Zhang Jun (Note)	Present	Present
Executive Director		
Ms. Qi Yue-hong (Note)	Present	–
Non-Executive Director		
Ms. Qi Yue-hong (Note)	–	Present

Note: Mr. Gu Guo-jian resigned from the office of a member of the Remuneration and Appraisal Committee on 14 March 2017 due to anticipated absence from the PRC in long term; Ms. Sheng Yan was appointed as a member of the Remuneration and Appraisal Committee on 14 March 2017; Mr. Wang Jin resigned from the office of a member of the Remuneration and Appraisal Committee on 14 March 2017 due to pursuing in personal endeavours in developing his own business; Mr Zhang Jun was appointed as a member of the Remuneration and Appraisal Committee on 14 March 2017; Ms. Qi Yue-hong ceased to be a member of the Remuneration and Appraisal Committee with effect from 12 June 2017; Ms. Xu Zi-ying was appointed as a member of the Audit Committee on 12 June 2017

Nomination Committee

On 12 June 2017, the Board passed a resolution to establish the sixth session of the Nomination Committee. The Nomination Committee currently comprises four members, including three independent non-executive Directors (including the chairman) and one executive Director. The primary duties, roles and functions of the Nomination Committee are:

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

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

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

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

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

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

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

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

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

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

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

During the year ended 31 December 2017, the Nomination Committee held eight meetings. The meetings were in compliance with the provisions under the Detailed Implementation Rules for the Nomination Committee under the Board of the Company and performed major work including determining the policy for nomination of directors, reviewing, commenting and making recommendation to the Board on the candidates for Directors of the fifth and sixth sessions of the Board of the Company, adjustments of the Board Committees, nomination of other senior management, and reviewing regularly the time to be committed by each Director in order to perform their duties, and the structure, size and composition of the Board of the Company, etc., which were approved and passed by way of resolutions at these meetings.

Set out below is the attendance record of the meetings of the Nomination Committee in 2017:

Name	3 January 2017	14 March 2017	14 March 2017	27 April 2017	12 June 2017	28 August 2017	27 September 2017	28 November 2017
Independent Non-executive Directors								
Mr. Gu Guo-jian (Note)	Present	Present	–	–	–	–	–	–
Ms. Sheng Yan (Note)	–	–	Present	Present	Present	Present	Present	Present
Mr. Xia Da-wei	Present	Present	Present	Present	Present	Present	Present	Present
Mr. Wang Jin (Note)	Present	Present	–	–	–	–	–	–
Mr. Zhang Jun (Note)	–	–	Present	Present	Present	Present	Present	Present
Executive Director								
Ms. Qi Yue-hong (Note)	Present	Present	Present	Present	–	–	–	–
Non-Executive Director								
Mr. Ye Yong-ming (chairman) (Note)	–	–	–	–	Present	Present	Present	Present

Note: Mr. Gu Guo-jian resigned from the office of the chairman of the Nomination Committee on 14 March 2017 due to anticipated absence from the PRC in long term; Ms. Sheng Yan was appointed as the chairman of the Nomination Committee on 14 March 2017, and ceased to be the chairman but still a member of the Nomination Committee with effect from 12 June 2017; Mr. Wang Jin resigned from the office of a member of the Nomination Committee on 14 March 2017 due to pursuing in personal endeavours in developing his own business; Mr Zhang Jun was appointed as a member of the Nomination Committee on 14 March 2017; Ms. Qi Yue-hong ceased to be a member of the Nomination Committee with effect from 12 June 2017; Mr. Ye Yong-ming was appointed as the chairman of the Nomination Committee on 12 June 2017

Corporate Governance Functions

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

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

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

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

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

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

Directors' and Auditors' Responsibilities for the Accounts

The Directors hereby confirm their responsibilities for the preparation of the accounts of the Company. The Directors confirm that the preparation of the financial statements of the Company for this year complied with the relevant laws and applicable accounting standards and that the Company will publish the financial statements of the Company on timely basis. The responsibilities of external auditors to the shareholders are set out on pages 120 to 121 of the annual report.

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 for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as code of conduct for securities transactions by all Directors of the Company. After making specific enquiries to the Directors, the Board is pleased to confirm that all the Directors have fully complied with the provisions under the Model Code during the year ended 31 December 2017.

Remuneration of Auditors

The Audit Committee of the Company is responsible for considering the appointment of auditors and reviewing their remuneration. For the year under review, RMB5,536,000 was payable by the Company to the external auditors (including the PRC and international auditors) as service charge for their audit and due diligence consultancy services. For the year under review, the external international auditors had not provided any non-auditing service to the Company.

Company Secretary

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

Ms. Hu Li-ping was appointed as the company secretary of the Company with effect from 22 December 2017. In view of the above, Mr. Mok Chung Kwan, Stephen resigned as the joint company secretary of the Company with effect from 22 December 2017. Ms. Hu also ceased to be the joint company secretary of the Company with effect from 22 December 2017.

In compliance with Rule 3.29 of the Listing Rules, during the year ended 31 December 2017, Ms. Hu Li-ping received not less than 15 hours of the relevant professional training.

Risk Management and Internal Supervision

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

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

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

Scope of Internal Review

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

The internal audit department will meet at least once a year with the audit committee to review the potential risks identified by the internal audit department and possible risks. According to the annual internal control and internal audit plan, the internal audit department will submit the Group's risk assessment and internal control report to the Audit Committee and the Board, which will be reviewed and approved at the end of relevant year.

The Audit Committee is responsible for the management of connected transactions, including the review on the management system for connected transactions, the review and approval of material connected transactions and the annual review report, and consideration and approval of connected transactions. The Audit Committee has designated the internal audit department to be responsible for routine review of connected transactions. The relevant materials of routine review and management findings of the Audit Committee will be submitted to independent Directors for their review. Independent Directors conducted review on, among others, the fairness of material connected transactions and the execution of internal review and approval procedure in order to mitigate relevant risks on connected transactions and safeguard the interest of the Company and shareholders. The Company regularly collates and calculates the report of total transaction amount of connected transactions to ensure that the annual cap is not exceeded.

Review the Effectiveness of Risk Management and Internal Monitoring Systems

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

In 2017, the internal audit department worked closely with the operating units, senior management and directors to strengthen the risk management system. The work includes but not limited to, increasing the number of training sessions; further harmonizing the internal control and risk assessment methods; normalizing internal control and risk assessment; and making the internal monitoring and evaluation more closely aligned with their potential risks, which are considered as conducive. Moreover, the internal audit department collects potential risk information from operating units and assess the level of risk based on implementation of risk management measures that would be facilitated, all of which form part of the process used by the Company to identify, evaluate and manage potential material risk. The key risks identified, managed and monitored during the year included downward pressure on China's economy and action plans to effectively respond to the identified risks were formulated and implemented during the year accordingly. The internal audit department has submitted to the Board and the Audit Committee the latest report on the monitoring of risk management during the year and to assist the Directors in reviewing the effectiveness of the Group's risk management and internal control systems.

In 2017, the Group's internal audit department conducted a selection review on the effectiveness of the Group's risk management and internal control systems in terms of financial, operational and compliance monitoring, focusing on intangible asset management, information system maintenance, inventory management, and procurement expenses as a process used to review the effectiveness of risk management and internal control system. In addition, the responsible person of the main business and business functions need to make self-assessment of their own major monitoring matters. The results are reviewed by the Group's internal audit department and reported to the Audit Committee. The Audit Committee then reviews the information and reports to the Board. The Audit Committee and the Board have not found any matter or failure which will require significant attention relating to the Group's financial condition or results of operations. In case any material internal control defects are identified by internal audit department, the responsible unit and the Board will discuss and assess the cause of the defect and an action plan will be formulated to rectify the defects. The Board has conducted a review and considered that the risk management and internal control system as a whole are adequate and effective, including in the areas of accounting, internal audit and the Group's processes for financial reporting and compliance with the Listing Rules are effective. There are sufficient resources, staff qualifications and experience in the financial reporting function, as well as adequate staff training courses and budgets.

Inside information

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

Liability Insurance

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

Organizational structure

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

Authorities and Controls

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

Training on Internal Control

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

Accounting System Management

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

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

Internal Audit

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

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

Continuing Operation

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

Investor Relations

The Company reports to the shareholders on the corporate information of the Group on a timely and accurate basis. Printed copies of the 2016 annual report and 2017 interim report have been sent to all shareholders.

The Company places great emphasis on communication with shareholders and investors of the Company and the improvement of the Company's transparency. As such, a dedicated department has been set up and designated officers are assigned to handle relations with investors and analysts. During the period under review, the Company received 32 batches of fund managers and analysts and patiently answered their relevant inquiries. Site visits to stores were arranged for them so as to enhance their understanding of the Company's operation and also its latest business developments. The Company made disclosures in a careful, true, accurate, complete and timely manner in strict accordance with applicable laws and regulations, the Articles of Association and the Listing Rules. At the same time, the Company places great emphasis on collecting and analysing various comments and recommendations from analysts and investors on the Company's operation, which will be compiled into reports regularly and adopted selectively in its operation. The Company has set up a website, allowing investors to access updates on the Company's particulars, statutory announcements, management and recent operating affairs. All published annual reports, interim reports, circulars and announcements since its listing are included in the "Investors Relations" section of the website. The Company persistently adheres to its information disclosure principle of honesty and integrity and actively initiates communications with various parties. In particular, it held seminars, press conferences and one-on-one investor meetings following the announcement of interim and annual results and decisions on major investments. The Company also participates in a series of investor activities and conducts one-on-one communication with investors on a regular basis.

Changes in Company's Constitutional Document

(i) In order to reflect that Yonghui Superstores transferred all of its domestic shares to Shanghai Yiguo, the Articles of Association of the Company was amended. The amendments are as follows:

Original Article 21 of the Articles of Association as set out below:

"The Company shall issue a total number of 1,119,600,000 ordinary shares, which consist of:

(1) 715,397,400 domestic shares (254,160,000 shares to be held by Bailian Group Co. Ltd.; 224,208,000 by Shanghai Bailian Group Co., Limited; and 237,029,400 by Yonghui Superstores Co., Ltd.), and 31,602,600 non-listed foreign shares (31,602,600 by Wong Sun Hing);

(2) total number of 372,600,000 overseas-listed foreign shares."

was replaced by the following:

"The Company shall issue a total number of 1,119,600,000 ordinary shares, which consist of:

(1) 715,397,400 domestic shares (254,160,000 shares to be held by Bailian Group Co. Ltd.; 224,208,000 by Shanghai Bailian Group Co., Limited; and 237,029,400 by Shanghai Yiguo E-commerce Co., Ltd.), and 31,602,600 non-listed foreign shares (31,602,600 by Wong Sun Hing);

(2) total number of 372,600,000 overseas-listed foreign shares."

(ii) In order to reflect that Shanghai Yiguo transferred part of its domestic shares to Bailian Group Co., Ltd and Alibaba (China) Technology Co., Ltd, respectively, the Articles of Association of the Company was amended. The amendments are as follows:

Original Article 21 of the Articles of Association as set out below:

"The Company shall issue a total number of 1,119,600,000 ordinary shares, which consist of:

(1) 715,397,400 domestic shares (254,160,000 shares to be held by Bailian Group Co. Ltd.; 224,208,000 by Shanghai Bailian Group Co., Limited; and 237,029,400 by Shanghai Yiguo E-commerce Co., Ltd.), and 31,602,600 non-listed foreign shares (31,602,600 by Wong Sun Hing);

(2) total number of 372,600,000 overseas-listed foreign shares."

was replaced by the following:

"The Company shall issue a total number of 1,119,600,000 ordinary shares, which consist of:

(1) 715,397,400 domestic shares (276,552,000 shares to be held by Bailian Group Co. Ltd.; 224,208,000 by Shanghai Bailian Group Co., Limited; 201,528,000 by Alibaba (China) Technology Co., Ltd; and 13,109,400 by Shanghai Yiguo E-commerce Co., Ltd.), and 31,602,600 non-listed foreign shares (31,602,600 by Wong Sun Hing);

(2) total number of 372,600,000 overseas-listed foreign shares."

For further details of amendments, please refer to the announcements of the Company dated 12 June 2017 and 28 November, and the circulars of the Company dated 27 April 2017 and 13 October 2017, respectively.

Shareholders' Rights

Convening extraordinary shareholders' general meetings by shareholders

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

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

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

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

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

Raising Proposals at Shareholders' General Meetings

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

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

Putting forward Enquiries to the Board

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

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

Report of the Supervisory Committee

Dear shareholders,

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

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

During the period under review, the Supervisory Committee held seven meetings. On 29 March 2017, the Supervisory Committee of the Company held a meeting, at which the Supervisory Committee objectively evaluated the Group's business operation for the year 2016, and was fully satisfied with the work done by the Group in 2016, including the Group's development plan, network expansion, improvement of the internal control systems and conduct of connected transactions. The Supervisory Committee also received reports on the financial position of the Group for 2016 and discussed and adopted the report of the Supervisory Committee for 2016. The Supervisory Committee reviewed and approved the profit distribution plan for the year 2016 for the subsidiary of the Company, Hangzhou Lianhua Huashang Group Co., Ltd. The Supervisory Committee considered and passed the proposal of the Company for impairment of goodwill recording into the profit or loss for the year of 2016 and agreed that the Company made provision for the impairment of goodwill of Shanghai Century Lianhua Supermarket Development Co., Ltd. to be included in the profit and loss of the Company for the year of 2016. The Supervisory Committee considered and approved the proposal of the Company to accrue the bad debt losses and record into the profit or loss of the Company for year of 2016 and agreed that the Company accrued the loss from two closing hypermarkets in Tianjin and recorded into the profit or loss of the Company for the year of 2016. The Supervisory Committee consider and approve the proposal of the Company for the provision of impairment of equity investment in subsidiaries, the supervisors of the Company were of the view that the provisions for impairment of equity investments in the subsidiaries are made in accordance with the HKFRS and the relevant requirements of the Company and were in line with the actual conditions of the Company's assets, and after making the impairment provisions, the financial statements of the Company for the year ended 31 December 2016 will more fairly reflect the financial position and operating results of the Group for the year ended 31 December 2016.

On 27 April 2017, the Supervisory Committee of the Company held a meeting. In view of the expiration of the fifth session of the Supervisory Committee of the Company on the conclusion of the shareholders' general meeting of 2016, pursuant to the recommendation of the shareholders of the Company, Bailian Group and Shanghai Bailian, the Supervisory Committee of the Company nominated Mr. Lv Yong and Ms. Tao Qing as supervisors candidates for the sixth session of the Supervisory Committee of the Company and agreed to approve the resolution as an ordinary resolution at the 2016 annual general meeting of the Company.

On 2 May 2017, the Supervisory Committee of the Company held a meeting to review and agreed that Hangzhou Lianhua Huashang Group Co., Ltd., a subsidiary of the Company, entered into the Agreement on Equity Interests in Yiwu City Living Supermarket Co., Ltd. with Bailian Group and confirmed that the above transaction was conducted on normal commercial terms and that the terms of the transaction were fair and reasonable and in the interests of the shareholders of the Company as a whole and authorized any one of the Executive Directors to perform the relevant procedures as required by the Listing Rules and to sign various types of transactions legal documents and other related matters and submit them to the Board for recordation, and agreed to approve this resolution as an ordinary resolution at the 2017 extraordinary general meeting of the Company. In the meantime, the Supervisory Committee of the Company considered and agreed that the Company entered into the Disposal Agreement on Equity Interests in Shanghai Lianhua Fresh Food Processing and Distribution Center Co., Ltd. with Bailian Group and confirmed that the above transaction was conducted on normal commercial terms and that the terms of the transaction were fair and reasonable and in the interests of the shareholders of the Company as a whole and authorized any one of the Executive Directors to perform the relevant procedures as required by the Listing Rules and to sign various types of transactions legal documents and other related matters and submit them to the Board for recordation, and agreed to approve this resolution as an ordinary resolution at the 2017 extraordinary general meeting of the Company.

On 12 June 2017, the Supervisory Committee of the Company held a meeting to consider and unanimously agree to elect Mr. Lv Yong as the chairman of the sixth session of the Supervisory Committee of the Company.

On 3 July 2017, the Supervisory Committee of the Company held a meeting to review and approve the proposal on connected transaction that Zhejiang Century Lianhua Supermarket Co., Ltd.*（浙江世紀聯華超市有限公司）, a subsidiary of the Company, entered into the commercial property leasing agreement of No. 168 Wangdao Road, Yiwu with Yiwu City Life Supermarket Co., Ltd.*（義烏都市生活超市有限公司）. The attending supervisors confirmed that the abovementioned continuing connected transaction belongs to the daily operations of the Company and was on normal commercial terms and the terms of the transaction were fair and reasonable, and in the interests of the shareholders of the Company as a whole, and authorized any one of the Executive Directors to perform the relevant procedures as required by the Listing Rules, sign various types of legal documents, relevant agreements and decide other relevant matters involved in the above transactions and submit them to the Board for recordation.

On 28 August 2016, the Supervisory Committee held a meeting regarding the operating conditions of the first half of the year ended 30 June 2017 and received reports from the management relating to the financial condition of the first half of 2017.

On 28 November 2017, the Supervisory Committee of the Company held a meeting to consider and unanimously agree to elect Mr. Yang A-guo as chairman of the sixth session of the Supervisory Committee of the Company. In the meantime, the Supervisory Committee reviewed and approved the proposal on the annual rent cap of Shanghai Xianxia Leasing for the year from 2018 to 2020. The attending supervisors confirmed that the abovementioned continuing connected transaction belongs to the daily operations of the Company and was on normal commercial terms and the terms of the transaction were fair and reasonable, and in the interests of the shareholders of the Company as a whole, and authorized any one of the Executive Directors to perform the relevant procedures as required by the Listing Rules, sign various types of legal documents, relevant agreements and decide other relevant matters involved in the above transactions and submit them to the Board for recordation.

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

Report of the Supervisory Committee

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

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

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

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

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

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

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 122 to 193, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (Continued)

Key audit matter *Impairment assessment on property, plant and equipment and intangible assets (including goodwill)*	**How our audit addressed the key audit matter**
We identified the impairment as a key audit matter as the Group incurred loss of RMB151,025,000 and closed down various stores during the year, this may indicate impairment on property, plant and equipment and intangible assets (including goodwill). Note 13 described the impairment loss and reasons made on property, plant and equipment and note 16 to the consolidated financial statements described the impairment loss made on intangible assets (including goodwill) due to the decrease in recoverable amount which was determined based on the value-in-use calculation of this cash-generating units. Details of these value-in-use calculation for these cash-generating-units were set out in note 17 to the consolidated financial statements. During the year ended 31 December 2017, the Group has recognised impairment losses of RMB47,640,000 on property, plant and equipment.	Our audit procedures in relation to the impairment assessment include: • Understanding the management process and assessment for the identification of property, plant and equipment that were impaired in full, due to physical damage and obsolescence; • Assessing whether the model used by the management to calculate the value-in-use of the individual cash-generating unit is in compliance with the requirement under Hong Kong Accounting Standard 36 Impairment of Assets; • Understanding the projected cash flows, including the assumptions relating to revenue growth rates, market outlooks and trends and comparing operating margins against historical performance; and • Understanding inputs used for the cash flows forecast and factors considered in the discount rate and assessing these rates.

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

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is David Leung Ho Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	notes	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Revenue	5	**25,225,388**	26,666,069
Cost of sales		**(21,467,549)**	(22,728,564)
Gross profit		**3,757,839**	3,937,505
Other revenue	5	**2,037,808**	2,136,038
Other income and gains	7	**899,296**	461,047
Selling and distribution expenses		**(5,595,679)**	(5,984,113)
Administrative expenses		**(768,633)**	(686,224)
Other expenses		**(219,704)**	(84,386)
Share of results of associates		**8,458**	(687)
Finance cost		**(120)**	(118)
Profit (loss) before taxation	8	**119,265**	(220,938)
Income tax expense	9	**(270,290)**	(115,104)
Loss for the year		**(151,025)**	(336,042)
Other comprehensive income (expenses)			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain (loss) on available-for-sale financial assets		**19,275**	(1,840)
Income tax relating to items that may be reclassified subsequently		**(4,819)**	460
Share of other comprehensive income of associates		**–**	51
Other comprehensive income (expense) for the year, net of income tax		**14,456**	(1,329)
Total comprehensive expense for the year		**(136,569)**	(337,371)
(Loss) profit for the year attributable to:			
Owners of the Company		**(282,760)**	(449,955)
Non-controlling interests		**131,735**	113,913
		(151,025)	(336,042)
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(269,685)**	(451,284)
Non-controlling interests		**133,116**	113,913
		(136,569)	(337,371)
Loss per share	12	**RMB0.25**	RMB0.40

Consolidated Statement of Financial Position

At 31 December 2017

	notes	31/12/2017 RMB'000	31/12/2016 RMB'000
Non-current assets			
Property, plant and equipment	13	**3,176,870**	3,082,366
Construction in progress	14	**313,168**	221,066
Land use rights	15	**865,234**	329,348
Intangible assets	16	**198,430**	198,783
Interests in associates	18	**511,251**	500,793
Available-for-sale financial assets	19	**93,589**	73,967
Term deposits	21	**1,200,000**	1,455,000
Prepaid rental	22	**19,617**	33,190
Deferred tax assets	23	**74,150**	68,222
Other non-current assets	24	**14,292**	15,751
		6,466,601	5,978,486
Current assets			
Inventories	25	**2,414,652**	3,065,232
Trade receivables	26	**133,564**	82,633
Deposits, prepayments and other receivables	27	**1,179,216**	1,108,190
Amounts due from fellow subsidiaries	28	**15,050**	15,768
Amounts due from associates	29	**106**	58
Financial assets at fair value through profit or loss	20	**2,287,784**	1,977,894
Term deposits	21	**880,000**	2,053,851
Cash and cash equivalents	30	**3,577,507**	3,175,900
		10,487,879	11,479,526
Total assets		**16,954,480**	17,458,012

(Continued)

Consolidated Statement of Financial Position

At 31 December 2017

	notes	31/12/2017 RMB'000	31/12/2016 RMB'000
Capital and reserves			
Share capital	35	**1,119,600**	1,119,600
Reserves		**1,073,552**	1,343,237
Equity attributable to owners of the Company		**2,193,152**	2,462,837
Non-controlling interests	36	**295,681**	291,042
Total equity		**2,488,833**	2,753,879
Non-current liability			
Deferred tax liabilities	23	**76,625**	86,455
Current liabilities			
Trade payables	31	**3,818,411**	4,117,867
Other payables and accruals	32	**2,383,756**	2,365,021
Coupon liabilities	33	**7,846,974**	7,941,014
Deferred income		**42,897**	23,008
Amounts due to fellow subsidiaries	28	**55,978**	62,708
Amounts due to associates	29	**1,278**	1,417
Bank borrowing	34	**2,000**	2,000
Tax payable		**237,728**	104,643
		14,389,022	14,617,678
Total liabilities		**14,465,647**	14,704,133
Net current liabilities		**(3,901,143)**	(3,138,152)
Total equity and liabilities		**16,954,480**	17,458,012

The consolidated financial statements on pages 122 to 193 were approved and authorised for issue by the Board of Directors on 28 March 2018 and are signed on its behalf by:

YE YONG-MING
DIRECTOR

XU TAO
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 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 (note 36)	Total RMB'000
At 1 January 2016	1,119,600	258,353	(225,041)	559,800	1,202,459	2,915,171	283,915	3,199,086
(Loss) profit for the year	–	–	–	–	(449,955)	(449,955)	113,913	(336,042)
Other comprehensive expense for the year	–	–	(1,329)	–	–	(1,329)	–	(1,329)
Total comprehensive (expense) income for the year	–	–	(1,329)	–	(449,955)	(451,284)	113,913	(337,371)
Acquisition of additional interest in a subsidiary	–	–	(1,050)	–	–	(1,050)	(500)	(1,550)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(106,286)	(106,286)
At 31 December 2016	1,119,600	258,353	(227,420)	559,800	752,504	2,462,837	291,042	2,753,879
(Loss) profit for the year	**–**	**–**	**–**	**–**	**(282,760)**	**(282,760)**	**131,735**	**(151,025)**
Other comprehensive income for the year	**–**	**–**	**13,075**	**–**	**–**	**13,075**	**1,381**	**14,456**
Total comprehensive income (expense) for the year	**–**	**–**	**13,075**	**–**	**(282,760)**	**(269,685)**	**133,116**	**(136,569)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(128,477)**	**(128,477)**
At 31 December 2017	**1,119,600**	**258,353**	**(214,345)**	**559,800**	**469,744**	**2,193,152**	**295,681**	**2,488,833**

notes:

(a) Capital reserve of the Company (as defined in note 1) represents share premium arising from issue of H shares net of share issuance expenses.

(b) Other reserve of the Group (as defined in note 1) mainly represents:

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

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

iii. acquisition of additional equity interests in subsidiaries;

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

v. the fair value difference of the available-for-sales financial assets.

(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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
OPERATING ACTIVITIES		
Profit (loss) before taxation	**119,265**	(220,938)
Adjustments for:		
Depreciation of property, plant and equipment	**384,897**	395,400
Amortisation of land use rights	**16,293**	6,232
Amortisation of intangible assets	**11,279**	9,867
Amortisation of other non-current assets	**1,459**	1,459
Loss on disposal of property, plant and equipment and intangible assets	**12,003**	8,437
Impairment loss recognised on property, plant and equipment	**47,640**	7,363
Impairment loss recognised on goodwill	**–**	22,198
Recognition of allowance for write-down of inventories	**10,487**	1,383
Reversal of allowance for write-down of inventories	**(3,370)**	–
Gain on disposal/redemption of available-for-sale financial assets	**–**	(613)
Gain on change in fair value of financial assets at FVTPL	**(103,163)**	(94,781)
Dividends from financial assets at FVTPL	**(135)**	(81)
Share of results of associates	**(8,458)**	687
Dividends from available-for-sale investments	**(2,314)**	(1,444)
Gain on disposal of an associate	**–**	(2,810)
Gain on disposal of a subsidiary	**(399,132)**	–
Allowance for doubtful debts, net	**966**	551
Interest income on bank balances and term deposits	**(183,973)**	(236,655)
Finance cost	**120**	118
Operating loss before movements in working capital	**(96,136)**	(103,627)
Decrease (increase) in inventories	**643,463**	(229,790)
(Increase) decrease in trade receivables, deposits, prepayments and other receivables	**(32,151)**	18,775
Decrease in prepaid rental	**25,171**	19,642
(Increase) decrease in amounts due from associates	**(48)**	115
Decrease (increase) in amounts due from fellow subsidiaries	**718**	(889)
(Decrease) increase in amounts due to fellow subsidiaries	**(6,730)**	25,449
Decrease in amounts due to a shareholder	**–**	(5,082)
Increase (decrease) in deferred income	**19,889**	(3,392)
(Increase) decrease in restricted term deposits	**(229,000)**	18,000
(Decrease) increase in trade payables, other payables and accruals	**(352,007)**	234,826
Decrease in coupon liabilities	**(94,040)**	(55,449)
Decrease in amounts due to associates	**(139)**	(1,623)
Cash used in operations	**(121,010)**	(83,045)
Income taxes paid	**(157,909)**	(121,526)
Interest received	**282,855**	310,323
Interest paid	**(120)**	(118)
Net cash from operating activities	**3,816**	105,634

(Continued)

	notes	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment and construction in progress		(427,216)	(370,444)
Purchase of land use right		(19)	–
Proceeds from disposal of property, plant and equipment		15,317	5,315
Proceeds from disposal of intangible assets		1,585	–
Purchase of intangible assets		(3,891)	(5,276)
Purchase of available-for-sale financial assets		(347)	–
Purchase of financial assets at FVTPL		(2,600,000)	(1,900,000)
Acquisition of a subsidiary	38	(886,607)	–
Capital investment in associates		(2,000)	–
Proceeds on disposal of associates		–	8,476
Proceeds on disposal of a subsidiary	39	361,746	–
Refunds of investment cost upon deregistration of an associate		–	286
Dividends received from associates		–	28,296
Dividends received from available-for-sale investments		2,314	131
Proceeds on redemption of available-for-sale financial assets		–	7,813
Dividend from financial assets at FVTPL		135	81
Proceeds on disposal of financial assets at fair value through profit or loss		2,393,273	555,669
Withdrawal of unrestricted term deposits		2,137,851	2,541,601
Placement of unrestricted term deposits		(480,000)	(2,137,851)
Net cash generated from (used in) investing activities		512,141	(1,265,903)
FINANCING ACTIVITIES			
New bank borrowing raised		2,000	2,000
Repayment of bank borrowing		(2,000)	(2,000)
Dividends paid to non-controlling shareholders		(114,350)	(109,646)
Acquisition of interests in subsidiaries from non-controlling interests		–	(1,550)
Net cash used in financing activities		(114,350)	(111,196)
Net increase (decrease) in cash and cash equivalents		401,607	(1,271,465)
Cash and cash equivalents at 1 January		3,175,900	4,447,365
Cash and cash equivalents at 31 December		3,577,507	3,175,900
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		3,577,507	3,175,900

1. GENERAL

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

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

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

As of 31 December 2017, the Group has net current liabilities of RMB3,901,143,000 (2016: RMB3,138,152,000). Taking into account of the possibility of immediate withdrawal of non-current unrestricted term deposits of RMB50,000,000, the historical settlement and addition pattern of the coupon liabilities of the Group, the directors of the Company consider the liquidity risk is significantly reduced and the Group is able to be continued as a going concern.

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*

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

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

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; (v) non-cash flows from financing activities; and (vi) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 44. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 44, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[4]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*[1]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*[2]

1 Effective for annual periods beginning on or after January 1, 2018.

2 Effective for annual periods beginning on or after January 1, 2019.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2021.

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

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

Except for the new and revised HKFRSs and Interpretations mentioned below, the directors of the Company anticipate that the application of all other new and revised HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 9 Financial Instruments

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

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

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

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

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

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

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

HKFRS 9 Financial Instruments (Continued)

Classification and measurement:

Loan and receivables carried at amortised cost as disclosed in notes 26, 27, 28 and 29: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9;

- Listed equity securities classified as available-for-sale financial assets carried at fair value as disclosed in note 19: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group has not elected the option for the designation and has measured these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, investments revaluation reserve of RMB23,267,000 related to these available-for-sale investments has already been transferred to retained profits at 1 January 2018;

- Equity securities classified as available-for-sale financial assets carried at cost less impairment as disclosed in note 19: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group plans not to elect the option for designating these securities to be measured at FVTOCI and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, fair value gain relating to these securities, representing the differences between cost less impairment and fair value would be adjusted to retained profits as at 1 January 2018;

- All other financial assets and financial liabilities have been measured on the same bases as had been measured under HKAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model was to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables, other receivables, amount due from associate/fellow subsidiaries and deposits with financial institutions. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

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

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

HKFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

In addition, HKFRS 15 includes further guidance regarding the customers' unexercised right ("breakage"). The directors of the Company assessed the recognition of breakage amount arising from the coupon liabilities and considered that the Group does not expect to be entitled to a breakage amount. The revenue for the expected breakage amount arising from the coupon liabilities will be recognised when the likelihood of the customer exercising its remaining rights becomes remote under HKFRS 15. In additions, the directors of the Company have performed a preliminary assessment on the income from suppliers as included in other revenue. The preliminary assessment indicates that certain income from suppliers included slotting services provided which should be accounted for as a reduction of revenue under HKFRS 15. The directors of the Company are in the process of performing a detail analysis to assess the impact of breakage and slotting income on revenue. Apart from the above, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods. In addition, the application of HKFRS 15 would result in more disclosures in the consolidated financial statements in the future.

HKFRS 16 Leases

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

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

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

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

HKFRS 16 Leases (Continued)

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB12,107,339,000 as disclosed in note 40. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB312,271,000 and refundable rental deposits received of RMB23,099,000 as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

For financial instruments which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

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

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries (Continued)

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in the profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in related to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e., reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when the control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate of a joint venture.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to land use rights at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

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

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

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

The Group's policy for goodwill arising on the acquisition of an associate is described below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, interests in associates is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

Interests in associates

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates (Continued)

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

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

Revenue recognition

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

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

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

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

Service income is recognised when services are provided.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease.

Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Retirement benefit costs and termination benefits

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

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Short-term employee benefits

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

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

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

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

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

Property, plant and equipment

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Certain software in the course of construction for administrative purposes are carried at cost, less any recognised impairment loss. Such assets are classified to the appropriate categories of intangible assets when completed and ready for intended use. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Provisions

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

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

Financial instruments

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

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

Financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial asset at FVTPL

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

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other income and gains" line item. Fair value is determined in the manner described in note 43.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as FVTPL, held-to-maturity investments or loans and receivables. The Group designated certain items as available-for-sale financial assets on initial recognition of those items, including investments in legal person shares, unlisted and listed equity investments and unlisted debts.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of other reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the other reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets (Continued)

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

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

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

Impairment of financial assets

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Financial liabilities at amortised cost

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which results in downward revision of future cash, a material impairment loss/further impairment loss may arise. As at 31 December 2017, the carrying amount of goodwill was RMB129,743,000 (net of accumulated impairment loss of RMB22,198,000) (2016: RMB129,743,000 (net of accumulated impairment loss of RMB22,198,000)). Details of the recoverable amount as determined by value-in-use calculation are disclosed in note 17.

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

Key sources of estimation uncertainty (Continued)

Estimated impairment of non-financial assets other than goodwill

The Group follows HKAS 36 to determine whether non-financial assets (other than goodwill stated in paragraph "Estimated impairment of goodwill") have suffered any impairment. The recoverable amount of an asset is determined based on the higher of the asset's fair value less costs to sell and value in use. The value in use calculations requires the use of estimates. As at 31 December 2017, the carrying amount of property, plant and equipment was RMB3,176,870,000 (net of accumulated impairment loss of RMB67,257,000) (2016: carrying amount of RMB3,082,366,000, net of accumulated impairment loss of RMB45,926,000) and the carrying amount of intangible assets other than goodwill was RMB68,687,000 (2016: carrying amount of RMB68,040,000).

Income taxes

As at 31 December 2017, no deferred tax asset has been recognised on the tax losses of RMB3,060,626,000 (2016: RMB2,972,159,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future taxable profits generated are more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such recognition takes place.

Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. As at 31 December 2017, the carrying amount of property, plant and equipment was RMB3,176,870,000 (net of accumulated impairment loss of RMB67,257,000) (2016: RMB3,082,366,000 (net of accumulated impairment loss of RMB45,926,000)).

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly in response to both competitor's actions and market conditions. The Group will reassess the estimations by the end of the reporting period. As at 31 December 2017, the carrying amount of inventories was RMB2,414,652,000 (net of accumulated impairment loss of RMB16,234,000) (2016: RMB3,065,232,000 (net of accumulated impairment loss of RMB9,117,000)).

Estimated store closure provision

The Group follows HKAS 37 to recognise store closure provision. Provisions are recognised when the Group has a constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Store closure provision comprises mainly lease termination penalties and employee compensations with corresponding amounts included in other expenses. The determination of provision requires the use of estimates. As at 31 December 2017, the carrying amount of store closure provision was RMB72,758,000 (2016: RMB34,447,000).

5. REVENUE AND OTHER REVENUE

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

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Revenue		
Sales of merchandise	25,225,388	26,666,069
Other revenue		
Income from suppliers (service income)	1,380,871	1,485,137
Rental income from leasing of shop premises	607,770	600,389
Royalty income from franchised stores	44,363	44,677
Commission income from coupon redemption in other retailers	4,804	5,835
	2,037,808	2,136,038
Total revenue	27,263,196	28,802,107

6. SEGMENT INFORMATION

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

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

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

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

Segment revenues and results

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

	Segment revenue		Segment results	
	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Hypermarkets	16,692,516	17,836,573	(45,655)	(148,818)
Supermarkets	8,512,010	8,809,770	47,268	101,605
Convenience stores	1,966,564	2,080,944	(155,833)	(114,812)
Other operations	92,106	74,820	395,112	(15,807)
	27,263,196	28,802,107	240,892	(177,832)

6. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

The reconciliation of the total segment results to consolidated profit (loss) before taxation is as follows:

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Segment results	**240,892**	(177,832)
Unallocated interest income	**71,212**	68,376
Unallocated income	**109**	2,931
Unallocated expenses	**(201,406)**	(113,726)
Share of results of associates	**8,458**	(687)
Consolidated profit (loss) before taxation	**119,265**	(220,938)

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

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

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

Segment assets

The following is the analysis of the Group's assets by reportable and operating segment:

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
– Hypermarkets	**8,795,002**	7,723,046
– Supermarkets	**2,796,313**	4,798,902
– Convenience stores	**489,609**	490,894
– Other operations	**148,271**	137,631
Total segment assets	**12,229,195**	13,150,473
Interests in associates	**511,251**	500,793
Other unallocated assets	**4,214,034**	3,806,746
Total assets	**16,954,480**	17,458,012

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

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

6. SEGMENT INFORMATION (Continued)

Other segment information

Year ended 31/12/2017

	Hypermarkets RMB'000	Supermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets (note)	1,148,063	128,478	61,565	387	1,338,493
Depreciation	233,473	96,325	44,903	10,196	384,897
Amortisation	15,747	6,368	1,520	5,396	29,031
Impairment losses on property, plant and equipment	39,498	–	–	8,142	47,640
Impairment on goodwill	–	–	–	–	–
Loss (gain) on disposal of property, plant and equipment and intangible assets	7,368	4,613	(123)	145	12,003
Interest income on balance and term deposits	92,083	19,321	365	992	112,761
Finance cost	–	–	–	120	120

Year ended 31/12/2016

	Hypermarkets RMB'000	Supermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets (note)	171,219	86,121	49,877	402	307,619
Depreciation	262,589	85,291	35,818	11,702	395,400
Amortisation	5,650	5,841	947	5,120	17,558
Impairment losses on property, plant and equipment	7,363	–	–	–	7,363
Impairment on goodwill	–	–	–	22,198	22,198
Loss (gain) on disposal of property, plant and equipment and intangible assets	3,832	4,113	(23)	515	8,437
Interest income on balance and term deposits	124,746	42,033	741	759	168,279
Finance cost	–	–	–	118	118

note: Addition to non-current assets include the additions of RMB552,767,000 (2016: RMB146,018,000) to property, plant and equipment, RMB163,315,000 (2016: RMB156,325,000) to construction in progress, RMB3,891,000 (2016: RMB5,276,000) to intangible assets and RMB618,520,000 to land use rights.

6. SEGMENT INFORMATION (Continued)

Geographical information

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

Information about major customers

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

7. OTHER INCOME AND GAINS

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Interest income on bank balances and term deposits	**183,973**	236,655
Government subsidies (note i)	**68,319**	49,603
Change in fair value of financial assets at FVTPL	**103,163**	94,781
Dividends from financial assets at FVTPL	**135**	81
Gain on disposal/redemption of available-for-sale financial assets	**–**	613
Gain on disposal of an associate (note ii)	**–**	2,810
Gain on disposal of a subsidiary (note 39)	**399,132**	–
Dividends from available-for-sale investments	**2,314**	1,444
Salvage sales	**28,492**	26,787
Early termination of an operating lease contract by lessor (note iii)	**54,830**	–
Others	**58,938**	48,273
Total	**899,296**	461,047

notes:

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

ii. During the prior year, 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 RMB5,666,000, resulting in a gain on disposal of an associate of RMB2,810,000 credited to profit or loss in the prior year.

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 appraiser. The compensation has been received during the year.

8. PROFIT (LOSS) BEFORE TAXATION

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Profit (Loss) before taxation has been arrived at after charging (crediting):		
Amortisation and depreciation		
Depreciation of property, plant and equipment (note 13)	384,897	395,400
Amortisation of land use rights (note 15)	16,293	6,232
Amortisation of intangible assets (note 16)	11,279	9,867
Amortisation of other non-current assets (note 24)	1,459	1,459
Total amortisation and depreciation	413,928	412,958
Share of results of associates		
Share of (profit) loss before taxation	(8,823)	1,507
Share of income tax expense (credit)	365	(820)
	(8,458)	687
Auditors' remuneration	5,536	5,783
Loss on disposal of property, plant and equipment and intangible assets	12,003	8,437
Impairment loss on property, plant and equipment recognised (included in other expenses)	47,640	7,363
Impairment loss on goodwill (included in other expenses)	–	22,198
Director's remuneration (note 10)	1,745	1,180
Salaries, wages and other employee benefits of other staff	2,592,836	2,683,271
Retirement benefit scheme contribution of other staff	262,216	273,056
Total staff costs	2,856,797	2,957,507
Allowance for doubtful debts	1,224	551
Reversal of allowance for doubtful debts	(258)	–
Recognition of allowance for write-down of inventories	10,487	1,383
Reversal of allowance for write-down of inventories	(3,370)	–
Cost of inventories recognised as expenses	21,467,549	22,728,564

9. INCOME TAX EXPENSE

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Current tax on the PRC Enterprise Income Tax ("EIT")	**290,867**	126,768
Deferred tax credit (note 23)	**(20,577)**	(11,664)
	270,290	115,104

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on EIT ("EIT Law") and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%. Certain subsidiaries are taxed at preferential rate of 15% as those entities which are located in specific provinces of western China.

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Profit (Loss) before tax	**119,265**	(220,938)
Tax at PRC EIT tax rate of 25% (2016: 25%)	**29,816**	(55,235)
Tax effect of share of results of associates	**(2,115)**	172
Tax effect of expenses not deductible for tax purpose	**1,578**	1,551
Tax effect of income not taxable for tax purpose	**(841)**	(5,036)
Tax effect of tax losses and deductible temporary differences not recognised	**251,604**	179,318
Utilisation of tax losses previously not recognised	**(9,752)**	(5,666)
Income tax expense for the year	**270,290**	115,104

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION

(1) Directors' emoluments

The remuneration of each director for the year ended 31 December 2017 is set out below:

Name of director	Fees		Basic salaries allowances and benefits in kind		Discretionary bonus (note a)		Retirement benefit costs		Medical benefits		Total	
RMB'000	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Executive/Non-executive Directors:												
Mr. Xu Tao (note b)	–	–	345	–	330	–	17	–	6	–	698	–
Ms. Qi Yue-hong (note c)	–	–	202	261	181	234	48	63	16	22	447	580
Mr. Ye Yong-ming	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Xu Zi-ying (note d)	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Dong Zheng (note e)	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Qian Jian-qiang	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Zheng Xiao-yun	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Wong Tak Hung	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Zhang Xuan-song (note f)	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Zhang Jing-yi (note g)	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Zhang Ye (note h)	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Zhou Jing-bo (note i)	–	–	–	–	–	–	–	–	–	–	–	–
Independent non-executive Directors:												
Mr. Xia Da Wei	150	150	–	–	–	–	–	–	–	–	150	150
Mr. Lee Kwok Ming, Don	150	150	–	–	–	–	–	–	–	–	150	150
Ms. Sheng Yan (note j)	106	–	–	–	–	–	–	–	–	–	106	–
Mr. Zhang Jun (note k)	106	–	–	–	–	–	–	–	–	–	106	–
Mr. Gu Guo-jian (note l)	44	150	–	–	–	–	–	–	–	–	44	150
Mr. Wang Jin (note m)	44	150	–	–	–	–	–	–	–	–	44	150
Total	600	600	547	261	511	234	65	63	22	22	1,745	1,180

notes:

(a) The discretionary bonus is determined based on the growth of the Group's annual results.

(b) Mr. Xu Tao was elected as the executive director and chief executive officer of the Company on 27 September 2017.

(c) Ms. Qi Yue-hong was resigned from the executive director and chief executive officer of the Company on 27 September 2017.

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(1) Directors' emoluments (Continued)

notes: (Continued)

(d) Ms. Xu Zi-ying was elected as the non-executive director and vice chairman of the board of the Company on 12 June 2017.

(e) Mr. Dong Zheng was elected as the non-executive director of the Company on 28 August 2017.

(f) Mr. Zhang Xuan-song was resigned from the non-executive director of the Company on 14 March 2017.

(g) Mr. Zhang Jing-yi was resigned from the non-executive director of the Company on 14 March 2017.

(h) Ms. Zhang Ye was elected as the non-executive director of the Company on 14 March 2017, and resigned from the non-executive director of the Company on 28 August 2017.

(i) Mr. Zhou Jing-bo was elected as the non-executive director of the Company on 14 March 2017, and resigned from the non-executive director of the Company on 12 June 2017.

(j) Ms. Sheng Yan was elected as the independent non-executive director of the Company on 14 March 2017.

(k) Mr. Zhang Jun was elected as the independent non-executive director of the Company on 14 March 2017.

(l) Mr. Gu Guo-jian was resigned from the independent non-executive director of the Company on 14 March 2017.

(m) Mr. Wang Jin was resigned from the independent non-executive director of the Company on 14 March 2017.

The executive director's emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. For in-service executive directors whose emoluments shown zero this year, they received all their emoluments from Bailian Group.

The non-executive director's emoluments shown above were for their services as directors of the Company or its subsidiaries. Certain directors received their emoluments from Bailian Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

There was no arrangement under which a director or the chief executive officer waived or agreed to waive any emoluments during the years ended 31 December 2017 and 2016.

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(2) Supervisory committee members' emoluments

The remuneration of each supervisor for the year ended 31 December 2017 is set out below:

Name of supervisor	Fees		Basic salaries, allowances and benefits in kind		Discretionary bonus (note a)		Retirement benefit costs		Medical benefits		Total	
RMB'000	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Mr. Lv Yong (note b)	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Yang A-guo (note c)	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Tao Qing	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Shi Hao-gang	–	–	243	238	216	211	65	63	22	22	546	534
Total	–	–	243	238	216	211	65	63	22	22	546	534

notes:

(a) The discretionary bonus is determined based on the performance of the Group's annual results.

(b) Mr. Lv Yong was resigned from the chief supervisor of the Company on 28 November 2017.

(c) Mr. Yang A-guo was elected as the chief supervisor of the Company on 28 November 2017.

The supervisors' emoluments shown above were for their services as supervisors of the Company. Certain supervisors received their emoluments from Bailian Group.

There was no arrangement under which a supervisor waived or agreed to waive any emoluments during the years ended 31 December 2017 and 2016.

(3) Senior management's emoluments

The remuneration of each senior management for the year ended 31 December 2017 is set out below:

Name	Fees		Basic salaries, allowances and benefits in kind		Discretionary bonus (note a)		Retirement benefit costs		Medical benefits		Total	
RMB'000	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Ms. Hu Li-ping	–	–	237	238	211	211	66	63	22	22	536	534
Mr. Liang Bao-long	–	–	237	238	211	211	66	63	22	22	536	534
Ms. Zhang Hui-qin (note c)	–	–	288	147	6,527	3,108	57	31	20	10	6,892	3,296
Mr. Chang Yu-bing (note b)	–	–	237	142	211	205	66	49	22	10	536	406
Mr. Xi Yu (note d)	–	–	237	20	211	18	66	5	22	2	536	45
Mr. Dai Yu-peng (note e)	–	–	417	–	200	–	–	–	6	–	623	–
Mr. Dong Gang (note f)	–	–	295	–	150	–	23	–	6	–	474	–
Mr. Tang Hao (note g)	–	–	40	–	35	–	11	–	4	–	90	–
Mr. Lin Song (note h)	–	–	–	1,000	–	240	–	63	–	22	–	1,325
Ms. Xu Ling-yun (note i)	–	–	209	62	–	19	26	6	9	2	244	89
Mr. Jiang Xiao-fei (note j)	–	–	–	218	–	193	–	57	–	20	–	488
Total	–	–	2,197	2,065	7,756	4,205	381	337	133	110	10,467	6,717

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(3) Senior management's emoluments (Continued)

notes:

(a) The discretionary bonus is determined based on the growth of the Group's annual results.

(b) Mr. Chang Yu-bing was elected as the vice chief executive officer of the Company on 4 May 2016.

(c) Ms. Zhang Hui-qin was elected as the vice chief executive officer of the Company on 13 June 2016.

(d) Mr. Xi Yu was elected as the vice chief executive officer of the Company on 5 December 2016.

(e) Mr. Dai Yu-peng was elected as the vice chief executive officer of the Company on August 2017.

(f) Mr. Dong Gang was elected as the vice chief executive officer of the Company on September 2017.

(g) Mr. Tang Hao was elected as the deputy Party secretary, discipline inspection commission secretary and chairman of the union of the Company on October 2017.

(h) Mr. Lin Song was resigned from the chief executive officer of the Company on 3 January 2017.

(i) Ms. Xu Ling-yun was elected as the vice chief executive officer of the Company on 5 December 2016 and resigned from the chief executive officer of the Company on 3 January 2017.

(j) Mr. Jiang Xiao-fei was resigned from the vice chief executive officer of the Company in 25 November 2016.(j)

The senior management's emoluments shown above were for their services as one of the key management team rendered to the Company.

11. FIVE HIGHEST PAID EMPLOYEES

In both years, none of the five highest paid individuals was a director or supervisor of the Company. The aggregate emoluments of these five highest paid individuals are as follows:

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Salaries, allowances and benefits in kind	**1,152**	1,066
Discretionary bonuses	**26,109**	22,370
Retirement benefits	**295**	289
Medical benefits	**97**	89
	27,653	23,814

11. FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands:

	Number	
	Year ended 31/12/2017	Year ended 31/12/2016
HK$5,000,001 — HK$5,500,000	–	4
HK$5,500,001 — HK$6,000,000	3	–
HK$6,000,001 — HK$6,500,000	–	1
HK$7,500,001 — HK$8,000,000	1	–
HK$8,500,001 — HK$9,000,000	1	–

During the years, no emoluments were paid by the Group to any of the directors, supervisors or the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

12. LOSS PER SHARE

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

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Loss		
Loss for the year attributable to owners of the Company	(282,760)	(449,955)

	Year ended 31/12/2017	Year ended 31/12/2016
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	1,119,600,000	1,119,600,000

No diluted loss per share is presented as there was no potential ordinary shares in issue for both years.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Transportation vehicles and equipment	Operating and office equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST					
At 1 January 2016	2,062,696	2,343,855	290,662	1,776,058	6,473,271
Additions	–	58,296	12,558	75,164	146,018
Transfer from construction in progress	545,788	2,788	55,774	56,751	661,101
Disposals	–	(222,331)	(22,776)	(117,367)	(362,474)
At 31 December 2016	2,608,484	2,182,608	336,218	1,790,606	6,917,916
Additions	(19)	152,786	7,347	122,312	282,426
Acquired on acquisition of a subsidiary	270,303	–	35	3	270,341
Transfer from construction in progress	2,373	56,240	–	1,898	60,511
Disposals	(299)	(179,712)	(37,953)	(292,391)	(510,355)
Disposal of a subsidiary	(116,792)	–	(10,098)	(17,010)	(143,900)
At 31 December 2017	**2,764,050**	**2,211,922**	**295,549**	**1,605,418**	**6,876,939**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2016	631,487	1,700,706	201,125	1,248,191	3,781,509
Provided for the year	65,282	149,488	19,512	161,118	395,400
Impairment loss recognised	–	2,861	–	4,502	7,363
Eliminated on disposals	–	(220,458)	(16,911)	(111,353)	(348,722)
At 31 December 2016	696,769	1,632,597	203,726	1,302,458	3,835,550
Provided for the year	79,171	132,632	23,323	149,771	384,897
Impairment loss recognised	–	25,607	–	22,033	47,640
Eliminated on disposals	–	(174,869)	(30,533)	(277,633)	(483,035)
Disposal of a subsidiary	(65,088)	–	(4,997)	(14,898)	(84,983)
At 31 December 2017	**710,852**	**1,615,967**	**191,519**	**1,181,731**	**3,700,069**
CARRYING VALUES					
At 31 December 2017	**2,053,198**	**595,955**	**104,030**	**423,687**	**3,176,870**
At 31 December 2016	1,911,715	550,011	132,492	488,148	3,082,366

notes:

(a) During the year, the directors of the Company conducted a review of the Group's leasehold improvements and operating and office equipment and determined that a number of those assets relating to those used in the retail stores which had been selected to be closed, were impaired due to physical damage and obsolescence. Accordingly, impairment losses of RMB47,640,000 (2016: RMB7,363,000) in respect of those identified assets have been recognised in full for the year ended 31 December 2017.

(b) Amongst the depreciation expense of RMB384,897,000 (2016: RMB395,400,000), RMB331,684,000 (2016: RMB339,502,000) and RMB53,213,000 (2016: RMB55,898,000) were included in selling and distribution expenses and administrative expenses respectively.

(c) As at 31 December 2017, the carrying amount of certain buildings without building ownership certificates is RMB13,545,000 (2016: RMB14,062,000) in aggregate.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated, taking into account their residual values, on a straight-line basis as follows:

Buildings	25 – 40 years
Leasehold improvements	Over the shorter of the term of the lease, or 5-8 years
Transportation vehicles and equipment	5 – 8 years
Operating and office equipment	3 – 8 years

14. CONSTRUCTION IN PROGRESS

	Construction in progress RMB'000
At 1 January 2016	773,418
Additions	156,325
Transfer to property, plant and equipment (note 13)	(661,101)
Transfer to intangible assets (note 16)	(25,278)
Transfer to others	(22,298)
At 31 December 2016	221,066
Additions	**163,315**
Transfer to property, plant and equipment (note 13)	**(60,511)**
Transfer to intangible assets (note 16)	**(8,620)**
Transfer to others	**(2,082)**
At 31 December 2017	**313,168**

15. LAND USE RIGHTS

	Land use rights RMB'000
COST	
At 1 January and 31 December 2016	415,132
Additions	19
Acquired on acquisition of a subsidiary	618,501
Disposal of a subsidiary	(68,175)
At 31 December 2017	**965,477**
AMORTISATION	
At 1 January 2016	73,320
Charge for the year	6,232
At 31 December 2016	79,552
Charge for the year	16,293
Disposal of a subsidiary	(21,816)
At 31 December 2017	**74,029**
CARRYING VALUES	
At 31 December 2017	**891,448**
At 31 December 2016	335,580

	31/12/2017 RMB'000	31/12/2016 RMB'000
Analysed for reporting purposes as:		
Non-current portion	**865,234**	329,348
Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (note 27)	**26,214**	6,232
Total	**891,448**	335,580

note: Amongst the amortisation charge for the year of RMB16,293,000 (2016: RMB6,232,000), RMB14,186,000 (2016: RMB3,665,000) and RMB2,107,000 (2016: RMB2,567,000) were included in selling and distribution expenses and administrative expenses respectively.

16. INTANGIBLE ASSETS

	Software RMB'000	Goodwill RMB'000	Total RMB'000
COST			
At 1 January 2016	191,236	151,941	343,177
Additions	5,276	–	5,276
Transfer from construction in progress (note 14)	25,278	–	25,278
Disposals	(5,511)	–	(5,511)
At 31 December 2016	216,279	151,941	368,220
Additions	3,891	–	3,891
Transfer from construction in progress (note 14)	8,620	–	8,620
Disposals	(3,397)	–	(3,397)
At 31 December 2017	**225,393**	**151,941**	**377,334**
AMORTISATION AND IMPAIRMENT			
At 1 January 2016	142,883	–	142,883
Charge for the year	9,867	–	9,867
Impairment loss recognised	–	22,198	22,198
Eliminated on disposals	(5,511)	–	(5,511)
At 31 December 2016	147,239	22,198	169,437
Charge for the year	11,279	–	11,279
Impairment loss recognised	–	–	–
Eliminated on disposals	(1,812)	–	(1,812)
At 31 December 2017	**156,706**	**22,198**	**178,904**
CARRYING VALUES			
At 31 December 2017	**68,687**	**129,743**	**198,430**
At 31 December 2016	69,040	129,743	198,783

notes:

(a) Amongst the amortisation charge for the year of RMB11,279,000 (2016: RMB9,867,000), RMB2,255,000 (2016: RMB888,000) and RMB9,024,000 (2016: RMB8,979,000) were included in selling and distribution expenses and administrative expenses respectively.

(b) The above software has finite useful lives and is amortised on a straight-line basis over 5 to 10 years.

(c) During the year ended 31 December 2016, the Group recognised an impairment loss of RMB22,198,000 in relation to goodwill arising from prior acquisition of Century Lianhua (as defined in note 17), in light of its continuous losses and change in market environment and conditions of hypermarket operation in the PRC. Details of the value-in-use calculations are set out in note 17.

17. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill set out in note 16 has been allocated to each individual cash-generating unit (CGU) identified according to the separate acquisition. The goodwill as at 31 December 2017 allocated to these units is as follows:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Hangzhou Lianhua Huashang Supermarket Group Co., Ltd. (杭州聯華華商集團有限公司)	**69,534**	69,534
Guangxi Lianhua Supermarket Joint Stock Co., Ltd. (廣西聯華超市股份有限公司)	**47,638**	47,638
Shanghai Century Lianhua Hypermarket Supermarket Development Co., Ltd. (上海世紀聯華超市發展有限公司) ("Century Lianhua")	**–**	–
Others	**12,571**	12,571
	129,743	129,743

The recoverable amounts of the cash-generating units are determined based on a value-in-use calculations. Their recoverable amounts are based on certain similar key assumptions. All value-in-use calculations use above cash flow projections based on financial budgets approved by the management covering a one-year period as extrapolated for perpetuity using a growth rate ranging from 0% to 5% (2016: 0% to 5%), as appropriate, and a discount rate at 15.2% (2016: 14.5%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate of the relevant industry. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on these relevant cash-generating units' past performance and the management's expectations for the market condition. The management believes that any reasonably possible change in any of these assumptions which results in downward revision of future cash, an impairment loss may arise.

18. INTERESTS IN ASSOCIATES

The Group

	31/12/2017 RMB'000	31/12/2016 RMB'000
Unlisted equity investments, at cost	**235,001**	233,001
Share of post – acquisition profits, post – acquisition other comprehensive income net of dividends received	**276,250**	267,792
	511,251	500,793

18. INTERESTS IN ASSOCIATES (Continued)

Details of each of the Group's associates at the end of the reporting period are as follow:

Name of entity	Business structure	Place of registration and operation	Proportion of ownership interest held by the Group		Principal activity
			2017 %	2016 %	
Shanghai Carhua Supermarket Co., Ltd.("Carhua") (上海聯家超市有限公司("聯家"))	Corporate	The PRC	45.00	45.00	Hypermarket
Shanghai Sanming Taige information technology Co., Ltd. (上海三明泰格資訊技術有限公司)	Corporate	The PRC	45.00	45.00	Trading Company
Shanghai Gude commerce Company (上海谷德商貿合作公司)	Corporate	The PRC	27.00	27.00	Trading Company
Tianjin Yishang Friendship Holdings Co., Ltd.("Tianjin Yishang") (天津一商友誼股份有限公司 ("天津一商"))	Corporate	The PRC	20.00	20.00	Department Stores
Shanghai Aofa Trading Development Co., Ltd. (上海澳發商貿發展有限公司)	Corporate	The PRC	30.00	30.00	Trading Company
Hangzhou Longlian Selected Restaurant Co., Ltd. (杭州龍聯精選餐飲有限公司)	Corporate	The PRC	40.00	0.00	Catering Service

All of the above associates are accounted for using the equity method in the consolidated financial statements.

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs:

Carhua

	31/12/2017 RMB'000	31/12/2016 RMB'000
Current assets	1,641,624	1,495,321
Non-current assets	852,882	945,097
Current liabilities	1,727,999	1,690,912

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Revenue	4,854,540	5,222,548
Profit (loss) for the year	17,001	(12,393)
Dividends received from the associate during the year	–	28,255

18. INTERESTS IN ASSOCIATES (Continued)

Carhua (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Net assets of Carhua	766,507	749,506
Proportion of the Group's ownership interest in Carhua	45%	45%
Carrying amount of the Group's interest in Carhua	344,928	337,278

Tianjin Yishang

	31/12/2017 RMB'000	31/12/2016 RMB'000
Current assets	549,675	418,823
Non-current assets	4,826,793	3,819,019
Current liabilities	2,422,658	1,806,974
Non-current liabilities	2,200,571	1,681,860

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Revenue	3,614,903	2,966,118
Profit for the year	4,231	26,812
Other comprehensive income during the year	–	254

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Net assets of Tianjin Yishang	753,239	749,008
Proportion of the Group's ownership interest in Tianjin Yishang	20%	20%
The Group's interest in Tianjin Yishang	150,648	149,801
Goodwill	6,787	6,787
Carrying amount of the Group's interest in Tianjin Yishang	157,435	156,588

18. INTERESTS IN ASSOCIATES (Continued)

Tianjin Yishang (Continued)

Aggregate information of associates that are not individually material:

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
The Group's share of loss	**(39)**	(473)
Aggregate carrying amount of the Group's interests in these associates	**8,888**	6,927

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31/12/2017 RMB'000	31/12/2016 RMB'000
Non-current		
Legal person shares, at cost (note a)	**312**	312
Unlisted equity investments, at cost (note b)	**47,170**	66,823
Listed equity investments, at fair value	**46,107**	6,832
– Listed equity investments with restricted period (note c)	**40,237**	–
– Listed equity investments	**5,870**	6,832
Total	**93,589**	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 of the Company are of the opinion that their fair values cannot be measured reliably.

(b) During the year, 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 RMB47,170,000 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. These represent investments in certain unlisted companies in the PRC.

(c) 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.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	31/12/2017	31/12/2016
	RMB'000	RMB'000
Equity securities listed in Shanghai Stock Exchange	**2,455**	2,524
Unlisted financial products (note)	**2,285,329**	1,975,370
Total	**2,287,784**	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 RMB103,232,000 (2016: RMB94,945,000), credited to "other income and gains" in the current year.

21. TERM DEPOSITS

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

As at 31 December 2017, restricted term deposits amounting to RMB1,600,000,000 (2016: RMB1,371,000,000) amongst the balance of term deposits were 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% (2016: 1.80%to 6.80%) per annum for the Group. The carrying amounts of the term deposits of the Group approximated their fair value.

22. PREPAID RENTAL

Prepaid rental is for the lease of certain store premises and is amortised over the relevant lease periods. Prepaid rental, amounting to RMB312,271,000 (2016: RMB323,869,000), to be charged to profit or loss within one year subsequent to the end of the reporting period is included in current assets as prepayments in note 27.

23. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	31/12/2017	31/12/2016
	RMB'000	RMB'000
Deferred tax assets	**74,150**	68,222
Deferred tax liabilities	**(76,625)**	(86,455)
	(2,475)	(18,233)

23. DEFERRED TAXATION (Continued)

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Fair value adjustments RMB'000	Bad debt and inventory allowances RMB'000	Accrued expenses RMB'000	Accrued income RMB'000	Rental expenses RMB'000	Total RMB'000
At 1 January 2016	(42,735)	1,756	8,720	(54,236)	56,138	(30,357)
Credit (charge) to profit or loss	(15,221)	(210)	(4,082)	25,277	5,900	11,664
Charge to other comprehensive income	460	–	–	–	–	460
At 31 December 2016	(57,496)	1,546	4,638	(28,959)	62,038	(18,233)
Credit (charge) to profit or loss	(416)	(120)	(325)	15,065	6,373	20,577
Credit to other comprehensive income	(4,819)	–	–	–	–	(4,819)
At 31 December 2017	**(62,731)**	**1,426**	**4,313**	**(13,894)**	**68,411**	**(2,475)**

The unrecognised tax losses and deductible temporary differences are displayed as follows:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Unrecognised unused tax losses	**3,060,626**	2,972,159
Unrecognised deductible temporary differences	**709,391**	567,437
	3,770,017	3,539,596

At the end of the reporting period, the Group has unused tax losses of approximately RMB3,060,626,000 (2016: RMB2,972,159,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams.

The unrecognised unused tax losses will expire as follows:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Year of expiring		
2017	–	732,240
2018	**393,972**	397,917
2019	**449,393**	456,344
2020	**518,351**	532,361
2021	**834,450**	853,297
2022	**864,460**	–
	3,060,626	2,972,159

24. OTHER NON-CURRENT ASSETS

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

Amongst the amortisation of RMB1,459,000 (2016: RMB1,459,000), RMB1,336,000 (2016: RMB1,336,000) and RMB123,000 (2016: RMB123,000) were included in selling and distribution expenses and administrative expenses respectively.

25. INVENTORIES

	31/12/2017 RMB'000	31/12/2016 RMB'000
Merchandise for resale	**2,420,167**	3,060,694
Write-down for obsolescence	**(16,234)**	(9,117)
	2,403,933	3,051,577
Low value consumables	**10,719**	13,655
	2,414,652	3,065,232

26. TRADE RECEIVABLES

	31/12/2017 RMB'000	31/12/2016 RMB'000
Trade receivables	**138,469**	86,505
Less: allowance for doubtful debts	**(4,905)**	(3,872)
	133,564	82,633

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 (2016: 30 to 60 days), presented based on the invoice date is as follows:

	31/12/2017 RMB'000	31/12/2016 RMB'000
0-30 days	**129,850**	77,159
31-60 days	**777**	1,981
61-90 days	**–**	290
91 days – one year	**2,937**	3,203
	133,564	82,633

The trade debtors are mainly major retailer chains and well established banks, with good credit standing. The management considered the credit quality of the trade receivables that are neither past due nor impaired were good and there was no default from those debtors in historical record.

26. TRADE RECEIVABLES (Continued)

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB2,937,000 (2016: RMB3,493,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold collateral over these balances.

Aging of trade receivables which are past due:

	31/12/2017 RMB'000	31/12/2016 RMB'000
61-90 days	–	290
91 days – one year	2,937	3,203
	2,937	3,493

Movement in allowance for doubtful debts

	2017 RMB'000	2016 RMB'000
1 January	3,872	3,902
Impairment losses recognised	1,224	91
Amounts written off during the year	(191)	(121)
31 December	4,905	3,872

27. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	31/12/2017 RMB'000	31/12/2016 RMB'000
Land use right – current portion (note 15)	26,214	6,232
Prepaid rental (note 22)	312,271	323,869
Deposits and prepayments	201,535	234,974
Other receivables (note)	240,484	342,773
VAT refundable	402,087	203,980
Less: allowance for doubtful debts	(3,375)	(3,638)
	1,179,216	1,108,190

note: Other receivables included mainly interest recoverable from bank deposits in both years.

27. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Movement in the allowance for doubtful debts is as the follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**3,638**	3,576
Impairment losses recognised	**–**	460
Amount recovered during the year	**(258)**	–
Amounts written-off during the year	**(5)**	(398)
At 31 December	**3,375**	3,638

28. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

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

29. AMOUNTS DUE FROM/TO ASSOCIATES

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

30. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprising cash on hand and cash placed with banks in the PRC are denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control imposed by the PRC government.

Bank balances carry interest at prevailing market rates ranging from 0.30% to 4.80% (2016: ranging from 0.30% to 4.80% per annum) per annum for the year ended 31 December 2017.

31. TRADE PAYABLES

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

	31/12/2017 RMB'000	31/12/2016 RMB'000
0-30 days	**2,165,607**	2,065,618
31-60 days	**555,930**	757,589
61-90 days	**322,647**	367,604
91 days – one year	**774,227**	927,056
	3,818,411	4,117,867

32. OTHER PAYABLES AND ACCRUALS

	31/12/2017 RMB'000	31/12/2016 RMB'000
Payroll, staff welfare and other staff cost payable	339,220	352,942
Value added tax and other payables	84,031	102,971
Rental payable	814,440	819,737
Deposits from lessees, franchisees and other third parties	203,485	198,158
Dividend payable to non-controlling interests	14,127	–
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	25,814	29,523
Prepayments received from franchisees and other third parties	476,675	478,730
Payables for acquisition of property, plant and equipment and low value consumables	156,109	133,025
Store closure provision	72,758	34,447
Accruals	126,240	116,107
Advance from customers	57,427	55,234
Other miscellaneous payables	13,430	44,147
	2,383,756	2,365,021

33. COUPON LIABILITIES

The Group incurs coupon liabilities when coupons are sold. Coupons redeemed in exchange for products of the Group during the year are recognised as sales in the consolidated statement of profit or loss and other comprehensive income using the coupon sales value. Certain coupons redeemed in exchange for products or services of other retailers which have agreements with the Group are settled and paid to these retailers after deducting the Group's commission based on the agreement.

34. BANK BORROWING

	31/12/2017 RMB'000	31/12/2016 RMB'000
Bank loan, repayable within one year, unsecured, with effective interest rate of 6.09% (2016: 6.09%) per annum	2,000	2,000

The variable-rate bank borrowing was repayable within one year, but subject to annual renewal at the end of the maturity date. The Group's bank borrowing was renewed on 28 September 2017 with the maturity date on 15 September 2018.

35. SHARE CAPITAL

	Number of shares		Nominal value	
	31/12/2017	31/12/2016	**31/12/2017 RMB'000**	31/12/2016 RMB'000
Ordinary shares of RMB1.00 each				
Registered, issued and fully paid:				
At 1 January 2016, 31 December 2016 and 31 December 2017	**1,119,600,000**	1,119,600,000	**1,119,600**	1,119,600

The share capital of the Company as at 31 December 2017 and 2016 comprises:

	Number of shares of RMB1.00 each		Nominal value	
	31/12/2017	31/12/2016	**31/12/2017 RMB'000**	31/12/2016 RMB'000
Domestic shares	**715,397,400**	715,397,400	**715,397**	715,397
Unlisted foreign shares	**31,602,600**	31,602,600	**31,603**	31,603
H shares	**372,600,000**	372,600,000	**372,600**	372,600
	1,119,600,000	1,119,600,000	**1,119,600**	1,119,600

The H shares rank pari passu in all respects with the domestic shares and the unlisted foreign shares and rank equally for all dividends declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between, legal or natural persons of Hong Kong, Taiwan, Macau Special Administrative Region of the PRC or any countries other than the PRC. The transfer of the domestic and unlisted foreign shares is subject to such restrictions as the PRC laws may impose from time to time.

Shanghai Bailian and Bailian Group have entered into the equity entrustment agreement on 17 April 2015 (the "Equity Entrustment Agreement"), pursuant to which, Shanghai Bailian would manage 97,416,000 unlisted domestic shares of the Company (representing approximately 8.70% of the equity interest in the Company) held by Bailian Group and 156,744,000 unlisted domestic shares of the Company (representing approximately 14.00% of the equity interest in the Company) to be held by Bailian Group upon the completion of the Equity Entrustment Agreement together with any shares to be allotted to or acquired by Bailian Group during the term of the Equity Entrustment Agreement (the "Managed Shares"). As stated in the Equity Entrustment Announcements, Bailian Group agreed to pay Shanghai Bailian a fixed annual fee of RMB300,000 for managing the Managed Shares and the Equity Entrustment Agreement will be effective from the date of the Equity Entrustment Agreement until the date when Bailian Group ceases to hold equity interest in all the Managed Shares.

36. NON-CONTROLLING INTERESTS

	31/12/2017 RMB'000	31/12/2016 RMB'000
Balance at beginning of year	**291,042**	283,915
Share of profit for the year	**131,735**	113,913
Dividend paid to non-controlling interest during the year	**(128,477)**	(106,286)
Change in fair value of available-for-sale financial assets	**1,381**	–
Acquisition of additional equity interest in a subsidiary	**–**	(500)
Balance at end of year	**295,681**	291,042

The summarised financial information in respect of the Group's subsidiary that has material non-controlling interests, namely Hangzhou Lianhua Huashang Group Co., Ltd. （杭州聯華華商集團有限公司） ("Lianhua Huashang") and its subsidiaries at the end of the reporting period is set out below. The summarised financial information blow represents amounts before intra group eliminations:

Lianhua Huashang and its subsidiaries

	31/12/2017 RMB'000	31/12/2016 RMB'000
Current assets	**6,761,324**	7,062,304
Non-current assets	**2,706,259**	1,782,231
Current liabilities	**8,565,996**	7,973,129
Non-current liabilities	**89,927**	91,832
Equity attributable to owners of the Company	**591,474**	567,718
Non-controlling interests	**220,186**	211,856

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Revenue	**12,700,092**	12,758,419
Total cost of sales, expense and other income	**(12,294,073)**	(12,388,445)
Profit for the year	**406,019**	369,974
Profit attributable to owner of the Company	**298,314**	271,958
Profit attributable to non-controlling interests	**107,705**	98,016
Dividends paid to non-controlling shareholders	**99,376**	94,018
Dividends paid to the Group	**274,557**	255,396

36. NON-CONTROLLING INTERESTS (Continued)

Lianhua Huashang and its subsidiaries (Continued)

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Net cash inflow from operating activities	**913,164**	575,105
Net cash outflow from investing activities	**(854,374)**	(1,969,191)
Net cash outflow used in financing activities	**(379,060)**	(352,553)
Net cash outflow	**(320,270)**	(1,746,639)

37. RETIREMENT BENEFIT PLANS

Defined contribution plans

The employees of the Group are members of a state-managed retirement benefit scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total expenses recognised in profit or loss of RMB262,281,000 (2016: RMB273,119,000) represents contributions payable to these scheme by the Group in respect of the current accounting period.

38. ACQUISITION OF A SUBSIDIARY

On 2 May 2017, Lianhua Huashang, a subsidiary of the Company, entered into an acquisition agreement with Bailian Group Co., Ltd. ("百聯集團有限公司") ("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 for a cash consideration of RMB973,925,000.

On 26 July 2017, the acquisition transaction closed and Lianhua Huashang acquired 100% of the issued share capital of Yiwu City Life Supermarket Co., Ltd. ("義烏都市生活超市有限公司") ("Yiwu City Life"), the existing landlord, for consideration of RMB973,925,000.

The major non-current assets of Yiwu City Life was the property located at No. 168 Wang Dao Road, Yiwu City, Zhejiang Province, the PRC ("Yiwu Property") and is principally engaged in the development and operation of the Yiwu Property. The Yiwu Property is used as a hypermarket site and is operated by a subsidiary of the Group, Zhejiang Century Lianhua Supermarket Co., Ltd. ("Zhejiang Century Lianhua"). The Group continued to use it as a hypermarket site and it is operated by the Group after the acquisition. Therefore, the Yiwu Property is held for use in the production or supply of goods or services rather than to earn rentals, so the acquisition of Yiwu City Life does not constitute a business and therefore the acquisition is accounted for as acquisition of assets.

38. ACQUISITION OF A SUBSIDIARY (Continued)

Consideration transferred:

	RMB'000
Cash	973,925

Acquisition-related costs amounting to RMB189,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the other expenses line item in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	270,341
Land use right	600,129
Deposits, prepayments and other receivables	18,372
Cash and cash equivalents	87,318
Tax liabilities	(127)
Other payables and accruals	(2,108)
	973,925

The purchase price was first allocated to the financial assets and financial liabilities at their respective fair values. The remaining balances of the purchase price was then allocated to the land use right and was therefore adjusted to its fair value by increasing RMB134,208,000 (including non-current portion of RMB130,222,000 and current portion of RMB3,986,000 included in deposits, prepayments and other receivables, respectively).

Net cash outflow on acquisition of Yiwu City Life

	RMB'000
Cash consideration paid	973,925
Less: cash and cash equivalent balances acquired	87,318
	886,607

39. DISPOSAL OF A SUBSIDIARY

On 2 May 2017, the Company entered into a 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 RMB371,977,000. The disposal was completed on 26 July, 2017.

Consideration received:

	RMB'000
Cash received	371,977

	RMB'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	58,917
Land use right	44,996
Trade receivables	479
Deposits, prepayments and other receivables	17,721
Cash and cash equivalents	10,231
Trade payables	(917)
Other payables and accruals	(158,582)
Net liabilities disposed of	(27,155)
Gain on disposal of a subsidiary:	
Consideration received and receivable	371,977
Net liabilities disposed of	(27,155)
Gain on disposal	399,132
Net cash inflow arising on disposal:	
Consideration received	371,977
Less: bank balances and cash disposed of	10,231
Gain on disposal	361,746

40. OPERATING LEASE

(1) The Group as lessee

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Minimum lease payment paid and recognised as an expense under operating leases during the year – Land and buildings	**1,562,607**	1,703,192

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Within one year	**1,552,676**	1,576,898
In the second to fifth years inclusive	**5,144,156**	5,224,563
Over five years	**5,410,507**	6,163,478
	12,107,339	12,964,939

The minimum lease payments related to leasing of shop premises were negotiated for an average term of 5 years and rentals are fixed for an average of 5 years.

The operating lease rental of certain shop premises with a fellow subsidiary is based on the higher of a minimum guaranteed rental or amount determined based on the sales performance.

40. OPERATING LEASE (Continued)

(2) The Group as lessor

The Group had aggregate minimum lease receipts under non-cancellable operating leases in respect of shop premises as follows:

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Minimum lease received under operating leases in respect of shop premises during the year	**607,770**	600,389

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Within one year	**186,553**	216,021
In the second to fifth years inclusive	**455,229**	480,321
After five years	**199,434**	312,171
	841,216	1,008,513

The minimum lease payments related to leasing of shop premises were negotiated for a lease period ranging from short to medium terms ranging from 1 to 20 years (2016: 1 to 20 years).

41. CAPITAL COMMITMENTS

	31/12/2017 RMB'000	31/12/2016 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment, construction of buildings and land use rights: – contracted for but not provided in the consolidated financial statements	**268,785**	267,550

42. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Company generally represents equity attributable to owners of the Company, comprising issued share capital, various reserves and retained profits.

The management of the Group reviews the capital structure regularly. The Company considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as issue of new debts or the redemption of existing debts.

43. FINANCIAL INSTRUMENTS

43a. CATEGORIES OF FINANCIAL INSTRUMENTS

Financial assets

	31/12/2017 RMB'000	31/12/2016 RMB'000
Financial assets at FVTPL	**2,287,784**	1,977,894
Available-for-sale financial assets	**93,589**	73,967
Loans and receivables (including cash and cash equivalents)	**6,043,336**	7,122,345
	8,424,709	9,174,206

Financial liabilities

	31/12/2017 RMB'000	31/12/2016 RMB'000
Bank borrowing	**2,000**	2,000
Other financial liabilities, at amortised cost	**4,899,587**	5,208,424
	4,901,587	5,210,424

43. FINANCIAL INSTRUMENTS (Continued)

43b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, available-for-sale financial assets, financial assets at FVTPL, term deposits, cash and cash equivalents, amounts due from/to fellow subsidiaries/associates/other related parties, trade and other payables and bank borrowing. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, terms deposits, and bank borrowing. It is the Group's policy to keep a portion of its financial assets and financial liabilities at floating rate of interests so as to minimise the fair value interest rate risk. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the People's Bank of China benchmark rates.

The sensitivity analysis below has been determined based on the exposure to interest rates for the Group's variable-rate bank balances and team deposits. The analysis is prepared assuming the variable-rate financial assets outstanding at the end of the reporting period were outstanding for the whole year. A 10-basis point (2016: 10-basis point) increase or decrease in the interest rates is the sensitivity rate used when reporting interest risk internally to key management personal and represent the management's assessment of the reasonably possible change in interest rates.

If the interest rate had been 10-basis point (2016: 10-basis point) higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended 31 December 2017 and 2016 would have increased/decreased by approximately RMB5,956,000 and RMB6,551,000 respectively.

Equity price risk

The Group was exposed to equity price risk in relation to its available-for-sale financial assets in listed equity investments and debt security price risk in relation to its financial assets at FVTPL. The unlisted equity investments and legal person shares were measured at cost less impairment since they were the Group's investments in certain unlisted companies in the PRC or non-tradable shares. In the management's opinion, the sensitivity of these investments is then insignificant to the Group.

The Group currently does not have a price risk hedging policy and the management will continue to monitor price risk exposure and consider hedging against it should the need arise.

The sensitivity analyses below have been determined based on the exposure to equity and debt security in relation to the Group's financial assets at FVPTL and available-for-sale financial assets in listed equity investments at the reporting date.

If the market prices for the available-for-sale financial assets in listed equity investments and financial assets at FVTPL had been 5% (2016: 5%) higher/lower, post-tax profit for the year ended December 31, 2017 would have increased/decreased by RMB87,251,000 (2016: RMB74,427,000) as a result of the changes in fair value of the financial assets at FVTPL.

43. FINANCIAL INSTRUMENTS (Continued)

43b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

Trade receivables are due from regular institutional customers with an appropriate financial strength. The Group did not experience any significant defaults by the debtors.

The credit risk on liquid funds, i.e., bank balances and short-term term deposit, is limited because the counterparties are banks with high reputation in the PRC. In addition, the credit risk on long-term term deposit and available-for-sale financial assets is also limited because the counterparties are either banks with high reputation or nationwide and regional renowned financial institutions in the PRC.

As at 31 December 2017, the Group's bank balances and term deposits deposited in the major five banks in the PRC accounted for 81.8% (2016: 66.8%) of total term deposits and cash and cash equivalents of the Group.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

As of 31 December 2017, the Group has net current liabilities of RMB3,901,143,000 (2016: RMB3,138,152,000). Taking into account of the possibility of immediate withdrawal of non-current unrestricted term deposits of RMB50,000,000, the historical settlement and addition pattern of the coupon liabilities of the Group and the financial support from Bailian Group, the directors of the Company consider the liquidity risk is significantly reduced and the Group is able to be continued as a going concern.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the earliest date on which the Group can be required to pay. The amounts disclosed in the table are contractual undiscounted cash flows.

43. FINANCIAL INSTRUMENTS (Continued)

43b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Financial liabilities	Weighted average interest rate %	On demand or Less than 6 months RMB'000	6 months to 1 year RMB'000	Over 1 year RMB'000	Undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2017						
Trade payables	–	3,818,411	–	–	3,818,411	3,818,411
Bank borrowing	6.09	–	2,122	–	2,122	2,000
Other payables and accruals	–	1,023,920	–	–	1,023,920	1,023,920
Amounts due to fellow subsidiaries	–	55,978	–	–	55,978	55,978
Amounts due to associates	–	1,278	–	–	1,278	1,278
		4,899,587	2,122	–	4,901,709	4,901,587
As at 31 December 2016						
Trade payables	–	4,117,867	–	–	4,117,867	4,117,867
Other payables and accruals	–	1,026,432	–	–	1,026,432	1,026,432
Amounts due to fellow subsidiaries	–	62,708	–	–	62,708	62,708
Amounts due to associates	–	1,417	–	–	1,417	1,417
Bank borrowing	6.09	–	2,122	–	2,122	2,000
		5,208,424	2,122	–	5,210,546	5,210,424

43c. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Some of the Group's financial instruments are measured at fair value for financial reporting purposes.

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group discussed with banks (representing the counterparties of the Group's purchased financial assets at FVTPL) to perform the valuation. The chief financial officer works closely with the bankers to establish the appropriate valuation techniques, inputs to the model and verified the indicated expected return with the actual return on date of maturity. The chief financial officer 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.

43. FINANCIAL INSTRUMENTS (Continued)

43c. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value measurements recognised in the consolidated statement of financial position that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	31/12/2017 RMB'000	31/12/2016 RMB'000			
1) Investments in low risk bank financial products classified as financial assets at FVTPL in the consolidated statement of financial position	**Assets – 2,285,329**	Assets -1,975,370	Level 3	Discounted cash flow. Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio and adjustments of related expenses, discounted at a rate that reflects the credit risk of various counterparties.	Actual yield of the underlying investment portfolio and the discount rate
2) Investment in equity shares listed in Shanghai Stock Exchange classified as financial assets at FVPTL in the consolidated statement of financial position	**Assets – 2,455 Equity securities: – Real estates (2,434) – Agricultural (21)**	Assets – 2,524 Equity securities: – Real estates (2,497) – Agricultural (27)	Level 1	Quoted bid prices in an active market	Not applicable
3) Investment in equity shares listed in Shanghai Stock Exchange classified as available-for-sale financial assets in the consolidated statement of financial position	**Assets – 46,107**	Assets – 6,832	Level 1	Quoted bid prices in an active market	Not applicable

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable to non-controlling interests RMB'000 note 32	**Bank and other borrowings** RMB'000 note 34	**Total** RMB'000
At 1 January 2017	–	2,000	2,000
Financing cash flows (note)	(114,350)	–	(114,350)
Others: dividend appropriation to non-controlling shareholders	128,477	–	128,477
At 31 December 2017	14,127	2,000	16,127

note: The Group had new bank borrowing of RMB2,000,000 raised and RMB2,000,000 repaid during the year.

45. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into significant related party transactions during the year, the details of which are set out below:

(1) Related party transactions

	notes	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Sales to fellow subsidiaries	(a)	**171,248**	67,639
Purchases from associates Gude Trading Co., Ltd. (上海谷德商業流通有限公司), Sanming Taige Information Technology Co., Ltd. (三明泰格信息技術有限公司) and Shantou Lianhua South Purchase and Distribution Co., Ltd. (汕頭市聯華南方採購配銷有限公司)	(a)	**4,018**	7,205
Purchases from fellow subsidiaries	(a)	**115,664**	107,760
Rental expenses and property management fee paid to fellow subsidiaries	(b)	**79,798**	95,505
Rental income from fellow subsidiaries	(c)	**22,065**	17,795
Commission income received from fellow subsidiaries	(d)	**625**	659
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	(e)	**7,468**	8,663
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	(e)	**9,072**	11,161
Interest income earned from a fellow subsidiary	(f)	**26,796**	23,376
Purchases from Yonghui Superstores (note)	(g)	**–**	146,378
Management fee paid to Yonghui Superstores (note)	(g)	**–**	491
Logistics fee incurred with Yonghui Superstores (note)	(g)	**–**	3,803
Platform usage fee paid to fellow subsidiaries	(h)	**8,004**	1,859
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account	(i)	**8,078**	3,521
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account	(i)	**6,289**	1,593

Fellow subsidiaries above are other subsidiaries of Bailian Group.

45. 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.

45. 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 from 1 January 2016 to 31 December 2018. The summary of cash and cash equivalents and unrestricted deposits placed to the fellow subsidiary is set out as below:

	31/12/2017 **RMB'000**	31/12/2016 RMB'000
Cash and cash equivalents in a fellow subsidiary	**738,015**	134,464
Unrestricted term deposits in a fellow subsidiary	**20,000**	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, jointly controlled or significantly influenced by the PRC government ("Government Related Entities") including Bailian Group. Apart from the transactions with fellow subsidiaries disclosed above, the Group has also entered into various transactions, including sales, purchase, deposits placement, and bank borrowing with other Government Related Entities.

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

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

(4) Compensation of key management personnel

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

	Year ended **31/12/2017** **RMB'000**	Year ended 31/12/2016 RMB'000
Salaries and other short-term employee benefits	**11,611**	7,365
Post-employment benefits	**446**	400
Other long-term benefits	**155**	132
	12,212	7,897

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at the end of the reporting period are set out below.

Name of entity	Date of establishment	Paid up issued/ registered capital RMB'000	Proportion voting power and ownership interest held by the Company Directly 2017 %	Directly 2016 %	Indirectly 2017 %	Indirectly 2016 %	Principal activities
Subsidiaries							
Tianjin Yishang Lianhua Supermarket Co., Ltd. (天津一商聯華超市有限公司)	1 September 2002	30,000	**100.00**	100.00	**–**	–	Hypermarket
Shanghai Century Lianhua Supermarket Development Co., Ltd. (上海世紀聯華超市發展有限公司)	24 November 1997	500,000	**100.00**	100.00	**–**	–	Hypermarket
Hangzhou Lianhua Huashang Group Co., Ltd. (杭州聯華華商集團有限公司)	1 June 2001	120,500	**74.19**	74.19	**–**	–	Supermarket and hypermarket
Lianhua Supermarket Jiangsu Co., Ltd. (聯華超市(江蘇)有限公司)	21 March 2003	50,000	**100.00**	100.00	**–**	–	Supermarket and hypermarket
Guangxi Lianhua Supermarket Joint Stock Co., Ltd. (廣西聯華超市股份有限公司)	18 November 2001	68,670	**95.00**	95.00	**–**	–	Supermarket hypermarket and convenience store
Shanghai Lianhua Supermarket Development Co., Ltd. (上海聯華超級市場發展有限公司)	8 April 2006	10,000	**100.00**	100.00	**–**	–	Supermarket
Lianhua Quik Stores Co., Ltd. (上海聯華快客便利有限公司)	25 November 1997	63,000	**100.00**	100.00	**–**	–	Convenience store
Shanghai Lianhua Supermarket Distribution Co., Ltd. (上海聯華超市配銷有限公司)	29 October 1998	5,000	**100.00**	100.00	**–**	–	Purchase and distribution
Lianhua Logistic Co., Ltd. (聯華物流有限公司)	17 October 2007	50,000	**100.00**	100.00	**–**	–	Purchase and distribution
Shanghai Lianhua Supermarket Jilin Purchase and Distribution Co., Ltd. (上海聯華超市吉林採購配銷有限公司)	9 August 2000	1,000	**51.00**	51.00	**–**	–	Purchase and distribution
Lianhua E-business Co., Ltd. (聯華電子商務有限公司)	4 October 1995	55,000	**90.91**	90.91	**–**	–	Trading
Hualian Supermarket Holdings Company Limited (華聯超市股份有限公司)	15 August 2006	300,000	**99.40**	99.40	**0.60**	0.60	Supermarket

47. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Non-current assets		
Property, plant and equipment	196,802	204,560
Construction in progress	1,747	9,098
Land use rights	25,388	26,316
Intangible assets	19,470	15,636
Investments in subsidiaries	1,248,553	1,262,695
Interests in associates	231,714	232,732
Available-for-sale financial assets	8,605	9,567
Term deposits		
– unrestricted	–	230,000
Deferred tax assets	67	33
Other non-current assets	2,347	2,470
	1,734,693	1,993,107
Current assets		
Inventories	701,116	784,377
Deposits, prepayments and other receivables	186,585	50,337
Amounts due from fellow subsidiaries	2,460	2,951
Amounts due from subsidiaries	5,617,299	5,620,197
Amounts due from associates	106	58
Term deposits		
– unrestricted	1,630,000	923,851
Cash and cash equivalents	222,099	606,780
	8,359,665	7,988,551
Total assets	10,094,358	9,981,658

47. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Information about the statement of financial position of the Company at the end of the reporting period includes: (Continued)

	31/12/2017 RMB'000	31/12/2016 RMB'000
Capital and reserves		
Share capital	1,119,600	1,119,600
Reserves	4,470,774	3,840,343
Total equity	5,590,374	4,959,943
Non-current liability		
Deferred tax liabilities	1,218	1,458
Current liabilities		
Trade payables	1,758,445	2,012,269
Other payables and accruals	50,924	21,866
Coupon liabilities	1,904,280	2,297,016
Amounts due to fellow subsidiaries	52,122	49,422
Amounts due to subsidiaries	653,245	624,265
Amounts due to associates	1,278	1,417
Tax payable	82,472	14,002
	4,502,766	5,020,257
Total liabilities	4,503,984	5,021,715
Total equity and liabilities	10,094,358	9,981,658
Net current assets	3,856,899	2,968,294
Total assets less current liabilities	5,591,592	4,961,401

47. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Movement in the Company's reserves

	Share capital RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory common reserve fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2016	1,119,600	258,353	9,349	559,800	3,218,665	5,165,767
Loss for the year	–	–	–	–	(204,444)	(204,444)
Other comprehensive income for the year	–	–	(1,380)	–	–	(1,380)
Total comprehensive income for the year	–	–	(1,380)	–	(204,444)	(205,824)
At 31 December 2016	1,119,600	258,353	7,969	559,800	3,014,221	4,959,943
Profit for the year	–	–	–	–	631,152	631,152
Other comprehensive expense for the year	–	–	(721)	–	–	(721)
Total comprehensive expense for the year	–	–	(721)	–	631,152	630,431
At 31 December 2017	**1,119,600**	**258,353**	**7,248**	**559,800**	**3,645,373**	**5,590,374**

The amount of the Company's retained profits available for distribution to shareholders as at 31 December 2017 amounted to approximately RMB3,645,373,000 (2016: RMB3,014,221,000).

Environmental, Social and Governance Report

About the Report

2017 Environmental, Social and Governance Report of Lianhua Supermarket (hereinafter referred to as the "Report") states the principle adopted by Lianhua Supermarket Holdings Co., Ltd. in 2017 in fulfilling social responsibility and the performance of the work, including the topics about sustainable development of economy, environment and society that attract attention of important stakeholders.

Reasons for Compilation

The Report is compiled based on Environmental, Social, Governance Reporting Guide by The Stock Exchange of Hong Kong Limited (hereinafter referred to as "HKEX") and by referring to Sustainability Reporting Guidelines by Global Reporting Initiative (GRI G4).

Range of Reporting

Range of Stores Involved and Data: the Report is mainly about Lianhua Supermarket Holdings Co., Ltd. and covers all segments, regional companies (listed below) and all outlets.

Range of Period: 1 January 2017 to 31 December 2017.

Duration of Publication: the Report is an annual version report.

Full Name of Companies	Abbreviation in the Report
Lianhua Supermarket Holdings Co., Ltd.	Lianhua Supermarket or the Company
Lianhua Logistics Co., Ltd.	Lianhua Logistics
Lianhua Quik Stores Co., Ltd.	Lianhua Quik
Hangzhou Lianhua Huashang Group Co., Ltd.	Lianhua Huashang
Anhui Century Mart Development Co., Ltd.	Lianhua Anhui Company
Henan Century Mart Supermarket Co., Ltd.	Lianhua Henan Company
Lianhua Supermarket (Jiangsu) Co., Ltd.	Lianhua Jiangsu Company
Guangxi Lianhua Supermarket Joint Stock Co., Ltd.	Lianhua Guangxi Company

Explanation on Data

All data and cases are collected based on the original records or financial report about the actual operation of the Company.

Reliability Assurance

The Board of the Company warrants that this report does not contain any false information, misleading statement or material omission. According to the environmental databases of Institute of Public & Environmental Affairs (IPE) and Qingyue Environment Protection（青悦環保）, there were no records of non-compliance which are related to the environmental protection of Lianhua Supermarket Holdings Co., Ltd. or its subsidiaries during the reporting period.

Table of Contents

1 Social Responsibility Management

Lianhua Supermarket Holdings Co., Ltd. (hereinafter referred to as "Lianhua Supermarket" or "the Company") commenced its business in Shanghai in 1991. It has developed into a nationwide chain retail operator with a full range of retail segments, expanding through a combination of organic growth, franchises, and mergers and acquisitions. Lianhua Supermarket was listed on The Stock Exchange of Hong Kong Limited in 2003. The Company operates in three main retail segments-hypermarkets, supermarkets and convenience stores under the brand names of "Century Mart", "Lianhua Supermarket", "Hualian Supermarket" and "LianhuaQuik", respectively. With the continuous development of the Company, Lianhua Supermarket and its subsidiaries operated a total of 3,421 outlets (excluding those operated by the Company's associated companies) spanning 17 provinces and municipalities across the nation, providing daily necessities for consumers.

1.1 Concept of Social Responsibility

Enterprise mission, vision and value

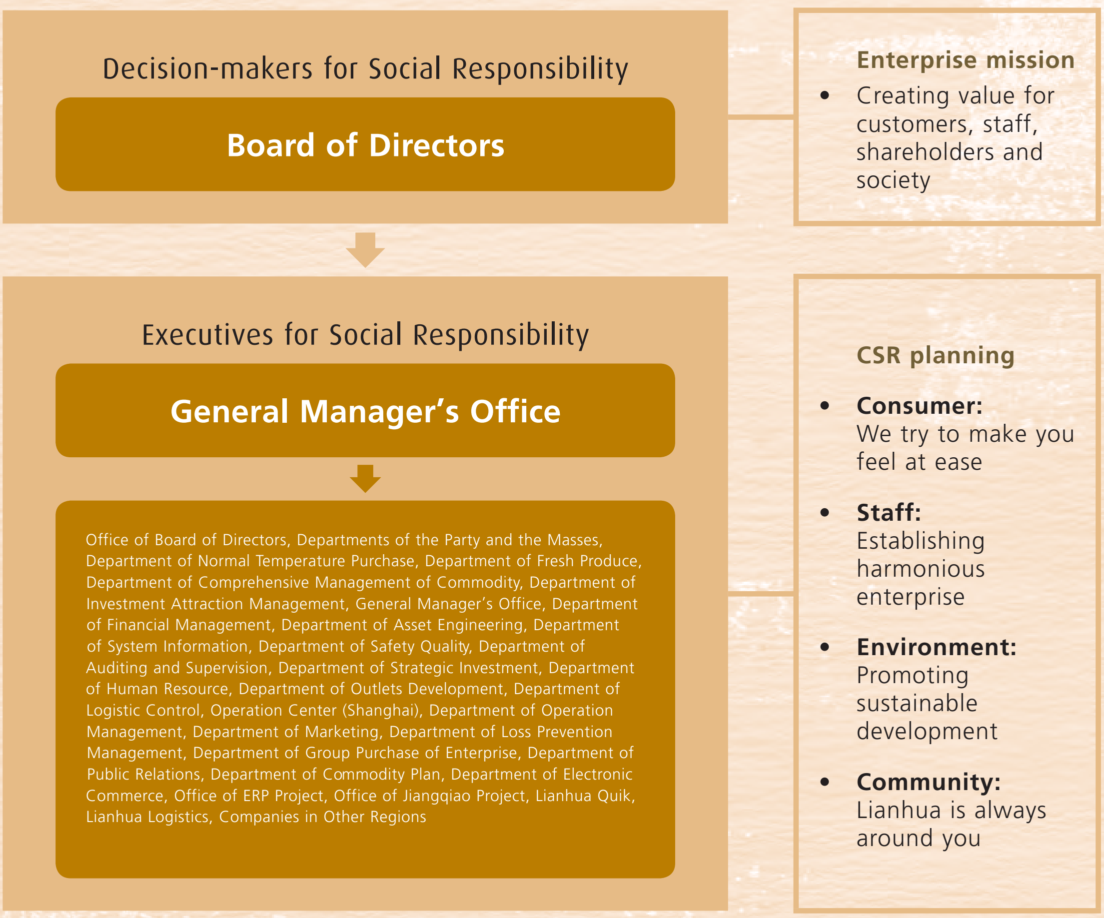
As an operator running business concerned with the people's livelihood, the Company takes into full consideration people's basic needs and pursuit of life quality through three main retail segments-hypermarkets, supermarkets and convenience stores in order to meet the diverse needs of consumers. The Company adheres to the mission "to create values for customers, staff, shareholders and society", to the business purpose "providing and benefiting people with convenience", to the manage philosophy "Lianhua is always around you, trying to make you feel at ease".It not only provides consumers with convenience while realizing development by means of responsible operation, but also creates shared values for the society.

Concept of Social Responsibility

The Company has a staff of more than 40,000 people under contract. As a company in the labor-intensive industry, we have been continuously focused on protecting rights and interests of workers and providing a working environment that is inclusive, healthy and safe. At the same time, as a leading operator of daily necessities, we regard the offering of commodities that are convenient, quality and healthy as an important approach to fulfill and realize the operational target of "providing and benefiting the people with convenience". In 2002, the Company started to operate fresh produce and has since kept providing safe fresh produce and improving health of consumers as its eternal pursuit. In addition, as an corporate citizen, the Company attaches great importance on environment protection and the joint development with community. We promote green operation in department stores and supermarkets, advocate sustainable consumption, and carry on various community volunteer services.

Social responsibility management

To perform social responsibility earnestly, one shall not stay away from the effective management of related tasks. The Company established a system for promoting social responsibility in which managers are involved and various departments coordinate in order to guarantee the implementation and advance of social responsibility tasks.



Social responsibility management framework for Lianhua Supermarket

Responsibility to Customers	• Providing commodities that is convenient, quality and healthy
Staff Responsibility	• Providing a working environment that is equal, inclusive, healthy and safe
Environmental Responsibility	• Practicing green operation and promoting sustainable development
Responsibility to Community	• Establishing disaster prevention center and convenience center in community

Social responsibility implementation emphasis on Lianhua Supermarket

1.2 Stakeholder Engagement

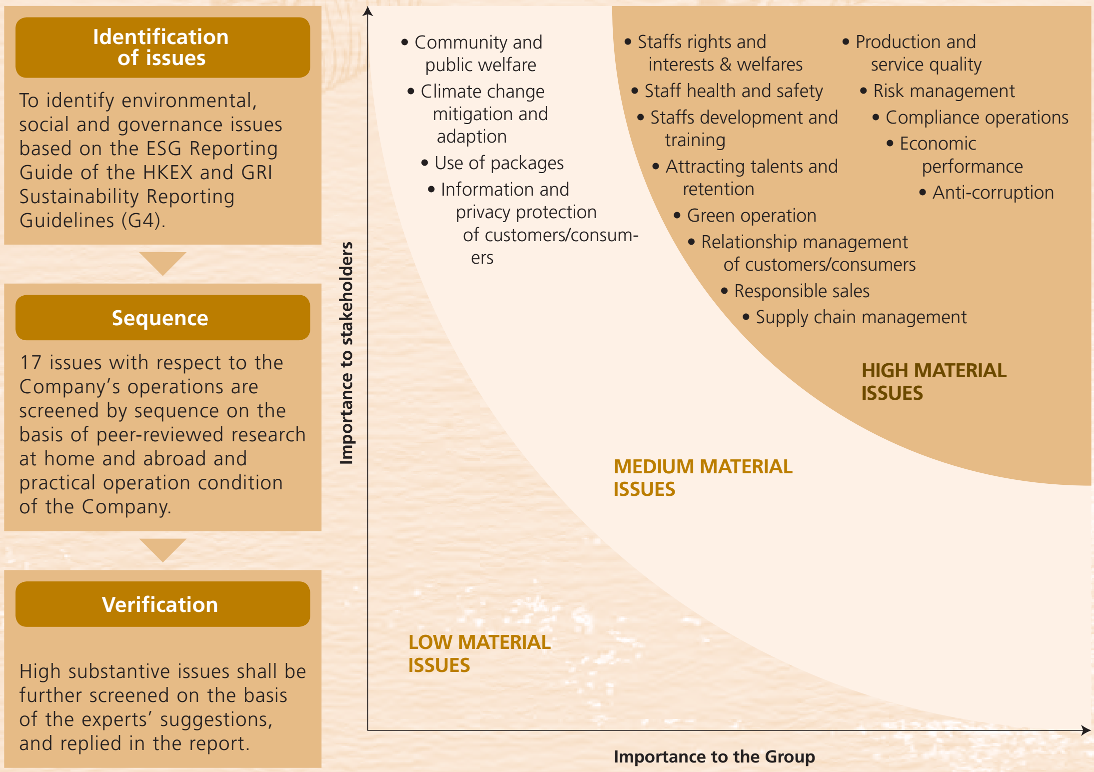
Stakeholder engagement is the key to success for the Company. In view of peer experiences and practices both at home and abroad, the Company has identified the major stakeholders and their concerns on the basis of its businesses and operation conditions, and devoted to realizing its sustainable development by means of communication, cooperation and establishing strong relationships with other parties.

Table of major stakeholders and issues of Lianhua Supermarket

Major stakeholders	Issues of stakeholders' concern	Communication and response
Shareholders	• Compliance operations • Risk management • Economic performance • Anti-corruption	• Listed companies information disclosure • Shareholders meeting • Investors conference
Customers and consumers	• Production and service quality • Responsible Sales • Relationship management of customers/consumers • Information and privacy protection of customers/consumers	• Consumer consultation& complaint platform • Customer satisfaction survey
Supplier	• Supply chain management	• Supplier audit, evaluation • Communications and visits
Government and regulators	• Compliance operations • Anti-corruption • Green operation • Use of packages • Climate change mitigation and adaption	• Policy implementation • Information disclosure
Staff	• Staff's rights and interests & welfares • Staff's health and safety • Staff's development and training • Attracting talents and retention	• Trade union and workers' conference • Staff's activities • Staff's training • Internal publications
General Public and community	• Community and public welfare • Green operation	• Social poverty alleviation activities • Community service activity

1.3 Substantive Issue Analysis

In view of the characteristics of its own business and operation, and with reference to peer experiences and practices both at home and abroad, the Company has identified relatively high substantive social responsibility issues on the basis of experts' suggestions.



Distribution matrix of material issues

2 Responsibility to Customers • We Try to Make You Feel at Ease

As an operator running business concerned with the people's livelihood, the Company's operation is closely related to the consumer's daily life. The Company has been continuously in accordance with Product Quality Law of the People's Republic of China, Food Safety Law of the People's Republic of China, Measures for the Supervision and Administration of Quality and Safety of Edible Agriculture Products Marketing, Measures for Management of Food Recall, Regulations of Shanghai Municipality on the Protection of Consumers' Rights and Interests, Regulations of Shanghai Municipality on Food Safety, and other laws and regulations. At the same time, with the continuous pursuit of a better livelihood, Lianhua Supermarket keeps improving social welfare through introducing quality and healthy produce while maintaining commodity safety.

2.1 Commodity and Service Quality Guarantee

Following the principles of quality that "People, service and quality prevail and management is upgraded", the Company stipulated Requirements about Inspections of Commodity and Examination of Suppliers of Lianhua Supermarket Holdings Co., Ltd., Procedure about Commodity Purchase Management and Procedure about Commodity Acceptance and Control and other similar systems and procedures related to management. We check commodity quality through various steps including inspections by suppliers, commodity inspections and random inspections of commodities on shelf.

Product quality management and control process

Supplier auditing

- Supplier qualification and credit review
- Site visit: aiming at such Suppliers as have the characteristics of sensitive goods, low technology, non-famous brands and private brand

Commodity auditing

- Commodity qualification review
- Physical verification: sampling package auditing, intuitive judge of food quality, commodity weight, certificate of commodity lot
- Cerificate and invoice: certificate of commodity, inspection and quarantine certificate for fresh goods, etc.

Inspection of on-shelf commodities

- To carry out spot check three times a month for 2 outlets in order to check the commodity quality, and results recorded on Table of Commodity Quality by Spot Check
- To conduct spot check of private brand and other commodities, and entrust national authorized agency for inspection

Unqualified goods disposal

- Unqualified commodities spot check by municipal Quality and Technical Supervision Bureau and Health Bureau shall be prohibited from selling, removed from the shelves, returned to the Supplier for renovation
- Commodity in question can be returned to shelves after renovation and obtaining certificate accepted by provincial or municipal Quality and Technical Supervision Bureau or Health Bureau

Implementations in 2017

- To check more than 9,900 electronic identification photos on the platform, with the an uploading rate of over 93.8%
- On-site inspection of 80 original brand manufacturers

- Inspection of 4,933 new products with qualification rate of 100%

- Third party inspection was carried out for 54 private brands and sensitive foods with the qualification rate of 100%

- 47 notices on off-the-shelves unqualified commoditie, involving 125 commodities

Supply management

As a retail enterprise, performance of the Supplier is especially important to the commodity and service quality of Company. Therefore, the Company has formulated corresponding management systems and measures to such Suppliers as they provide commodities and services directly. Department of Safety and Quality shall ask for effective licenses and certificates of all newly-introduced suppliers and commodities in accordance with the related PRC laws and regulations and the Company's regulations. Such licenses and certificates should be comprehensively examined in detail, thus ensured to be complete and effective, and be upgraded if the time limit is exceeded when renewing suppliers.

Licenses Examination – the suppliers shall submit the following effective licenses based on types and models of commodity operation, including but not limited to:

- Production Certificate, Hygienic License, License of Slaughter on Appointed Site, Certificate on Animal Epidemic Prevention, Certificate on Food Safety, Inspection Report on Non-Genetically Modified Food, Instructions about Cosmetics with Special Purpose, Compulsory Authentication Certificate 3C, Trademark License and Patent License and etc.

In 2017, the Company has imposed oversight work on the Supplier with private brand, increasing the examination frequency of important Suppliers, and unannounced inspection shall be implemented casually for low rating enterprise subject to the assessment results; and entrusted the third party review institution to assess the plant of the enterprise with private brand, including production environment, production capacity/system, people management, etc.; Enterprise with private brand is required to issue Certificate of Product Quality for each product shipment. In terms of managing the Supplier with fixed brand, the Company has undertaken examination of the Supplier in question by means of electronic manufacturing platform.

The Company has paid attention to the Supplier's bribery and criminal acts, cooperated with Procuratorate of Putuo District to jointly establish bribery and criminal archive inquiry platform, accessing Supplier's information in advance through discipline restriction mechanism and big data of procuratorate, and supplemented restraint clauses for all Sales Agreement, stipulating that the Supplier with bribery and criminal records shall be "blacklisted" so as not to access, participate in the bidding, contract projects, remain qualification of Suppliers. In 2017, the Company has not seen any bribery and criminal records in relation to 489 Suppliers.

Furthermore, in the Sales Agreement and Joint Operation Agreement signed with the suppliers, the Company clearly requests the suppliers to promise that all products supplied shall not infringe upon trademark rights, patent rights, other proprietary technologies, commercial secrets or other intellectual property rights of any third party. If the relevant certificates of trade marks or patents become invalid, expired or ceased for any kind of reason, the Company would ask the supplier to cease marking and using the registered trademarks and the patent numbers on its goods.

Discovery and treatment of quality-related problems

For unqualified commodities found by self-examination or customer's complaint, the Company has formulated Control Procedures for Unqualified Commodities, thereby stipulating the disposal method and process of unqualified commodities. The Company has supervised and monitored the product's quality and safety by means of the third party submittal for inspection, spot check and feedback, the products in question shall be removed from the shelves, recalled or returned in case of problems timely. Furthermore, when the Supplier is punished by market supervision and management department due to commodity quality and label, the Company shall cooperate with such department in question, guaranteeing effective communication between the supervision and management department and the manufacturing enterprise. In 2017, the Company discovered 97 such negative incidents, all of which recalled unqualified products at first, and actively cooperated with the regulatory authorities to handle follow-up issues. All 97 cases were effectively resolved.

Consumer communication

The Company has accepted consumer's consultation and complaint by means of telephone, network, 12315, etc., and guaranteed to give a reply against consumer's complaint within three working days, with a complaint disposal rate of 100% achieved in 2017. Moreover, the Company shall carry out customer satisfaction survey by means of questionnaire on "World Consumer Rights Day (March 15 every year)".

Protecting the consumer's personal information

As a retail enterprise not served to the designated personnel and enterprise, businesses of Lianhua Supermarket involve little consumer's personal information. The Company will collect member's information in partial member stores. The Company mainly relies on safe storage, level reading and application of information to guarantee the safety of consumer's personal information.

2.2 Safe and Healthy Food

Food safety process supervision

By following the principle of "People regard food as their prime want, and food safety is of top priority", Lianhua Supermarket commenced its fresh produce business in 2002 and has since devoted itself into facilitating customers' need of acquiring safe and healthy food and gradually established both a quality management system and a accountability mechanism covering the process from purchase, delivery to outlets, thus ensuring the quality, scientific standards and health of the food.

In 2017, the Company has revised and improved 11 rules and regulations with respect to food quality safety, and supplemented a series of quality management measures to sensitive commodities of short term and strong seasonality by means of detailing operation systems of food safety management. The Company has increased 4 compliance bases for self management, the proportion of sales for such bases is 25.2% in overall sales of the fresh foods, further improving the quality of vegetables, and guaranteeing to provide healthy and fresh vegetables. Moreover, for outdated foods, the Company has "dyed", and recorded a video to such process for future reference, avoiding outdated foods selling to consumers by monitoring the whole process in an all-around way so as to guarantee food quality safety.

Honest supermarket

In 2017, in order to further improve the quality safety level of food and edible agriculture products, make consumers buy quality-assured products, in response to the call of "honest supermarket", "demonstration supermarket with quality-assured meat and vegetables", the Company has undertaken works on "honest supermarket", carried out training of laws and regulations & practices of food safety for managers of outlets and food safety management, with 1,015 participants, and solved problems timely in preliminary review. 28 outlets now have passed municipal review of "honest supermarket", 2 outlets have been honored as "demonstration supermarket with quality-assured meat and vegetables".

Operation transparency

The Company continues to make all information related to fresh produce public and transparent, and has clearly announced more than 17 standards related to inspection and quarantine, sanitary management, measurement standards, pricing and service commitment in order to make customers feel at ease and to facilitate supervision from the government and our customers.

See-through kitchen

In 2017, the Company has installed see-through kitchens in outlets so that customers have a clear view of the food-processing pictures on the screens. Those kitchens now have been installed in 70% of outlets, the coverage is planned to be 100% in 2018.

Food Flow and Traceability Mechanism

The food flow and traceability mechanism is conducive to establishing an effective supervision over food quality from production to sales, promoting the process of making information public and transparent, and providing convenience for customers to understand food information.The Company has been actively building its food traceability system and has finished its information traceability system for meat, vegetables, red meat, grain and aquatic products. The consumers can check online the origins of produce, the manufacturing plant, production date, and information about quarantine, inspection and dealers by way of the code on product labels.

In 2017, the Company has been committed to improving traceability system of food circulation, covering all outlets in Shanghai, and the traceability information has been expanded to 9 types of foods, including infant formula milk powder. Meanwhile, the Company has undertaken special training to relative management of retail segments subsidiaries, including relevant laws and regulations of commodity traceability, and tracing query mode and method, improving practical operational level. Moreover, the Company has connected with all departments, interlock and the third party traceability platform, helping interlock solve problems of information uploading.

Food Safety Awareness

In 2017, the Company has given comprehensive and systematic preaching on new Regulations of Shanghai Municipality on Food Safety for staff, and put forward definite requirements in terms of how to do well in publicity and education for food, strengthen food safety consciousness for staff, and willingly comply with food hygiene practices, with about 100 participants.

Moreover, the Company has also publicized basic knowledge of food safety to consumers in the publicity week for food, and called up the whole society to pay attention to and participate in food safety work, creating a cooperative good environment.

Publicity week for food safety stepping into food enterprises

In 2017, the Company has undertaken the activity of "stepping into food enterprises" in "publicity week for food safety", invited about 100 representatives of community residents to visit Lianhua Logistics, explained to them about its construction and operations, and invited them to pay a visit to offline and online warehouse at normal temperature, etc., making consumers know more about online and offline commodity distributions.

3 Employee Responsibility • Establishing Harmonious Enterprise

As a labor intensive enterprise, the Company has devoted to provision of equal, tolerant, healthy and safe work environment for staff in a better way. The Company has, in accordance with Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China, Special Regulation Concerning the Labor Protection of Female Staff, Code of Occupational Disease Prevention of the People's Republic of China, Social Insurance Law of the People's Republic of China, Regulation on Work-Related Injury Insurances and other laws and regulations, safeguarded the legitimate rights and interests & occupational health and safety of all staff, improving the growth of staff. In 2017, the Company has not involved in any lawsuits or illegal events with respect to employment, occupational health and safety, child labor and forced labor, etc., or other confirmed corruption events and lawsuits concerning the Company and its staff.

3.1 Interests of and Solicitude towards Employees

Employment of Staff

The Company has a huge number of staff with diversified knowledge structures, thus the employee management of the Company is in complicated situations. The Company follows the principle of "fair competition and employment on selective basis", and established a human resources policy that is standard, legal and humanized, which covers recruitment, promotion, working hours, vacation, salary, welfare and staff training. In addition, the Company strictly follows the laws and regulations about prohibiting child and forced labor, thus hiring workers under 16 years old is banned. The rate for contract signing and the coverage rate for social insurance are both 100%.

In 2017, the Company has completed the development of ERP for the purpose of personnel information input and inquiry, salary and bonus calculation, establishment of organizational structure, etc., strengthening the timeliness and accuracy of HR data management.

Staff Employment and Rights System Overview of Lianhua Supermarket

Employment & Promotion	Working Hours & Vacation	Salary & Welfare
✓ **Principle:** openness, equal, competitive and selective ✓ **Flow:** announcement of information, resume delivery, interview, recruitment, archiving and keeping confidential of information, key internal employment shall be done based on evaluation, announcement and publication of results. ✓ **Promotion Channels:** recommendation by higher level of organization, appointment and removal by party committee's discussion and investigation, competition for posts, promotion of staff with outstanding performance through annual evaluation	✓ **Working hours:** the staff following standard working hours shall work no more than 40 hours per week; staff following comprehensive working hours shall work for no more than standard working hours per month or quarter. ✓ **Overtime:** 3 times of salary shall be given to those who works overtime in statutory festivals and holidays; shift leave shall be arranged for those who works overtime at ordinary times, otherwise, 1.5 to 2 times of salary shall be given. ✓ **Vacations:** annual leave with pay, marriage leave, bereavement leave, parental leave and sick leave shall follow national regulations. ✓ The staff donated their blood voluntarily shall be given 10 days leave with pay (including weekend).	✓ **Salary:** salary standards shall be adjusted based on the minimum salary and guideline of salary increase of various localities. ✓ **Medical health:** medical treatment of staff, mutual assistance insurance for accidents, annual physical examination ✓ **Welfare and allowance:** mutual aid insurance, subsidy for meals, transportation, working in high temperature and gift of birthday

Democratic Communication and Solicitude towards Staff

The smooth communication channels and sincere solicitude toward staff serve as an important part in building a harmonious labor-capital relationship. Irregularly forums and the suggestion box of General Manager are established to accept complaints, suggestions and ideas from staff. We also carry out events for the self-report and democratic evaluation of managers, and collect ideas and suggestions about the competency and work style of managers from our staff.

Furthermore, the Company has established such trade union as is regarded as an important organization for safeguarding staff's rights and interests, and vigorously built an equal, tolerant and harmonious work environment. All retail segments subsidiaries and regional subsidiaries have carried out diversified staff activities, greatly enriching staff's sparetime life. In terms of employee concerns, the Company has formulated Assistance Measures Taken by Lianhua Supermarket Holdings Co., Ltd. for Poor Staff, definitely showing the employee assistance contents and processes. Lianhua Supermarket has paid close attention to junior staff, poor staff and female staff, actively held a series of condolence activities such as employee medical care, living assistance, student subsidies to the employee's child, and caring activities in relation to female staff as well.

Overview of employee communication and caring activities in 2017

Democratic communication	•	Lianhua Supermarket has carried out a collection activity in relation to golden ideas of "how to make our customers become more committed to us", obtaining 46 golden ideas through screening;
	•	Trade union of Lianhua Guangxi Company has hold the third member congress and workers congress, selecting the third trade union committee, funds examination committee and female staff committee.
Staff activities	•	Lianhua Supermarket has hold a literature contest of "Interpreting of new retail, warmly welcoming the 19th National Congress of the Communist Party of China";
	•	Lianhua Anhui Company has hold an activity of "Auspicious start"1+2 Labor Competition by the Commodity Department of Lianhua Anhui Company for Valiant Struggle in 2017, and the first cashier skill contest for staff; new outlet located in Anqing has hold the first cooking contest of "good life, cooking show".
Employee caring	•	Lianhua Supermarket has paid a visit to seriously-ill, poor junior staff, sending them consolation money and festival gifts;
	•	Party Committee and trade union of Lianhua Jiangsu Company have paid a visit to poor staff in the Spring Festival, sending them consolation money;
	•	In response to the call of the trade union, Hangzhou Lianhua Huashang Group Co., Ltd. has established "green and healthy canteen", improving the dinning environment for staff; the trade union has hold a female health forum, involving 95 females in total.

3.2 Healthy & Safe Working Environment

The Company has valued health and safety to the staff, providing them with facilities, workplace and environment in conformity with the national standard. In hot seasons, the Company will take corresponding labor protection measures and organize for a visit or examination. Furthermore, the Company will organize the staff for health examination every two years, and establish health records for staff so as to find out unhealthy factors and solutions in time.

In 2017, the Company has implemented the policy of "safety first, prevention first", improved Safety Management System of Lianhua Supermarket Holdings Co., Ltd. and Emergency Plan on Disposal of Unexpected Events of Lianhua Supermarket Holdings Co., Ltd., and prepared new safety production inspection flow in accordance with responsibilities of departments. The Company has hold safety meeting periodically, deployed safe works, continuously examined department office, newly-built and expanded outlets, and continuously increased investment on safety production. Moreover, the Company has hold activities such as "119 fire safety awareness month", improving safety consciousness and emergency response capacity of staff.

Major progress of safety inspection, training and emergency drill in 2017

Lianhua Supermarket	•	It has organized 9,750 safety examinations spanning 8,059 outlets/units with the coverage rate of 100%%, checking 8,696 potential safety hazards;
	•	It has hold fire knowledge lecturers and played 575 warning films in the activity of "119 fire safety awareness month", with 16,451 participants in total;
	•	It has carried out fire drills with respect to evacuation and escape and application of fire-fighting equipment, with over 5,000 participants.
Lianhua Guanxi Company	•	It has asked each department to take charge of daily inspection such as engineering department responsible for daily tour-inspection, safety committee responsible for joint inspection of safety in an important holiday or vacation period, flood season, rainy season, finding out and renovating 333 potential safety hazards;
	•	It has organized 4 dire drills and 2 fire extinguishing drills.
Lianhua Jiangsu Company	•	It has carried out fire trainings and drills in outlets located in Wuxi City, Funing County, Haimen City, respectively.
Lianhua Huashang	•	Renovation fees of RMB446,600 have been invested in solving safety hazards;
	•	It has carried out fire trainings for 43 outlets inside and outside the city, with 74 participants in total.

3.3 Training & Professional Development

The Company has highly valued training and development of the talent, carried out staff training of rich contents including post knowledge, professional qualifications and management capacity & diversified forms such as online training, offline training, internal training and external training, and formulated employee career development plan, providing good career development platform for staff.

In 2017, the Company has further improved employee training management system, established training targets of "60, 40, 24", i.e., 60h/year for senior management, 40h/year for professional management, 16-24h/year for staff, and implemented "annual class-hour appraisal", taking the appraisal results as important basis for promotion, transfer-position and contract renewal of cadres and staff. The Company has continuously implemented On the Job Training (OJT) project, and built E-learning online training system, providing online autonomous learning platform for staff. Moreover, the Company has completed staff promotion assessment, 221 staff promoting positions or increasing wages through such assessment.

Summary of main training items in 2017

Training item	Trainee	Training contents	Implementation
Study plan of E-learning	Middle and senior management, professional management	Including courses such as leadership, management skill, teamwork	298 staff have finished training, with the class-hour completion rate of 98%
OJT project	Junior staff	Including courses such as storage of fresh foods, commodity sales	735 staff have finished training, with 58,800 class hours in total

OJT project for high-skilled personnel of Lianhua Supermarket

As a retail chain operator, Lianhua Supermarket has the characteristics of large area, extensive network distribution, high staff demission rate, etc. Therefore, the Company has formulated OJT mode to minimize training scope to stores and outlets, and carried out professional training items purposely, maximizing training effectiveness. Moreover, to guarantee the implementation effects and results transformation, realize sound development and promotion of OJT project, the Company has prepared training targets and plans, custom-made training contents in accordance with professionalization of relative positions, continuously improved stimulating mechanism, improving motivating effects of training for high skilled personnel. In recent 5 years, the Company has carried out 151 various kinds of technical trainings, with 7,642 participants, 7,080 of which have obtained occupational qualification certificates.

In 2017, the Company has put emphasis on implementation of two training items such as Commodity Sales and Fresh Foods Storage in Supermarket, 735 finishing such professional training and obtaining occupational qualification certificate with class hours of 58,800 in total. In November, 2017, OJT project of Hualian Supermarket has been awarded as "most valuable enterprise training item in Shanghai" issued by Shanghai Adult Education Association.

3.4 Anti-corruption

Honest, upright and incorrupt commercial behaviors are not only valuable personal conducts for the employee, but also the important safeguard for the Company's ecological and healthy operation. In view that the Company mainly operates in retail segments, there are possible risks in relation to corruption and commercial bribery in purchasing commodity, assets, attracting investment and business association. Therefore, the Company has prepared Management Practices on Group-buying Commodity in the Supermarket, Regulations on Leaders' Performance Wage and Business Expenses by Lianhua Supermarket Holdings, Co., Ltd., expressly stipulating management behaviors in relation to key positions such as purchasing, attracting investment and engineering, and important departments by means of signing responsibility agreement or letter of commitment, and set up a petition or reporting channel. Discipline inspection committee will judge and give investigation advices after receiving petition or reporting with respect to illegal behaviors of the Company's party member or leader.

In 2017, the Company has signed Responsibility Agreement on Party Conduct and Clean Government Construction with member firms, and has hold two anti-corruption education report with over 300 participants, further creating anti-corruption work atmosphere.

4 Responsibility to Environment • Promoting Sustainable Development

Environmental protection has important significance for the Company to fulfill its social responsibility and its business development. The Company, in accordance with the Environmental Protection Law of People's Republic of China, The Environmental Impact Assessment Law of People's Republic of China and environmental laws and regulations with respect to our businesses, has taken positive actions in a bid to reduce impact on the environment during operation, and exerted itself to drive more partners, consumers to take part in the environmental protection, facilitating sustainable development for the Company and the society.

4.1 Environment Management

The Company will identify the potential environmental impact resulting from operation. As a retail enterprise, it is free from direct emission pollutants with respect to the production process, therefore, the Company stays focused on energy saving and water resource saving & greenhouse gas emissions reduction for environmental management.

Environmental impact arising from operations

The Company has taken full consideration of the environmental impact arising from operations:for "input", the Company will use resources such as electricity, natural gas, water and packages; for "output", it will produce greenhouse gas, wastes. Moreover, when the Company selects the supplier, it is preferred for such supplier as has obtained certificates with respect to technological innovation, energy saving and environmental protection. This is the main influence of the Company on the environment and natural resources. As a retail company, other aspects have little impact on the environment and natural resources.

SUPPLIER SELECTION

It is preferred for such supplier as has obtained certificates with respect to technological innovation, energy saving and environmental protection

OUTLET OPERATION AND OFFICE

INPUT

Key performance indicators	2017
Water resources	
Total water consumption (10,000t)	315.7
Water consumption per unit business area (m^3/m^2)	1.3
Energy	
Total consumption of power (MWh)	429,438.2
Power consumption per unit business area (kWh/m^2)	177.4
Gas consumption (m^3)	90,378.2
Gas consumption per unit business area (m^3/m^2)	0.1
Packages	
Total quantity of purchased packages (t)	2,754.7

OUTPUT

Key performance indicators	2017
Greenhouse gas	
Greenhouse gas (tCO_2e)	292,925.4
GHG emissions of unit business area ($kg\ CO_2e/m^2$)	121.0
Wastes	
Total quantity of hazardous wastes (t)	21.8
Hazardous wastes output per unit business area ($t/10,000m^2$)	0.2
Total quantity of non-hazardous wastes (t)	7,017.3
Non-hazardous wastes output per unit business area ($t/10,000m^2$)	62.3

4.2 Green Operation

Saving Energy and Resources

Energies such as electricity and natural gas applied by Lianhua Supermarket are mainly used for outlets' lighting system, air-conditioning system and condensation system, creating good conditions for consumer's shopping, food preservation and refrigeration.

In 2017, the Company has set an objective of energy saving that energy consumption per unit building area decreases by 1% on a yearly basis and formulated Operational Requirements of Energy Saving, strengthened maintenance of major energy-consumption equipments used in outlets, daily energy-saving promotion and management, and taken a series of energy-saving renovation measures to gradually transform the lighting equipments, air-conditioners, cold-chain equipment, cargo lift to energy-saving products.

Water for the Company is mainly tap water supplied by municipal pipe network, and is applied for office and cleaning of outlets. The Company is committed to improving water efficiency in operation, taking water saving measures such as water conservation promotion, maintenance of water-consumption equipment, repair and renewal of damaged equipment in time, and upgradation of induction faucet. Lianhua Logistics Co., Ltd., has strengthened water resource management by means of disposal of water leakage, water dripping of the Park in time, reducing waste.

Major energy-saving projects and results in 2017

Energy-saving project	Contents and results
Cold-chain energy saving project	Intelligent cold-chain energy saving control system has been installed for 21 outlets, saving electricity of 1,915.6MWh per year by estimation, equivalent to reducing 1,347.6 t CO2e(Note1), producing economic benefits of RMB766,000.
Pump variable frequency transformation of central air-conditioner	Pump variable frequency transformation of central air-conditioner has been carried out for 3 outlets, improving energy efficiency level of air-conditioning auxiliary system, saving electricity of 156MWh per year by estimation, equivalent to reducing 109.7 t CO2e(Note2), producing economic benefits of RMB156,000.
LED lights renovation	LED lights renovation has been completed for 17 outlets by means of replacing the 45W fluorescent light tube with 22W LED light tube, saving energy of about 52.8% per year, producing economic benefits of RMB2,290,000.

Note 1, 2: Mean CO_2 emission factors for regional power grids in East China shall be 0.7035kg CO_2/kWh.

Emission Reduction

Greenhouse gas emissions are mainly from indirect emission produced by outsourcing electricity in the process of outlets' operation, massive emission of greenhouse gas will result in global climate change, the Company is aware that climate change mitigation has great significance to the enterprise itself and the whole world, so the Company has taken energy-saving actions to reduce greenhouse gas emission.

Water will not be regarded as raw material for production, waste water produced by the Company is mainly domestic sewage, and water discharge may be deemed to be equal to intake. Lianhua Logistics Co., Ltd., has provided with secondary sewage treatment tank, discharging non-domestic sewage after secondary sewage treatment.

Management of Wastes

Wastes produced by the Company are mainly non-hazardous ones such as papers used for bill printing, overdue fresh foods. In waste management, the Company has adhered to "reducing quantity", which mitigated the pressure of waste treatment and avoided secondary pollution during waste treatment on the one hand; and made the resources utilize effectively in a bid to reduce resource waste on the other hand. Fresh foods are easy to corruption with short shelf life, and those corrupted ones will increase the pressure of waste treatment on one hand, and result in unnecessary waste on the other hand. The Company will give a discount to those damaged, almost expired fresh foods such as melon and fruit, reducing resource waste by sales. In addition, waste LED lights, discarded air cabinets and guide cabinets (including electronic thermometers) are produced during the Company's operation and are recycled by product suppliers or waste treatment suppliers.

Green logistics

Green logistics is an essential part of the Company's green operation. The Company has fully replaced diesel fork lift trucks with electric fork lift trucks; employed wagons in conformity with national standard (Phase IV) instead of wagons in conformity with national standard (Phase III); applied internationally approved environment-friendly refrigerant, mitigating air pollution and greenhouse gas in the process of transport and storage.

5 Responsibility to Community • Lianhua is always with you

Lianhua Supermarket now operates a total of 3,421 outlets spanning 17 provinces and municipalities. "Lianhua is always with you" not only displays the Company's manage philosophy, but also shows the concept of community service. In the process of expanding market, the Company always remembers to pay back the society, actively engages in public welfare activities, seeking joint development with the community.

Social Poverty Alleviation

Social poverty alleviation is an important task for the Company to fulfill its social responsibility. On the one hand, as a retail enterprise, the Company has purchased characteristic agriculture products of poverty farmers by taking full advantages of itself, and increased the agriculture products sales, creating economic incomes; on the other hand, it has helped poor people by means of charitable contribution.

Overview of social poverty alleviation in 2017

Lianhua Anhui Company	•	It has helped poor melon farmers distribute watermelons.
	•	Outlet, located in Changjiang Road, Caohu City, has sent donations such as rice, oil, and festal gifts to poor households in Dragon Boat Festival.
Lianhua Guangxi Company	•	It has undertaken poverty alleviation activities in Longtuan Village, Liyong Town, Liujiang District, Liuzhou City, and helped about 150 poor households with consolidation supplies of RMB30,000.
Lianhua Henan Company	•	It has purchased characteristic agriculture products in the mountainous areas around Zhengzhou for sale, and helped farmers out of poverty.
Lianhua Huashang	•	It has participated donation and charity activities on "spring action" in Hangzhou for 17 years, with a donation of RMB100,000 in 2017.
	•	It has donated about RMB200,000 to poor students and Bayilu Kindergarten of Delingha City, Qinghai Province.

Community service

In order to serve the community in a better way, Lianhua Supermarket has established an employee volunteer team. In recent years, the Company has increased investment in volunteer services so that the volunteers and service time increased substantially, and endeavored to be a good neighbor and helper for community residents while establishing a quality-assured brand.

Love relay station of sanitation workers

It is difficult for sanitation workers to drink hot water, eat hot food or keep out wind and rain as a result of the specialty of outdoor work, only except sitting down along the road or street to have a rest. Therefore, the Company has formally established "Love relay stations for sanitation workers" among 822 outlets located in Shanghai in a bid to provide rest rooms and hot water to sanitation workers for free. In addition, the sanitation workers can also use the in-store microwave oven, or refrigerators for storing their lunch and dinner, giving dense warmness to sanitation workers as well as Shanghai.

Overview of community services in 2017

Lianhua Anhui Company	• It has conducted "benefits to people in community" activity, and sold commodities in the community for the convenience of the residents. • It has sent regards to firefighters in Army Day with the annual consolation money of RMB2, 000. • Outlet, located in Changjiang Road, Caohu City, organized volunteers to do some cleaning in Youth Day, sending volunteer service to every household.
Lianhua Henan Company	• It has conducted public welfare activities of "Lianhua Supermarket sending warmness, making the Winter Solstice warm", such as provision of dumplings to the nearby neighbors and sanitation workers for free.
Lianhua Jiangsu Company	• Outlet in Jingjiang City has adhered to conducting unpaid blood donation activity for staff since 2012, and co-established "love mobile blood bank" with Jingjiang Blood Bank in 2014; a total of 417 staff have participated the unpaid blood donation activity with accumulated blood volume of over 128,100m in 6 years.
Lianhua Huashang	• It has participated in the benefits to people in community activity held by Hangzhou Commence & Tourism Group Co., Ltd., and sold commodities in the community for the convenience of the residents. • It has conducted condolence activities for all kinds of welfare agencies such as school for children of migrant workers, Children Welfare Office in the Children's Day.

6 Data

Environment

Performance indicator[1]	Unit	2015	2016	2017
Emissions				
GHG emissions[2]	t CO_2e	58,871.3	55,635.2	**292,925.4**
GHG emissions per unit business area	kg CO_2e/m^2	294	289	**121.0**
Total quantity of hazardous wastes	t	/	/	**21.8**
Hazardous wastes output per unit business area	t/10,000m^2	/	/	**0.2**
Total quantity of non-hazardous wastes	t	/	/	**7,017.3**
Non-hazardous wastes output per unit business area	t/10,000m^2	/	/	**62.3**
Use of Resources				
Total consumption of power	MWh	72,573.1	68,583.9	**429,438.2**
Power consumption of unit business area	kWh/m^2	362.8	355.3	**177.4**
Total gas consumption	m^3	/	/	**90,378.2**
Gas consumption of unit business area	m^3/m^2	/	/	**0.1**
Total water consumption	10,000t	25.5	22.7	**315.7**
Water consumption of unit business area	t/m^2	1.3	1.2	**1.3**
Total quantity of purchased packages[3]	t	/	/	**2,754.7**

Note:

1. Environmental data in 2015 and 2016 covered Lianhua Supermarket and its directly-operated outlets; data with respect to the gas consumption in 2017 excluded Lianhua Quik and Lianhua Huashang; data in relation to hazardous, non-hazardous wastes excluded Lianhua Quik, Lianhua Huashang, Lianhua Henan Company and Lianhua Jiangsu Company; packages data excluded Lianhua Quik.
2. Greenhouse gas emissions mainly result from indirect emission produced by outsourcing electricity, and they can be estimated by referring to emission factors for regional power grid.
3. Package types include shopping bags, fresh trays, etc.

Employment and labor practice

Performance indicators	Unit	2015	2016	2017
Employment				
Total staff	Person	47,623	44,033	**40,766**
Males	Person	14,404	13,540	**12,583**
Females	Person	33,219	30,493	**28,183**
Labor contract staff	Person	36,624	35,413	**33,291**
Labor dispatch staff	Person	4,180	3,372	**3,342**
Staff in other ways of employment[1]	Person	6,819	5,248	**4,133**
Under 30 years old	Person	7,902	7,269	**7,050**
30-50 years old	Person	30,531	30,055	**27,952**
Over 50 years old	Person	9,190	6,709	**5,764**
Number of staff from mainland	Person	47,622	44,032	**40,765**
Number of staff from Hong Kong, Macao and Taiwan & overseas	Person	1	1	**1**
Employee turnover rate	%	23.27	16.48	**27.26**
Male employees turnover rate	%	20.69	14.18	**26.88**
Female employees turnover rate	%	24.69	17.64	**27.44**
Under 30 years old employees turnover rate	%	38.41	26.48	**35.67**
30-50 years old employees turnover rate	%	21.54	15.24	**23.92**
Over 50 years old employees turnover rate	%	12.59	8.10	**35.46**
Turnover rate of staff from mainland	%	23.27	16.48	**27.26**
Turnover rate of staff from Hong Kong, Macao and Taiwan & overseas	%	0	0	**0**
Health and safety				
Number of work-related fatalities	Person	0	1	**0**
Lost days due to work injury	Day	22,009	20,995	**20,889**
Coverage rate of employee physical examination	%	68.93	73.00	**74.62**
Number of trainings with respect to safety	Time	1,030	1,061	**1,895**
Number of participants	Person time	60,533	58,168	**56,122**
Development and training				
Percentage of employees trained	%	75.63	71.63	**71.46**
Male	%	74.29	74.90	**79.00**
Female	%	80.92	66.56	**68.00**
Junior management	%	81.55	78.76	**70.00**
Middle management	%	57.34	62.29	**92.80**
Senior management	%	43.50	51.90	**98.60**
Average training hours completed per employees	h	17.87	13.98	**12.05**
Male	h	17.69	16.78	**10.30**
Female	h	18.27	12.92	**12.97**
Junior management	h	18.16	16.58	**11.21**
Middle management	h	9.22	11.23	**21.63**
Senior management	h	7.30	11.80	**42.10**

Note:

1. Staff in other way of employment includes hourly workers, people re-employed after retirement, outsourcing staff, outsourced staff, people who agree to retain the social insurance relations, apprentices and laid-off workers.

Product responsibility

Performance indicators[1]	Unit	2015	2016	2017
Percentage of total products sold or shipped subject to recalls for safety and health reasons	%	0.002	0.007	**0.002**
Number of products and service related complaints received	Piece	1,361	1,169	**3,445**
Complaint treatment rate with respect to products and services	%	100	100	**100**

Note:

1. Data with respect to product responsibility in 2015 and 2016 covered Lianhua Supermarket and its directly-operated outlets.

Supply chain management

Performance indicators	Unit	2015	2016	2017
Number of Suppliers	/	2,821	2,578	**2,176**
Number of Suppliers from mainland	/	2,819	2,576	**2,174**
Number of Suppliers from Hong Kong, Macao and Taiwan & overseas	/	2	2	**2**

Anti-corruption

Performance indicators[1]	Unit	2015	2016	2017
Number of anti-corruption trainings	Time	2	5	**36**
Participants involving in anti-corruption trainings	Person time	840	1,050	**2,510**
Number of concluded legal cases regarding corrupt practices brought against the Company or its employees	Case	/	/	**0**

Note:

1. Anti-corruption data in 2015 and 2016 covered Lianhua Supermarket and its directly-operated outlets.

Community investment

Performance indicators	Unit	2015	2016	2017
Number of volunteers	Person time	321	556	**807**
Number of volunteer services hours	h	513	1,797	**10,241**
Public welfare and community investment amount[1]	RMB10,000	28.76	16.99	**41.46**

Note:

1. Public welfare and community investment amount refers to the Company's charitable donations.

7 Index of ESG Reporting Guide by HKEX

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
	Major Area A. Environmental	
	Aspect A1: Emissions	
General Disclosure A1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	Environment Management
KPI A1.1	The types of emissions and respective emissions data	Environment Management Green Operation Data
KPI A1.2	Greenhouse gas emissions in total (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Environment Management Data
KPI A1.3	Total hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Environment Management Data
KPI A1.4	Total non-hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Environment Management Data
KPI A1.5	Description of measures to mitigate emissions and results achieved	Green Operation
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Green Operation

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
	Aspect A2: Use of Resources	
General Disclosure A2	Policies on the efficient use of resources, including energy, water and other raw materials	Green Operation
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume, per facility)	Environment Management Data
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	Environment Management Data
KPI A2.3	Description of energy use efficiency initiatives and results achieved	Green Operation
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Green Operation
KPI A2.5	Total packaging material used for finished products (in tons) and, if applicable, with reference to per unit produced	Environment Management Data
	Aspect A3: The Environment and Natural Resources	
General Disclosure A3	Policies on minimizing the issuer's significant impact on the environment and natural resources	Environment Management Green Operation
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Environment Management Green Operation

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
	Major Area B. Social Employment and Labour Practices	
	Aspect B1: Employment	
General Disclosure B1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Interests of and Solicitude towards Employees
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Data
KPI B1.2	Employee turnover rate by gender, age group and geographical region	Data
	Aspect B2: Health and Safety	
General Disclosure B2	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	Healthy & Safe Working Environment
KPI B2.1	Number and rate of work-related fatalities	Data
KPI B2.2	Lost days due to work injury	Data
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Healthy & Safe Working Environment

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
	Aspect B3: Development and Training	
General Disclosure B3	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Training & Professional Development
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management and middle management)	Data
KPI B3.2	The average training hours completed per employee by gender and employee category	Data
	Aspect B4: Labor Standards	
General Disclosure B4	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	Interests of and Solicitude towards Employees
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Interests of and Solicitude towards Employees
KPI B4.2	Description of steps taken to eliminate such practices when discovered	No violations
	Major Area B. Social Operating Practices **Aspect B5: Supply Chain Management**	
General Disclosure B5	Policies on managing environmental and social risks of the supply chain	Commodity and Service Quality Guarantee
KPI B5.1	Number of suppliers by geographical region	Data
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Commodity and Service Quality Guarantee

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
	Aspect B6: Product Responsibility	
General Disclosure B6	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	Commodity and Service Quality Guarantee Safe and Healthy Food
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Data
KPI B6.2	Number of products and service related complaints received and how they are dealt with	Commodity and Service Quality Guarantee Data
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Commodity and Service Quality Guarantee
KPI B6.4	Description of quality assurance process and recall procedures	Commodity and Service Quality Guarantee Safe and Healthy Food
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Commodity and Service Quality Guarantee
	Aspect B7: Anti-corruption	
General Disclosure B7	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Data
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Anti-corruption

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
	Aspect B8: Community Investment	
General Disclosure B8	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	Responsibility to Community
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	Social Poverty Alleviation Community service
KPI B8.2	Resources contributed (e.g. money or time) to the focus area	Responsibility to Community Data

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