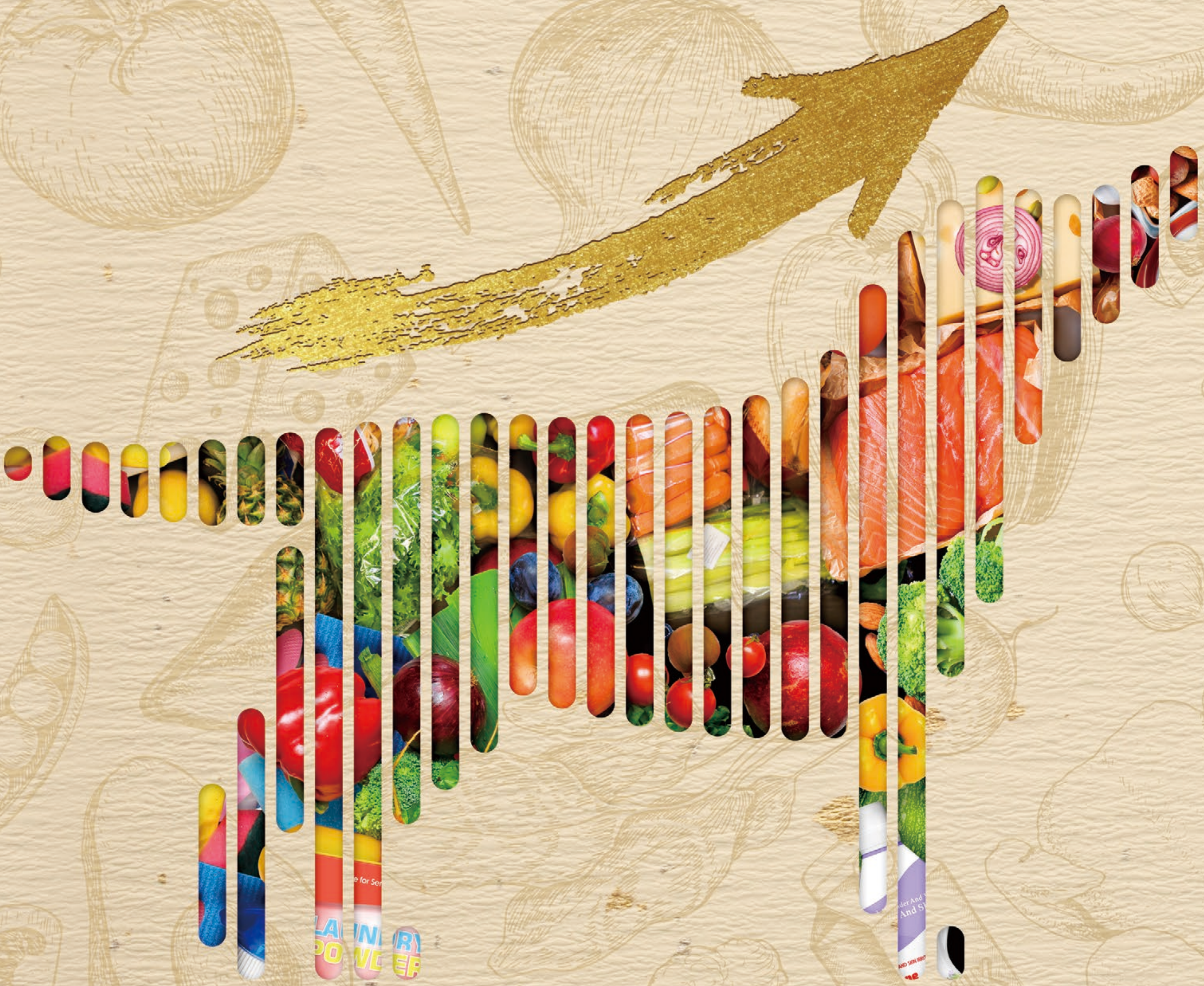
联华超市股份有限公司
LIANHUA SUPERMARKET HOLDINGS CO., LTD.



Interim Report 2018

Stock Code: 0980

Contents

Corporate Information

Directors

Executive Director

Mr. Xu Tao

Non-Executive Directors

Mr. Ye Yong-ming *(Chairman)*
Ms. Xu Zi-ying *(Vice Chairman)*
Mr. Xu Hong
Mr. Dong Zheng (Resigned on 28 August 2018)
Mr. Qian Jian-qiang
Ms. Zheng Xiao-yun
Mr. Wong Tak Hung

Independent Non-Executive Directors

Mr. Xia Da-wei
Mr. Lee Kwok Ming, Don
Ms. Sheng Yan (Resigned on 28 March 2018)
Mr. Chen Wei
Mr. Zhang Jun

Board Committees

Audit Committee

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

Remuneration and Appraisal Committee

Mr. Xia Da-wei *(Chairman)*
Ms. Xu Zi-ying
Ms. Sheng Yan (Resigned on 28 March 2018)
Mr. Chen Wei
Mr. Zhang Jun

Strategic Committee

Mr. Ye Yong-ming *(Chairman)*
Ms. Xu Zi-ying
Mr. Xu Hong
Mr. Dong Zheng (Resigned on 28 August 2018)
Mr. Xu Tao
Mr. Qian Jian-qiang

Nomination Committee

Mr. Ye Yong-ming *(Chairman)*
Ms. Sheng Yan (Resigned on 28 March 2018)
Mr. Chen Wei
Mr. Xia Da-wei
Mr. Zhang Jun

Supervisors

Mr. Yang A-guo *(Chairman)*
Ms. Tao Qing
Mr. Shi Hao-gang

Company Secretary

Ms. Hu Li-ping

Authorized Representatives

Mr. Xu Tao
Ms. Hu Li-ping

International Auditor

Deloitte Touche Tohmatsu

Legal Advisors to the Company

As to Hong Kong Laws
Eversheds Sutherland (Resigned on 26 January 2018)
Baker & McKenzie

As to People's Republic of China ("PRC") Laws
Grandall Law Firm (Shanghai)

Investors and Media Relations Consultant

Christensen China Limited

Principal Bankers

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

Registered and Business Offices

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

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

Shareholders' 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
("Stock Exchange" or "SEHK")

Listing Date

27 June 2003

SEHK Stock Code

980

Number of H Shares Issued

372,600,000 H shares

Financial Year-end Date

31 December

Management Discussion and Analysis

Operating Environment

Based on the data from the National Bureau of Statistics of the PRC, in the first half of 2018, China's gross domestic product (GDP) achieved a year-on-year growth of 6.8%, representing a decrease of 0.1 percentage point in growth rate compared with the same period of last year. The growth rate in the second quarter was 6.7%, representing a decrease of 0.1 percentage point in growth rate compared with the first quarter. In the first half of 2018, in the face of the complicated domestic and international situation, the Chinese government, upholding the general mandate of seeking improvements and maintaining stabilization with a focus on supply-side structural reform following the requirements on high quality development, forged ahead with determination and solidly carried out work. The transformation and upgrading achieved outstanding results, resulting in continuous improvements in quality and efficiency, and the economic operation maintained a steady and positive trend.

Based on the data from the National Bureau of Statistics of the PRC, in the first half of 2018, total retail sales of consumer goods nationwide had a nominal year-on-year growth of 9.4%, representing a decrease of 1.0 percentage point in growth rate 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 7.5%, representing a decrease of 1.2 percentage points in growth rate compared to the same period of last year.

Based on the data from the National Bureau of Statistics of the PRC, in the first half of 2018, the national disposable income per capita had an actual growth of 6.6%, representing a year-on-year decrease of 0.7 percentage point in growth rate. The national consumption expenditure per capita had an actual increase of 6.7%, representing an increase of 0.6 percentage point in growth rate compared to the same period of last year. Driven by factors including rising per capita income, improvements to the social security system, and changes in the age structure of the population, China's consumption rate has shown a trend of recovery. In the first half of 2018, the contribution rate of final consumption expenditure to economic growth was 78.5%, representing an increase of 14.2 percentage points compared to the same period of last year.

In the first half of 2018, China's retail industry sales grew steadily, which led to improved operating efficiency. With the acceleration of innovation and transformation and further deepening of integration of diversified industries, new segments and new scenes continued to emerge and the growth rate of physical segments including convenience stores, supermarkets, and department stores accelerated, and the proportion of online retail continuously increased. According to the data released by the Ministry of Commerce of the PRC, in the first half of 2018, retail sales of 5,000 key enterprises monitored by the Ministry of Commerce increased by 4.6% year-on-year, 0.2 percentage point higher in growth rate than that of the same period of last year. In particular, the sales of convenience stores, supermarkets and department stores increased by 7.6%, 4.5% and 1.6% year-on-year in the first half of the year, respectively, and the growth rate increased by 0.4, 0.6 and 0.3 percentage point, respectively.

In the first half of 2018, Chinese retail companies, including the Group, vigorously developed quality retail, cross-industry retail, smart retail and green retail and focused on improving supply quality and efficiency so as to cater to the trend of consumption upgrading.

Financial Review

Turnover and Consolidated Income

During the period under review, the Group's turnover amounted to RMB13,079 million, decreased by approximately RMB159 million when compared with the same period of last year, representing a decrease of 1.2% year over year, and same store sales increased by approximately 1.20%, mainly due to the fact that, as a response to the changes in market environment, the Group has been adjusting the layout of stores since 2017, and closed certain stores that were incurring significant losses in order to improve the profitability of the overall physical stores, resulting in a decrease of 170 stores or 4.7% compared to the same period of last year.

During the period under review, as a result of the year-on-year decrease of turnover, the Group's gross profit amounted to approximately RMB1,886 million, representing a decrease of approximately 6.0% year over year, and the gross profit margin decreased by approximately 0.73 percentage point year on year.

During the period under review, the consolidated income of the Group was approximately RMB3,246 million, representing a decrease of 3.0% year over year, mainly attributable to (1) a decrease in commodity revenue as a result of the decrease in gross profit margin of commodities; (2) a decrease in revenue from merchants solicitation caused by the closure of stores.

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

Operating Cost and Net Profit

During the period under review, the total distribution costs and administrative expenses of the Group amounted to approximately RMB2,994,848 thousand, decreased by approximately 3.7% or RMB116,590 thousand year on year. The decrease was mainly attributable to: (1) a decrease in rental expenses of approximately RMB38,244 thousand and a decrease in water and electricity charges of approximately RMB20,080 thousand as a result of the closure of some stores with losses through rational adjustments of store layouts; and (2) a decrease in labour costs of approximately RMB67,869 thousand due to adjustment to the personnel structure and a decrease in the total number of personnel.

During the period under review, the Group recorded an operating profit of approximately RMB212,972 thousand, with a year-on-year increase of approximately 29.4%, and an operating profit margin of 1.63%, representing an increase of 0.39 percentage point over the same period of last year of 1.24%.

During the period under review, the revenue of associated companies attributable to the Group was RMB26,769 thousand, with a year-on-year increase of approximately 35.3%. As of 30 June 2018, Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") recorded an operating profit of approximately RMB45,850 thousand, with a year-on-year increase of 84.1%, and had a total of 30 outlets. During the period under review, the Group recognized the return on investment of Bailian E-commerce Co., Ltd ("Bailian E-commerce"), which was about RMB11,207 thousand.

During the period under review, the tax expenses of the Group were approximately RMB112 million, basically the same when compared year over year. The Group proactively responded to the impact of the latest taxation policy on enterprise and paid close attention to the government's financial support policy mainly through seeking to obtain preferential policies from various local governments in order to further lower the tax rate of the Group.

During the period under review, the Group recorded a net profit of approximately RMB128,170 thousand, representing an increase of approximately 67.6% year over year. During the period under review, the Group focused on exploration of new retail, deepening the integration of omni-channel sales models, improving shopping convenience, enhancing online sales capabilities and increasing the size of same store sales. The Group sorted the categories of commodities supplied, proactively created a differentiated supply chain to integrate the Group's resources, improved the service awareness to suppliers, and strengthened the ability of negotiation with suppliers, so as to increase service income. In addition, the optimization of source procurement network for fresh produce and development of self-operated fresh produce bases provided powerful support for the expansion of fresh food category in stores. During the period under review, the Group further optimised its stores and implemented cost reduction and efficiency enhancement policy, resulting in obvious effects in cost control. During the period under review, the Group's net profit attributable to the shareholders amounted to approximately RMB39,370 thousand and the net profit margin attributable to the shareholders was approximately 0.30%. Based on the 1,119.6 million shares issued by the Group, the basic earnings per share was approximately RMB0.035.

Cash Flow

During the period under review, the net cash outflow of the Group was RMB1,322,034 thousand. It was mainly due to the effects of term deposit and increase in purchase of financial assets measured by fair value and the changes of which were recorded into profit or loss. Cash and various balance at bank as of the end of the period was RMB4,686,473 thousand, representing a decrease of RMB972 million compared with the beginning of the year. The decline was mainly due to decrease in debt certificates and increase in purchase of financial assets measured by fair value and the changes of which were recorded into profit or loss.

As of 30 June 2018, the accounts payable turnover period of the Group was 63 days and the inventory turnover period was approximately 38 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 30 June 2018, there were no arbitrage financial instruments in issue by the Group.

Retail Businesses Operations

Hypermarkets

During the period under review, the hypermarket segment of the Group recorded a turnover of approximately RMB7,837,668 thousand, accounting for approximately 59.9% of the Group's turnover, representing a decrease of approximately 4.3% year over year. Same store sales had a year-on-year increase of approximately 0.19%. During the period under review, the hypermarket segment optimised resource allocation, implemented differentiated transformation, streamlined the commodity mix, and adjusted category connectivity. The hypermarket segment recorded a gross profit of approximately RMB1,124,811 thousand. The gross profit margin decreased by 0.21 percentage point year over year to 14.35%. The consolidated income was approximately RMB2,020,928 thousand, representing a year-on-year decrease of approximately RMB49,210 thousand. The consolidated income margin increased by 0.49 percentage point year-on-year to approximately 25.78%. During the period under review, the hypermarket segment recorded an operating profit of approximately RMB235,847 thousand, representing a year-on-year increase of approximately RMB123,503 thousand. The operating profit margin increased by 1.64 percentage points year over year to 3.01%. This was mainly due to: (1) optimization of stores and closure of certain stores incurring significant losses; (2) adjustment to the personnel structure and reduction of the total number of personnel; and (3) thorough transformation of stores in Shanghai, resulting in a year-on-year increase in income from merchants solicitation by approximately RMB15,875 thousand. During the period under review, the distribution costs and administrative expenses of the segment decreased by approximately RMB139,761 thousand, of which the labour costs decreased by approximately RMB73,080 thousand year on year.

	As of 30 June	
	2018	2017
Gross Profit Margin (%)	**14.35**	14.56
Consolidated Income Margin (%)	**25.78**	25.29
Operating Profit Margin (%)	**3.01**	1.37

	As of 30 June	
	2018	2017
Gross Profit Margin (%)	**13.83**	15.95
Consolidated Income Margin (%)	**22.30**	24.66
Operating Profit Margin (%)	**2.45**	3.40

Supermarkets

During the period under review, the turnover of the Group's supermarket segment reached approximately RMB4,256,477 thousand with a year-on-year increase of approximately 4.8%, accounting for approximately 32.5% of the Group's turnover. Same store sales increased by approximately 3.92% year over year. The gross profit of the supermarket segment was approximately RMB588,484 thousand, with a year-on-year decrease of approximately 9.2%. The gross profit margin was 13.83%, with a year-on-year decrease of 2.12 percentage points. During the period under review, the supermarket segment focused on space planning for categories, increased the proportion of sales of fresh produce, developed community-based stores, and improved customer stickiness through more favourable prices. The consolidated income margin of the supermarket segment was 22.30%, with a year-on-year decrease of 2.36 percentage points. The operating profit of the supermarket segment was approximately RMB104,424 thousand. The operating profit margin was 2.45%. Strategic plans for the supermarket segment were to: (1) continue to promote the transformation of stores and the upgrading of commodity categories, and create a new fresh produce supermarket model; (2) improve the quality of franchise business and promote the growth of consolidated income from franchise business; and (3) explore in-depth online and offline integration to accelerate the creation of mobile shopping scenarios and enhance the shopping experience of convenience.

Convenience Stores

During the period under review, the turnover of the Group's convenience store segment recorded a year-on-year decrease of approximately 0.7% to approximately RMB939,601 thousand, which accounted for approximately 7.2% of the Group's turnover. Same store sales had a year-on-year decrease of approximately 1.96%. During the period under review, the convenience store segment mainly focused on the adjustment of the store structure and optimization of products, speeding up the introduction of new and hot-sale products and exploring innovative marketing model, which resulted in a significant growth of gross profit. The convenience store segment recorded a gross profit of approximately RMB165,480 thousand, with a year-on-year increase of approximately RMB5,351 thousand. The gross profit margin increased by 0.68 percentage point year over year to 17.61%. The consolidated income margin increased by 0.06 percentage point year over year to 23.41%. During the period under review, the distribution costs and administrative expenses of the convenience store segment increased by approximately RMB5,973 thousand year over year, mainly due to the continued increase in rental costs which increased by approximately RMB6,188 thousand year over year. During the period under review, the convenience store segment recorded an operating loss of approximately RMB70,383 thousand.

	As of 30 June	
	2018	2017
Gross Profit Margin (%)	**17.61**	16.93
Consolidated Income Margin (%)	**23.41**	23.35
Operating Profit Margin (%)	**–7.49**	–6.71

Analysis of Financial Performance

	For the six months ended 30 June RMB million		
	2018	2017	Year-on-year changes (%)
Turnover	**13,079**	13,238	–1.2
Gross profit	**1,886**	2,006	–6.0
Consolidated income	**3,246**	3,347	–3.0
Operating profit	**213**	165	29.4
Taxation	**112**	108	3.7
Profit for the period attributable to shareholders of the Company	**39**	–5	916.8
Basic earnings per share (RMB)	**0.035**	–0.004	916.8
Interim dividend per share (RMB)	**Not distributed**	Not distributed	N/A

Details of the Group's Pledged Assets

As of 30 June 2018, the Group did not have any pledged assets.

Exposure to Foreign Exchange Risks

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

Share Capital

As of 30 June 2018, 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 of 30 June 2018, the Group did not have any material contingent liabilities.

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. In the first half of 2018, the Group opened 108 new stores, 23 of which were new directly-operated stores and 85 were new franchised stores. Among the new stores, 70 stores were located in the Yangtze River Delta, accounting for 64.81% of the new stores. On the other hand, the Group adapted to the changes in market environment and reorganized the stores that were experiencing substantial losses to improve the overall quality of the physical stores. As a result, 104 stores were closed, including 39 directly-operated stores and 65 franchised stores.

During the period under review, the hypermarket segment improved the operational quality and economic benefits by means of making adjustments and transformation, rationally allocating resources and sorting out stores with comparatively bigger losses. During the period under review, two new hypermarkets were opened, of which one was located in Hangzhou, Zhejiang Province and the other in

Quzhou, Zhejiang Province, respectively. Three stores were closed. The total number of stores recorded a net decrease of one.

During the period under review, the supermarket segment focused on sustainable development. The directly-operated business primarily focused on transformation and upgrading, while the franchise business primarily focused on steady enhancement. In the first half of 2018, 71 new supermarkets were opened, including eight directly-operated stores and 63 franchised stores and 34 supermarkets were closed, including nine directly-operated stores and 25 franchised stores. The total number of stores recorded a net increase of 37.

During the period under review, the convenience store segment mainly focused on the adjustment of outlet structure and optimisation of commodity structure, accelerated introduction of new products and adopted innovative marketing model. In the first half of 2018, 35 new convenience stores were opened, including 13 directly-operated stores and 22 franchised stores. The total number of stores recorded a net decrease of 32.

As of 30 June 2018, the Group had 3,425 stores in total, representing a net increase of four stores compared to the end of 2017, the first net increase in the number of stores since 2011. Approximately 81.31% of the Group's stores are located in eastern China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	144	555	795	1,494
Franchise operation	–	1,304	627	1,931
Total	144	1,859	1,422	3,425

Note: The data mentioned above were as of 30 June 2018.

Construction of a Supply Chain with Differentiated Categories

During the period under review, the Group focused on building a differentiated supply chain. By expanding direct purchase from the agricultural product bases, the Group conducted strategic cooperation and established production and marketing relationship with a number of agricultural product planting and processing enterprises. The Group implemented the "boosting agriculture through purchase and marketing" program for unmarketable agricultural products and established a national layout of sources featured by "local supply at the sources". The Group intensified overseas direct purchase of fruits, meat and aquatic products to expand supply chain channels. While consolidating fresh food bases and creating compliant self-operated bases, the Group continuously sought for high-quality sources in core production areas as direct purchase bases and set parameters of quality indicators including quality, taste and sugar degree, and safety degree, striving to incubate the private-label fruit brand of "Lianhua Tiantian".

During the period under review, the Group focused on promoting category upgrading. In respect of fresh produce, major efforts were exerted to promote cooperation with suppliers including central factory of baking and central factory of cooked food, speed up the research and development, production and marketing of new products, and enrich the research and development capabilities and product structure of fresh processed products, to gradually form special and advantageous categories of fresh produce. For normal temperature categories, the Group quickly introduced the hot-selling online popular commodities, completed the category innovation plan, developed national famous premium brands, and reconstructed the important brand supply chain. Simultaneously, the Group proactively explored the segment/store combination solution. The hypermarket segment combined with the determined eight themed scenes of normal temperature categories and the highlight of on-spot cooking introduced for fresh produce category, streamlined the commodity structure, and adjusted the category connection, reduced the display space of low area-effectiveness and expanded the space for key development categories. For the supermarket segment, based on the identified store type and performance, the Group launched space planning for a total of eight types of categories for three types of stores, i.e. community selective store, community fresh produce store and community convenience store.

During the period under review, the Group vigorously strengthened nationwide suppliers management and optimisation of gross profit, increased the scale of joint procurement and deeply integrated the supply chain throughout regions and segments. Through implementation of the JBP (Joint Business Plan) with key suppliers, the Group promoted the discussion on cooperation strategy and innovative business model among retailers and suppliers. In terms of private label brand, the Group rationally planned brand development, introduced differentiated quality categories, and strengthened private label brand promotions, to increase the sales amount and proportion of private label brands. As to imported brand, the channels for imported commodities were expanded to increase the proportion of direct purchase of imported commodities and enhance the marketing capacity of imported commodities.

Excellent Implementation to Improve Operational Capability

During the period under review, the Group focused on excellent implementation to enhance the capability of the operation team. The establishment of operational standards and deepened implementation thereof facilitated the promotion of operational standard models and strengthened the display specifications of products in fresh produce areas and stacking products. The Group formulated the evening management standards and product display requirements, emphasized various safety and security work and warehouse and backyard management requirements as well as classified storage management and identification specifications of commodities, and implemented special execution requirements. The customer service manual which stressed functional requirements of service points was formulated to standardize the specifications on the appearance of stores. Centring on realisation of "making our customers become more committed to us", the Group formulated the annual service promotion plan and promoted the comprehensive assessment and appraisal of the five-star stores to enhance the overall service level and reputation of the Group's stores.

During the period under review, the Group focused on the annual marketing plan to ensure seamless connection of activities throughout the year. The Group strengthened the integration of marketing resources by unifying the theme, time period and pre-set goals of activities, and specially planned integrated marketing activities including the CNY Good Start, the anniversary of Lianhua, and the mid-year promotion in June. Focusing on innovation of marketing means, the Group created the promotion activity of fresh produce discount day, promoted WeChat marketing and cross-industry cooperation marketing, and made full use of "new retail" thinking to empower new channels and new marketing including cooperation with payment platform companies to carry out theme activities, utilization of member points for equity marketing, launch of Delivery to Home sales assisting tools, etc. In addition, the Group strengthened member marketing to increase member participation, increased the proportion of sales by membership through member-only promotions so as to increase the stickiness of members. Based on marketing activities, the Group promoted public welfare marketing activities and carried out public welfare activities including "Light Off for One Hour" and "Public Welfare Assistance for Agriculture, We Are Acting" which greatly enhanced the brand image of the Group.

During the period under review, the Group exerted great efforts on the construction and advancement of information system. The Group promoted Lianhua ERP supply chain business process design and ERP implementation project and vigorously planned and constructed the overall process framework of Lianhua supply chain. The Group was committed to promoting the optimisation of logistics and enhancement of efficiency, sorting out the major categories of commodity offerings for logistics operations, and improving the preparation accuracy of the logistics central warehouse. The core business process was streamlined to optimise the order process and improve the quality of stocking management of the logistics central warehouse. The Group also optimised the logistics distribution plan of fresh produce to improve distribution service level and quality.

Sustainable Transformation and Expansion

During the period under review, the Group enhanced its capacity for sustainable development and continued to promote the transformation and upgrading of stores. The Group, following the development idea of seeking for innovation and breakthrough, strove to expand new and quality outlets. In Eastern China, according to the urban development plan, the Group accelerated the store layout and model determination of supermarket segment, renewed leases of premium outlets, and negotiated on rental reduction for outlets incurring losses while strengthening strategic cooperation with various business groups and fully expanding outlet resources. In other regions, the Group mainly expedited the exploration of small business segment development model.

During the period under review, the Group continued to promote the transformation and upgrading of stores. For hypermarkets, the Group determined the 3.0 version of the key plan which was positioned as a community centre with high-quality experience and social networking functions. By optimising resource allocation, adjusting the operating structure, strengthening the on-spot cooking and sales capability, and realizing the modularization of department stores, the Group made great efforts in building a one-stop community platform for shopping, leisure and living in order to increase the customers' shopping experience. For supermarkets, the Group put forth efforts to build brand-new fresh produce supermarket with full range, clear classification and quantitative display of fresh produce by expanding the fresh produce operation area and increasing the proportion of fruit and vegetables. At the same time, the Group explored accelerated online and offline integration and satisfied consumers' requirements for "daily life one-stop" functions and enhanced the shopping experience through the design of self-service check-out plus purchase by scanning QR code, O2O scene creation and online warehouse of stores.

During the period under review, the Group proactively promoted the quick profiting of the franchisees and the set of the new franchise model. Based on franchisees' needs, the Group laid the emphasis on optimising the franchise support system in supermarket segment and strengthened the supply chain support ability to enhance the purchase rate of franchised stores. The logistics capability was improved through shortening the order cycle and the information support capacity was enhanced through improvement of the franchise system platform. The Group adopted unified operating standards, intensified training and comprehensively promoted the work of trustworthy supermarkets to enhance the operation ability of franchised stores. The service capability was improved through data sharing, case sharing, professional management personnel output, establishment of training mechanism, and credit limit support. The accelerated promotion of new franchise model enhanced the ability of franchise expansion. All the efforts were made to comprehensively improve franchisees' satisfaction with cooperation and promote the transition from the loose franchise model to close franchise model, thus achieving mutual cooperation and a win-win situation.

Omni-channel and Digital Marketing

During the period under review, the Group continued to focus on building an omni-channel sales model under the new retail model. It proactively promoted the operation upgrade of the Delivery to Home business and comprehensively completed the introduction of fast delivery for the stores engaged in intensive order fulfilment to achieve transformation from order fulfilment by all stores to intensive order fulfilment. The Group thoroughly promoted the application of the model integrating standard products plus bulk weighing of vegetable and fruits. By fully leveraging on the traffic of WeChat mini programs, and constantly improving their speed, customer's stickiness was continuously increased. The pilot program of community promotion was implemented with stores as the operating entities to enhance the online operation awareness and capacity of stores. Moreover, the Group persistently optimized the online commodity mix and implemented the commodity stocks tracking system, and improved the accuracy of inventory management. By optimizing the Delivery to Home commodities, the Group also improved the business capabilities of commodity operation team.

During the period under review, the Group proactively conducted online and offline interactive marketing and promotion activities, and developed and launched new scenarios based on online and offline interactions including purchase by scanning QR code, online group buying and offline pick-up, and value-added group buying coupons. The interactive electronic screens of stores were transformed and upgraded. New functions such as electronic posters, coupon release, event promotion, etc., and diversified promotional tools were applied to boost the growth of Delivery to Home business.

Creation of a Consumer-centric Organizational Framework with the Whole Team Supporting Front-line Work

During the period under review, the Group proactively promoted the process of flattening organization and continuously optimised the organizational functions. The Group streamlined the function distribution and employee positions of core business departments, and redesigned the commodities and rationally allocated the operation line functions. It promoted the cultivation of professional talent reserves for core business departments. Furthermore, it explored and established the market-oriented talent management system, strengthened contract-based management, and accelerated the introduction of market-oriented talents and the talent allocation.

During the period under review, the Group focused on innovation of incentive mechanism to help drive business development. All staff participation and performance improvement were promoted through enlarging and refining the incentive mode of "motivation award for performance increment" and building the risk and profit-sharing mechanism. The integrated linked assessment was reinforced to stimulate the enthusiasm and effectiveness of the core business team.

Implementation of Cost Reduction and Efficiency Enhancement and Improvement of Management and Control Capabilities

During the period under review, the Group proactively implemented cost reduction and efficiency enhancement policy, and focused on improving corporate management and control capabilities. The Group enhanced ability of commodity negotiation and reduced vacancy rate of stores for merchant solicitation to increase the overall consolidated gross profit margin of the corporation. The "one policy for one store" principle was implemented to control and reduce losses with regions as units to realize the goal of reducing losses. In order to reduce energy cost and asset purchase expenditure, the Group promoted the energy conservation and transformation and the bidding for asset purchase agreement. In addition, the employment structure was adjusted to reduce the total number of full-time workers and the Group strictly controlled the staffing at the headquarter to reduce personnel costs. While strengthening the management and control of funds, the Group actively sought for capital gains increase programs to increase corporate income.

During the period under review, the Group focused on safety production. A safety responsibility agreement was signed to incorporate safety work into the Company's performance appraisal indicators, so as to strictly control the food safety of stores through high accountability. The Group also strengthened the publicity and food safety inspection, and endeavoured to ensure food safety of the Company.

Employment, Training and Development

As of 30 June 2018, the Group had a total of 37,961 employees, representing a decrease of 2,805 employees during the period under review. Total employment expenses amounted to approximately RMB1,367,916 thousand.

During the period under review, the Group further optimised its organizational structure and strengthened the introduction of commodities, markets and market-oriented strategic talents. The functions of core business departments were optimised through promoting re-design of core business structure. The Group explored the establishment of a market-oriented talent management system and strengthened contract-based management.

During the period under review, the Group strengthened the planning and cultivation of store management talents and maintained core talent reserves. Further efforts were made to improve the cultivation initiatives for front-line management talents to build the Group's pool of talents with high potentials. The Group launched a new round of the Eagle Program for training of management trainees, and clarified the training of target team, key training scope, training method and subsequent follow-up mechanism.

During the period under review, the Group further optimised the labour cost structure, reduced personnel costs and improved staff labour efficiency.

Strategy and Planning

In the context of continued recovery of the global economy, in the second half of 2018, the Chinese government will continue to implement a proactive fiscal policy and a prudent and neutral monetary policy, further promote the structural reforms on the supply side, and deepen the reform in fundamental key areas including state-owned assets and state-owned enterprises, financial system, etc. Besides, it will resolutely proceed in the three major battlefields of major risk prevention and resolution, accurate poverty relief, and pollution prevention, and promote high-quality economic development. It is expected that, in the second half of 2018, China's economy will maintain a good trend. Accordingly, the Group believes that the situation of consumer market in the second half of the year will maintain the features in the first half of the year and is expected to continue to stabilize and recover and perform in a reasonable range.

In the second half of 2018, the Group, upholding the belief of "starting from the heart, passionate growth, with one goal, and be brave in shouldering responsibilities", will be oriented by a consumer-centric approach, professionalization and interconnection and implement the strategy of innovation driven and transformation and development.

In the second half of 2018, the Group will continue to vigorously build its differentiated supply chain. The Group will continue to promote the improvement of fresh produce and base construction, establish buyer system in places of origin, and promote the direct purchase at place of origin and nationwide joint purchase of large single products. With control of supply source and quality, proprietary fresh produce brands will be developed. Focusing on category management, the Group will construct a differentiated supply chain and introduce new suppliers and expand the products according to different customer shopping scenarios to promote the upgrade in category and single product management. In the second half of 2018, the Group will continue to strengthen supply chain management and optimisation of gross profit, increase the scale of joint procurement, and further expand its commodity import channels and consolidate its accurate development capacity for new products of private label brands.

In the second half of 2018, the Group will further vigorously enhance the capabilities of its operating team. It will prepare a process streamlining plan and a standard operation manual to continuously and deeply optimise the construction of a standard operation system. The service awareness will be strengthened to improve service standards, with a view to building a whole staff service system.

In the second half of 2018, the Group will rationally plan store promotion resources according to the annual marketing plan, and promptly respond to changes in market demand. Through themed activities at each point and with the combination of internal and external resources, marketing and promotion will be carried out in communities and the Group will practically conduct merchandise display and visual promotion to promote the "experiential marketing" model. Vigorous efforts will be exerted on marketing activities themed by feedback to members, to create a promotional atmosphere for all kinds of promotional activities and enhance the stickiness of members. The Group will formulate clearer brand strategy and architecture, which will be presented based on consumer insights and brand expression of consumption scenes.

In the second half of 2018, the Group will continue to optimise the existing information system to improve its timeliness, accuracy and reliability. The Group will further commit to building sustainable development capability and store transformation and upgrading, continuing to propel quality store development plan, building a store development team, and strengthening store planning and construction. The Group will continue to optimize the efficiency of logistics distribution and launch the automatic replenishment system module for logistics central warehouse to comprehensively improve the satisfaction rate of suppliers' direct delivery of commodities.

In the second half of 2018, the Group will continue to focus on building omni-channel and digital marketing under new retail and optimize the commodity mix, and enrich the commodity pool, to comprehensively improve the commodity management efficiency. It will continuously innovate and expand the efficient online and offline cooperative operation mechanism and continue to implement the transformation of the omni-channel pilot stores, explore the promotion model of Delivery to Home business for franchise stores, and support the omni-channel store construction.

In the second half of 2018, the Group will continue to build a consumer-centric organizational framework with the whole team supporting front-line work. It will continue to optimize the organizational structure and further improve the organizational system and the efficiency of organizational operation. The performance assessment system will be improved and the Group will implement incentive assessment for key special projects. The Group will promote the construction of the training system comprehensively and carry out training programs in multiple dimensions. The personnel structure will be continuously optimized to improve labour efficiency.

Disclosure of Interests

Directors, Supervisors and Chief Executive of the Company

As at 30 June 2018, except for Mr. Xia Da-wei, an independent non-executive Director, who holds 8,694 ordinary shares of Shanghai Bailian Group Co., Limited ("Shanghai Bailian") (representing approximately 0.0005% of the total issued shares of the Shanghai Bailian), none of the Directors, supervisors or chief executive of the Company had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they are regarded or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Substantial Shareholders of the Company

So far as the directors are aware, as at 30 June 2018, the following persons (not being a Director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholders	Class of shares	No. of domestic shares/unlisted foreign shares/ H shares	Approximate percentage of total voting rights of the Company	Approximate percentage of voting rights of domestic shares and unlisted foreign shares	Approximate percentage of voting rights of H shares	Capacity of Interest
Shanghai Bailian (Note 1)	domestic shares	224,208,000	20.03%	30.01%	–	Beneficial owner
Alibaba Group Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Alibaba.com China Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Alibaba.com Investment Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Alibaba.com Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Alibaba (China) Technology Co., Ltd. (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Beneficial owner
Bailian Group (Note 1, Note 3)	domestic shares	513,869,400	45.90%	68.79%	–	Beneficial owner/Interest of corporation controlled
Citigroup Inc	H shares	54,682,597 (L) 0 (S) 19,886,472 (P)	4.88% 0.00% 1.78%	–	14.67%(L) 0.00%(S) 5.33%(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 4)	H shares	34,647,000(L)	3.09%	–	9.30%(L)	Investment manager
China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP) (Note 4)	H shares	33,914,000(L)	3.03%	–	9.10%(L)	Interest of corporation controlled
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)	Beneficial owner

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

Notes:

1. As at 30 June 2018, Bailian Group Co., Ltd ("Bailian Group") directly and indirectly holds approximately 51.16% of the shares in Shanghai Bailian. As at 30 June 2018, Shanghai Bailian held 224,208,000 shares of the Company. Thus, Bailian Group directly and indirectly holds approximately 513,869,400 shares of the Company, or 45.90% in proportion.

   As at 30 June 2018, (i) Mr. Ye Yong-ming, the Chairman and a non-executive Director, 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 the secretary of the board of Shanghai Bailian; (v) Mr. Yang A-guo, a supervisor of the Company, was the chief financial officer of Bailian Group and the head of the supervisors committee of Shanghai Bailian; and (vi) Ms. Tao Qing, a supervisor of the Company, was the director of the auditing centre of Bailian Group and a supervisor of Shanghai Bailian.

2. 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% 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 invested in the shares held by or deemed to be interested by Alibaba (China) Technology Co., Ltd.

3. The Company has been informed that on 22 June 2018, the then shareholder of the Company, Shanghai Yiguo E-Commerce Co., Ltd.*（上海易果電子商務有限公司）entered into a share transfer agreement with Bailian Group pursuant to which Shanghai Yiguo E-Commerce Co., Ltd. agreed to transfer 13,109,400 domestic shares of the Company to Bailian Group. The Company has been informed by Shanghai Yiguo E-Commerce Co., Ltd., and Bailian Group on 3 July 2018 that the relevant share transfer procedures in respect of the transfer of the domestic shares of the Company from Shanghai Yiguo E-Commerce Co., Ltd. to Bailian Group in China Securities Depository and Clearing Corporation Limited have been completed. By then, Shanghai Yiguo E-Commerce Co., Ltd. no longer holds any shares of the Company.

4. 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, or 3.09% in proportion.

5. As the Company issued 8 additional shares to the shareholders whose names appeared on the register of shareholders of the Company on the record date, i.e. 28 June 2011, for every 10 shares held by them by way of capitalization of the capital reserve fund on 8 September 2011, the number of H shares of the Company held as at 30 June 2018 by holders of H shares has 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 30 June 2018.

The Legal Status of Unlisted Foreign Shares

Set out below is the summary of legal opinions given by Grandall Law Firm (Shanghai) on the rights attached to unlisted foreign shares (the "Unlisted Foreign Shares"). Although the Prerequisite Clauses for Articles of Association of Companies to be Listed Overseas (the "Prerequisite Clauses") provides the definitions of "domestic shares", "foreign shares" and "overseas listed foreign shares" (these definitions have been adopted in the Articles of Association of the Company ("Articles of Association")), the rights attached to the Unlisted Foreign Shares, which are subject to certain restrictions on transfer as referred to in 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.

Interim Dividend

The board of Directors of the Company (the "Board") does not recommend the distribution of interim dividend for the six months ended 30 June 2018.

Purchase, Sale or Redemption of Shares

For the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Audit Committee

The audit committee of the Company (the "Audit Committee") has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2018 of the Group. The Audit Committee considered that the interim accounts of the Group for the six months ended 30 June 2018 is in compliance with the relevant accounting standards, the requirements of the Stock Exchange and the Laws of Hong Kong, and the Company has made sufficient disclosures thereof.

Compliance with the Model Code

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

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

The Board is pleased to confirm that except for the matters as set out below, the Company has complied with all the code provisions in the "Corporate Governance Code" (the "Code") under Appendix 14 of the Listing Rules during the period under review. Apart from the following deviations, 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 deviations 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 provide that each director shall be appointed at the general meeting of the Company and for a term of not more than 3 years, and is 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 contain no express provision for the mechanism of directors' retirement by rotation, thus deviating from the aforementioned provision of the Code.

For Provision A.6.7 of the Code:

Ms. Xu Zi-ying, a non-executive Director, Mr. Dong Zheng, the then non-executive Director, and Ms. Sheng Yan, the then independent non-executive Director, were unable to attend the fifth meeting of the sixth session of the Board convened on 28 March 2018 by the Company due to their other work duties.

Mr. Dong Zheng, the then non-executive Director, was unable to attend the sixth meeting of the sixth session of the Board convened on 11 June 2018 by the Company due to his other work duties.

Mr. Dong Zheng, the then non-executive Director, and Mr. Chen Wei, an independent non-executive Director, were unable to attend the seventh meeting of the sixth session of the Board convened on 28 August 2018 by the Company due to his other work duties.

After receiving the relevant materials for the Board meeting, they have authorized other Directors of the Company to attend the meetings and vote on their behalf. The relevant matters were considered at the Board meeting and all the resolutions were passed smoothly. The Company had sent the related minutes to all Directors of the Board after the Board meeting so any Director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

For Provision A.6.7 of the Code, Mr. Dong Zheng, the then non-executive Director, was unable to attend the 2017 annual general meeting of the Company convened on 11 June 2018 due to his other work duties. The Company has provided the relevant materials relating to the 2017 annual general meeting to all Directors of the Board before the meeting. All ordinary resolutions were passed smoothly at the annual general meeting. The Company had sent the related minutes to all Directors of the Board after the annual general meeting so any Director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

Change in Information of Directors

The changes in information of Directors up to the date of this report are set out below:

Name of Director	Details of Changes
Ms. Sheng Yan	– Ceased to be an independent non-executive Director of the Company on 28 March 2018
Mr. Chen Wei	– Appointed as an independent non-executive Director of the Company since 28 March 2018
Mr. Dong Zheng	– Ceased to be a non-executive Director of the Company on 28 August 2018
Mr. Xu Hong	– Appointed to be a non-executive Director of the Company on 28 August 2018

Please see the announcements of the Company dated 28 March 2018 and 28 August 2018 for the biographical details of the relevant Directors. Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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

28 August 2018, Shanghai, the PRC

Report on Review of Condensed Consolidated Financial Statements

Deloitte. 德勤

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 60, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28 August 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	notes	**RMB'000**	RMB'000
Turnover	3	**13,078,590**	13,237,885
Cost of sales		**(11,192,251)**	(11,232,272)
Gross profit		**1,886,339**	2,005,613
Other revenue	3		
– Services		**803,609**	722,775
– Rental		**314,844**	331,375
Other income and other gains and losses	5	**241,072**	286,761
Selling and distribution expenses		**(2,604,071)**	(2,750,690)
Administrative expenses		**(390,777)**	(360,748)
Other expenses		**(38,044)**	(70,439)
Share of profits of associates		**26,769**	19,781
Finance costs		**–**	(62)
Profit before taxation	6	**239,741**	184,366
Income tax expense	7	**(111,571)**	(107,877)
Profit for the period		**128,170**	76,489
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain on available-for-sale financial assets		**–**	20,309
Income tax relating to items that may be reclassified subsequently		**–**	(5,077)
Other comprehensive income for the period, net of income tax		**–**	15,232
Total comprehensive income for the period		**128,170**	91,721
Profit (loss) for the period attribute to:			
Owners of the Company		**39,370**	(4,820)
Non-controlling interests		**88,800**	81,309
		128,170	76,489
Total comprehensive income for the period attributable to:			
Owners of the Company		**39,370**	8,977
Non-controlling interests		**88,800**	82,744
		128,170	91,721
Earnings (loss) per share – basic and diluted	9	**RMB0.035**	RMB (0.004)

Condensed Consolidated Statement of Financial Position

At 30 June 2018

	notes	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	10	**3,068,914**	3,176,870
Construction in progress	10	**349,808**	313,168
Land use rights	10	**852,053**	865,234
Intangible assets	10	**200,863**	198,430
Interests in associates		**718,470**	511,251
Available-for-sale financial assets	11	**–**	93,589
Financial assets at fair value through profit or loss ("FVTPL")	12	**58,469**	–
Term deposits	13	**45,000**	1,200,000
Prepaid rental		**47,097**	19,617
Deferred tax assets		**76,476**	74,150
Other non-current assets	14	**13,563**	14,292
		5,430,713	6,466,601
Current assets			
Inventories		**2,065,089**	2,414,652
Trade receivables	15	**133,159**	133,564
Deposits, prepayments and other receivables		**1,077,049**	1,179,216
Amounts due from fellow subsidiaries	16	**18,713**	15,050
Amounts due from associates	17	**194**	106
Financial assets at FVTPL	12	**3,258,910**	2,287,784
Term deposits	13	**2,386,000**	880,000
Bank balances and cash		**2,255,473**	3,577,507
		11,194,587	10,487,879
Total assets		**16,625,300**	16,954,480

Condensed Consolidated Statement of Financial Position

At 30 June 2018

	notes	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Capital and reserves			
Share capital	18	**1,119,600**	1,119,600
Reserves		**1,295,491**	1,073,552
Equity attributable to owners of the Company		**2,415,091**	2,193,152
Non-controlling interests		**356,690**	295,681
Total equity		**2,771,781**	2,488,833
Non-current liability			
Deferred tax liabilities		**70,732**	76,625
Current liabilities			
Trade payables	19	**3,738,102**	3,818,411
Other payables and accruals	20	**2,119,864**	2,383,756
Contract liabilities		**7,628,918**	–
Coupon liabilities	21	**–**	7,846,974
Deferred income		**19,454**	42,897
Amounts due to shareholder (as defined in note d of condensed consolidated statement of changes in equity)		**28,096**	–
Amounts due to fellow subsidiaries	16	**69,034**	55,978
Amounts due to associates	17	**1,133**	1,278
Bank borrowing		**–**	2,000
Tax payable		**178,186**	237,728
		13,782,787	14,389,022
Total liabilities		**13,853,519**	14,465,647
Total equity and liabilities		**16,625,300**	16,954,480
Net current liabilities		**(2,588,200)**	(3,901,143)
Total assets less current liabilities		**2,842,513**	2,565,458

Condensed Consolidated Statement of Changes in Equity

At 30 June 2018

	Attributable to owners of the Company							
	Share capital RMB'000	Capital reserve RMB'000 (note a)	Other reserve RMB'000 (note b)	Statutory common reserve fund RMB'000 (note c)	Retained profits RMB'000	Total attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017 (audited)	1,119,600	258,353	(227,420)	559,800	752,504	2,462,837	291,042	2,753,879
Total comprehensive income (expenses) income for the period	–	–	13,797	–	(4,820)	8,977	82,744	91,721
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	(113,870)	(113,870)
At 30 June 2017 (unaudited)	1,119,600	258,353	(213,623)	559,800	747,684	2,471,814	259,916	2,731,730
At 31 December 2017 (audited)	**1,119,600**	**258,353**	**(214,345)**	**559,800**	**469,744**	**2,193,152**	**295,681**	**2,488,833**
Adjustments (see note 2)	**–**	**–**	**(17,450)**	**–**	**203,721**	**186,271**	**26,484**	**212,755**
At 1 January 2018 (restated)	**1,119,600**	**258,353**	**(231,795)**	**559,800**	**673,465**	**2,379,423**	**322,165**	**2,701,588**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**39,370**	**39,370**	**88,800**	**128,170**
Dividends paid to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(29,881)**	**(29,881)**
Acquisition of additional equity interests in a subsidiary (note d)	**–**	**–**	**(3,702)**	**–**	**–**	**(3,702)**	**(24,394)**	**(28,096)**
At 30 June 2018 (unaudited)	**1,119,600**	**258,353**	**(235,497)**	**559,800**	**712,835**	**2,415,091**	**356,690**	**2,771,781**

Notes:

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

(b) Other reserve of the Group mainly represents:

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

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

iii. acquisition of additional equity interests in subsidiaries;

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

v. recognition of changes in fair value of available-for-sales investments. (The amounts were adjusted to retained profits when the Group adopted HKFRS 9 at 1 January 2018).

Notes: (Continued)

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

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

No transfer has been made to the statutory common reserve fund in respect of the net profit for the six months ended 30 June 2018 and 2017 as such transfer will be made, upon directors' approval, at the year-end date based on the annual profit.

(d) During the year ended 30 June 2018, the Group entered into a share transfer agreement with Shanghai Bailian Group Co., Limited, the minority shareholder of Lianhua E-business Co., Ltd. ("Lianhua E-business"), pursuant to which the Group agreed to purchase additional 9.0909% equity interest in Lianhua E-business at a cash consideration of RMB28,096,000. The carrying amount in respect of the 9.0909% equity interest of Lianhua E-business on date of acquisition of additional interest was RMB24,394,000, resulting in RMB3,702,000 debited to other reserve, accordingly.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash used in operating activities	**306,319**	(41,782)
Investing activities		
Placement of unrestricted term deposits	**(901,000)**	(758,000)
Withdrawal of unrestricted term deposits	**420,000**	952,851
Purchase of financial assets at FVTPL	**(3,100,000)**	(2,200,000)
Purchase of property, plant and equipment and construction in progress	**(213,033)**	(164,955)
Purchase of intangible assets	**(6,088)**	(1,140)
Proceeds on disposal of a subsidiary	**(5)**	–
Proceeds on disposal of financial assets at FVTPL	**2,190,995**	1,884,016
Proceeds on disposal of property, plant and equipment	**10,658**	8,665
Net cash used in investing activities	**(1,598,473)**	(278,563)
Cash used in a financing activity		
Dividends paid to non-controlling shareholders	**(29,880)**	(18,384)
Net decrease in cash and cash equivalents	**(1,322,034)**	(338,729)
Cash and cash equivalents at 1 January	**3,577,507**	3,175,900
Cash and cash equivalents at 30 June	**2,255,473**	2,837,171

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*
Amendments to HKAS 40	*Transfers of Investment Property*

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

- Sales of merchandise
- Service income from suppliers
- Rental income from leasing of shop premises
- Royalty income from franchise stores
- Commission income from coupon redemption in other retailers
- Other income arising from recognition of unutilised balances on aged contract liabilities

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and non-controlling interests and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation.

Under HKFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Contracts with multiple performance obligations (including allocation of transaction price)

Sales of goods that result in award credits for customers under the Group's customer loyalty incentive program are identified by the Group as the contracts with multiple performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for specified goods or services to be provided by the other party.

2.1.2 Summary of effects arising from initial application of HKFRS 15

HKFRS 15 includes further guidance regarding the customers' unexercised rights ("breakage"). The Group sold coupons to customers which will be redeemed in exchange of products of the Group in the future. The Group incurs coupon liabilities when coupons are sold. Coupon liabilities are reclassified as contract liabilities under HKFRS 15 (see 2.1.2 (b)).The management assessed the breakage amount from the contract liabilities and considered that the Group was entitled to a breakage amount. The breakage amount was recognised as revenue in the proportion to the pattern of rights exercised by the customers under HKFRS 15. The following table summarises the impact of transition to HKFRS 15 on retained profits and at 1 January 2018.

	Note	Impact of adopting HKFRS 15 at 1 January 2018 RMB'000
Breakage amount arising from the contract liabilities	(a)	74,760
Tax effects		(18,690)
Impact on retained profits		43,829
Impact on non-controlling interests		12,241
Impact at 1 January 2018		56,070

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)

2.1.2 Summary of effects arising from initial application of HKFRS 15 (Continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	**Carrying amounts under HKFRS 15 at 1 January 2018* RMB'000**
Capital and Reserves					
Retained profits	(a)	469,744	–	43,829	**513,573**
Non-controlling interests	(a)	295,681	–	12,241	**307,922**
Current Liabilities					
Other payables and accruals	(b)	2,383,756	(57,427)	–	**2,326,329**
Contract liabilities	(a)	–	7,925,153	(74,760)	**7,850,393**
Coupon liabilities	(b)	7,846,974	(7,846,974)	–	**–**
Deferred income	(b)	42,897	(20,752)	–	**22,145**
Tax payable	(a)	237,728	–	18,690	**256,418**

* The amounts in this column are before the adjustments from the application of HKFRS 9.

Notes:

(a) HKFRS 15 includes further guidance regarding the customers' unexercised right ("breakage"). The Group expects to be entitled to the breakage amount in a contract liability, and the amount is recognised as revenue in the proportion to the pattern of rights exercised by the customer. At the date of initial application of HKFRS 15, other income arising from recognition of unutilised balances on aged contract liabilities of RMB74,760,000 and the related tax payable of RMB18,690,000 were recognised with corresponding adjustments to retained profits of RMB43,829,000 and non-controlling interests of RMB12,241,000 respectively.

(b) At the date of initial application, amount of RMB20,752,000, RMB7,846,974,000 and RMB57,427,000 related to unredeemed balance of the Group's loyalty points under loyalty reward programs, gift certificates purchased by customers and advance from customers were included in the deferred income, coupon liabilities and other payables and accruals respectively. These balances were reclassified to contract liabilities upon application of HKFRS 15 as it represented the Group's performance obligation to transfer goods or services in the future.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)

2.1.2 Summary of effects arising from initial application of HKFRS 15 (Continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 and its condensed consolidated statement of profit or loss and other comprehensive income for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported	Adjustments	Amounts without application of HKFRS 15
	RMB'000	RMB'000	RMB'000
Capital and Reserves			
Retained profits	712,835	(55,773)	657,062
Non-controlling interests	356,690	(15,764)	340,926
Current Liabilities			
Other payables and accruals	2,119,864	38,849	2,158,713
Contract liabilities	7,628,918	(7,628,918)	–
Coupon liabilities	–	7,654,855	7,654,855
Deferred income	19,454	30,597	50,051
Tax payable	178,186	(23,846)	154,340

Impact on the condensed consolidated statement of profit and loss and other comprehensive income

	As reported	Adjustments	Amounts without application of HKFRS 15
	RMB'000	RMB'000	RMB'000
Continuing operation			
Other income and other gains and losses	241,072	(20,623)	220,449
Profit before tax	239,741	(20,623)	219,118
Income tax expense	(111,571)	5,156	(106,415)
Profit and total comprehensive income for the period	128,170	(15,467)	112,703

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

In the current period, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

In addition, the new requirements for hedge accounting had no effect on the amounts reported in these condensed consolidated financial statements and disclosures set out in these condensed consolidated financial statements.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other income and other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables, amounts due from fellow subsidiaries/associates term deposits and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and other receivables. The ECL on these assets are assessed individually for debtors with significant balances or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.1 *Key changes in accounting policies resulting from application of HKFRS 9 (Continued)*

Impairment under ECL model (Continued)

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments/receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and other receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amounts of these debt instruments/receivables.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. As the Group's credit risk is limited by the nature of its retail sales model, this change in accounting policy does not have a significant impact to the Group.

Classification and measurement of financial liabilities

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

2.2.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Available –for-sale RMB'000	Financial assets at required by HKFRS 9 RMB'000	Financial assets at required by HKAS 39 RMB'000	FVTPL AFS reserve RMB'000	FVTPL Retained profits RMB'000	Non-controlling interests RMB'000
Closing balance at 31 December 2017 – HKAS 39	93,589	–	2,287,784	17,450	469,744	295,681
Effect arising from initial application of HKFRS 15	–	–	–	–	43,829	12,241
Effect arising from initial application of HKFRS 9:						
Reclassification						
From available for sale	(93,589)	93,589	–	(17,450)	17,450	–
Remeasurement						
From cost less impairment to fair value	–	156,685	–	–	142,442	14,243
Opening balance at 1 January 2018	–	250,274	2,287,784	–	673,465	322,165

Notes:

Available-for-sale investments

From AFS investments to FVTPL

At the date of initial application of HKFRS 9, the Group's equity investments of RMB93,589,000 were reclassified from available-for-sale investments to financial assets at FVTPL. The fair value gains of RMB156,685 ,000 relating to those equity investments previously carried at cost less impairment were adjusted to financial assets at FVTPL and retained profits of RMB142,442,000 and non-controlling interests of RMB14,243,000 as at 1 January 2018. The fair value gains of RMB25,107,000 and related deferred tax of RMB6,277,000 relating to those investments previously carried at fair value were previously recognised in AFS reserve of RMB17,450,000 and non-controlling interests of RMB1,380,000. The AFS reserve of RMB17,450,000 was transferred from AFS reserve to retained profits.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017 (Audited) RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	**1 January 2018 (Restated) RMB'000**
Non-current Assets				
Available-for-sale investments	93,589	–	(93,589)	**–**
Financial assets at FVTPL	–	–	250,274	**250,274**
Others with no adjustments	6,373,012	–	–	**6,373,012**
Current Assets				
Others with no adjustments	10,487,879	–	–	**10,487,879**
Capital and Reserves				
Share capital	1,119,600	–	–	**1,119,600**
Reserves	603,808	–	(17,450)	**586,358**
Retained profits	469,744	43,829	159,892	**673,465**
Non-controlling interests	295,681	12,241	14,243	**322,165**
Non-current Liabilities				
Deferred tax liabilities	76,625	–	–	**76,625**
Current Liabilities				
Other payables and accruals	2,383,756	(57,427)	–	**2,326,329**
Contract liabilities	–	7,850,393	–	**7,850,393**
Coupon liabilities	7,846,974	(7,846,974)	–	**–**
Deferred income	42,897	(20,752)	–	**22,145**
Tax payable	237,728	18,690	–	**256,418**
Others with no adjustments	3,877,667	–	–	**3,877,667**

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.4 New significant judgement and key sources of estimation of uncertainty

In the application of the Group's accounting policies, which are described in the Group's annual financial statements for the year ended 31 December 2017 and note 2 above, the management is 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 underlying assumptions are based on historical experience and other factor 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 of uncertainty

Apart from those disclosed in the 2017 annual report of the Company, the following is the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months after the end of the reporting period.

Estimated amount of breakage

Determining the breakage amount requires an estimation of the ratio and proportion to the pattern of rights exercised by the customer. The Group recognises the amount by reference to the ratio derived from historical information that represents proportion of the coupons issued by the Group but not yet utilized by the costumers for over five years. The breakage amounts are recognised as other income from contract liabilities according to HKFRS 15. As at 30 June 2018, the carrying amount of the contract liabilities was RMB7,628,918,000.

3. TURNOVER AND OTHER REVENUE

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

	Six months ended 30 June Year ended	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Type of Revenue		
Turnover		
Sales of merchandises	**13,078,590**	13,237,885
Services		
Income from suppliers	**781,457**	699,055
Royalty income from franchised stores	**20,400**	21,515
Commission income from coupon redemption at other retailers	**1,752**	2,205
	803,609	722,775
Rental		
Gross rental income from leasing of shop premises	**314,844**	331,375
Total	**14,197,043**	14,292,035
Timing of revenue recognition		
At a point in time	**13,078,590**	13,237,885
Over time	**803,609**	722,775
Rental income	**314,844**	331,375
Total	**14,197,043**	14,292,035

4. SEGMENT INFORMATION

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

	Segment revenue (note)		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000	**2018 (Unaudited) RMB'000**	2017 (Unaudited) RMB'000
Hypermarkets	**8,588,598**	8,886,810	**235,847**	112,344
Supermarkets	**4,577,184**	4,364,797	**104,424**	137,929
Convenience stores	**984,235**	993,317	**(70,383)**	(63,461)
Other operations	**47,026**	47,111	**(2,042)**	10,579
	14,197,043	14,292,035	**267,846**	197,391

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

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

	Six months ended 30 June Year ended	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Segment results	**267,846**	197,391
Unallocated interest income	**41,714**	35,019
Unallocated loss	**(3,734)**	–
Unallocated expenses	**(92,854)**	(67,825)
Share of profits of associates	**26,769**	19,781
Profit before taxation	**239,741**	184,366

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

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

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

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30 June Year ended	
	2018 **(Unaudited)** **RMB'000**	2017 (Unaudited) RMB'000
Interest income on bank balances and term deposits	**81,194**	97,067
Government subsidies (Note i)	**26,577**	44,879
Change in fair value of financial assets at FVTPL	**52,624**	48,490
Loss on disposal of financial assets at FVTPL	**(1,736)**	–
Gain on disposal of property, plant and equipment	**–**	3,580
Salvage sales	**16,497**	13,703
Early termination of an operating lease contract by lessor (Note ii)	**24,000**	54,830
Income from aged unutilised contract liabilities (Note 2.1.2)	**20,623**	–
Others	**21,293**	24,212
Total	**241,072**	286,761

Notes:

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

(ii) On 25 January 2018, 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 RMB40,000,000 in total as compensation and the payment schedule is made according to the process of the completion of the termination obligations set out in the early termination contract. The compensation of RMB24,000,000 has been received during the period.

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 had been received during the prior period.

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at:

	Six months ended 30 June Year ended	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
After charging:		
Amortisation and depreciation		
Amortisation of other non-current assets	**729**	730
Amortisation of intangible assets – software (included in selling and distribution expenses/administrative expense) (Note 10)	**7,590**	5,387
Amortisation of land use rights (Note 10)	**13,184**	4,375
Depreciation of property, plant and equipment (Note 10)	**190,800**	191,775
	212,303	202,267
Cost of inventories recognised as an expense	**11,192,251**	11,232,272
Minimum lease payments in respect of rented premises	**745,631**	783,875
Staff costs	**1,367,916**	1,435,785
After crediting:		
Share of profits of associates		
Share of profit before taxation	**34,738**	20,906
Less: Share of taxation	**7,969**	1,125
	26,769	19,781

7. INCOME TAX EXPENSE

	Six months ended 30 June Year ended	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax on PRC Enterprise Income Tax ("EIT")	**119,790**	139,663
Deferred tax credit	**(8,219)**	(31,786)
	111,571	107,877

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

7. INCOME TAX EXPENSE (Continued)

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%. Certain subsidiaries are taxed at preferential rate of 15% as those entities which are located in specific provinces of western China.

As of 30 June 2018, the Group had unused tax losses for which no deferred tax asset had been recognised due to the unpredictability of future profit streams.

8. DIVIDEND

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

9. EARNINGS (LOSS) PER SHARE – BASIC AND DILUTED

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

	Six months ended 30 June Year ended	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings		
Profit (loss) for the period attributable to owners of the Company	**39,370**	(4,820)

	Six months ended 30 June Year ended	
	2018	2017
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**1,119,600,000**	1,119,600,000

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

10. MAJOR CAPITAL EXPENDITURE

				Intangible assets		
	Property, plant and equipment RMB'000	Construction in progress RMB'000	Land use rights RMB'000 (Note a)	Goodwill RMB'000	Software RMB'000	Total RMB'000
Opening carrying amount as at 1 January 2017 (audited)	3,082,366	221,066	335,580	129,743	69,040	198,783
Additions	99,388	54,366	19	–	1,140	1,140
Transfers	11,849	(17,310)	–	–	5,461	5,461
Disposals	(5,085)	–	–	–	–	–
Depreciation/amortisation charge (Note 6)	(191,775)	–	(4,375)	–	(5,387)	(5,387)
Impairment(Note b)	(21,101)	–	–	–	–	–
Closing carrying amount as at 30 June 2017 (unaudited)	2,975,642	258,122	331,224	129,743	70,254	199,997
Opening carrying amount as at 1 January 2018 (audited)	3,176,870	313,168	891,448	129,743	68,687	198,430
Additions	79,167	70,010	–	–	6,088	6,088
Transfers	29,435	(33,370)	–	–	3,935	3,935
Disposals	(25,015)	–	–	–	–	–
Depreciation/amortisation charge (Note 6)	(190,800)	–	(13,184)	–	(7,590)	(7,590)
Impairment (Note b)	(743)	–	–	–	–	–
Closing carrying amount as at 30 June 2018 (unaudited)	3,068,914	349,808	878,264	129,743	71,120	200,863

Notes:

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Unaudited) RMB'000
Non-current assets	**852,053**	865,234
Current assets (included in deposits, prepayments and other receivables)	**26,211**	26,214
	878,264	891,448

(b) During the reporting period, 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.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Non-current (Note 2.2.2)		
Legal person shares, at cost	–	312
Unlisted equity investments, at cost	–	47,170
Listed equity investments, at fair value	–	46,107
Total	–	93,589

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Non-current (Note 2.2.2)		
Unlisted equity investments (Note a)	**21,172**	–
Listed equity investments	**37,297**	–
	58,469	–
Current		
Equity securities listed in Shanghai Stock Exchange	**1,978**	2,455
Unlisted financial products (Note b)	**3,256,932**	2,285,329
	3,258,910	2,287,784
Total	**3,317,379**	2,287,784

Notes:

(a) These represent certain unlisted equity investments in the PRC which are measured with fair value.

During the period, an unlisted equity investment was disposed of, with corresponding loss on disposal of financial assets at FVTPL of RMB1,736,000 recognised in "other income and other gains and losses".

(b) 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 investments 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 RMB61,911,000 (six months ended 30 June 2017: RMB48,647,000), credited to "other income and other gains and losses" in the current interim period.

13. TERM DEPOSITS

Term deposits placed with banks in the PRC are denominated in Renminbi. Deposits having a maturity period over 3 months but within 1 year are presented as current assets whilst deposits having a maturity period over 1 year are presented as non-current assets.

As at 30 June 2018, restricted term deposits amounting to RMB1,470,000,000 (31 December 2017: RMB1,600,000,000) are placed by the Group as a security for coupons issued to customers and are not available for other use by the Group.

The effective interest rates on term deposits range from 1.55% to 4.70% (31 December 2017: from 1.75% to 4.80%) per annum. The carrying amounts of the term deposits approximate their fair value.

14. OTHER NON-CURRENT ASSETS

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

15. TRADE RECEIVABLES

The aging analysis of the trade receivables net of allowance for doubtful debts at the end of the reporting period, arising principally from sales of merchandise to franchised stores and wholesalers with credit terms ranging from 30 to 60 days (31 December 2017: 30 to 60 days), is as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 30 days	**128,623**	129,850
31 – 60 days	**253**	777
61 – 90 days	**1,625**	–
91 days – one year	**2,658**	2,937
	133,159	133,564

16. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES

Amounts due from (to) fellow subsidiaries are trade in nature, unsecured, interest free, with credit terms ranging from 30 to 60 days (31 December 2017: 30 to 60 days). As at 30 June 2018, balances of both amounts due from (to) fellow subsidiaries are all aged within 60 days (31 December 2017: 60 days).

17. AMOUNTS DUE FROM (TO) ASSOCIATES

Amounts due from/to associates represent balances arising from expenses paid by the Group on behalf of certain associates and purchases of merchandise from associates respectively. Balances are all aged within 90 days (31 December 2017: 90 days) and the credit terms of the trade balances range from 30 to 60 days (31 December 2017: 30 to 60 days). Such balances with associates are unsecured and interest free.

18. SHARE CAPITAL

	Number of share RMB1.00 each	**Share capital** RMB'000
Registered:		
As at 1 January 2017, 31 December 2017 and 30 June 2018	1,119,600,000	1,119,600
Issued and fully paid:		
As at 1 January 2017, 31 December 2017 and 30 June 2018	1,119,600,000	1,119,600

19. TRADE PAYABLES

The aging analysis of trade payables at the end of the reporting period, arising mainly from purchase of merchandise with credit terms ranging from 30 to 60 days (31 December 2017: 30 to 60 days), is as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 30 days	**1,741,161**	2,165,607
31 – 60 days	**644,186**	555,930
61 – 90 days	**354,619**	322,647
91 days – one year	**998,136**	774,227
	3,738,102	3,818,411

20. OTHER PAYABLES AND ACCRUALS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Payroll, staff welfare and other staff cost payable	**223,833**	339,220
Value added tax and other payable	**54,567**	84,031
Rental payable	**787,859**	814,440
Deposits from lessees, franchisees and other third parties	**206,373**	203,485
Dividend payable to a non-controlling shareholder	**14,128**	14,127
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	**6,383**	25,814
Amounts received from franchisees and other third parties	**527,163**	476,675
Payables for acquisition of property, plant and equipment and low value consumables	**96,880**	156,109
Store closure provision	**46,716**	72,758
Accruals	**140,279**	126,240
Advance from customers (Note 2.1.2)	**–**	57,427
Other miscellaneous payables	**15,683**	13,430
	2,119,864	2,383,756

21. COUPON LIABILITIES

The Group insures coupon liabilities when coupons are sold and the coupon liabilities decreased upon redemption as a result of sales of the Group's merchandises, the value of which is recognised as revenue in the profit or loss for the period the transactions taken place. Coupon liabilities redeemed in exchange for products or services of other retailers are settled after deducting the Group's commission based on the agreements entered into between the Group and the retailers. Coupon liabilities have been reclassified as contract liabilities at 1 January 2018. (Note 2.1.2)

The directors of the Company consider that the Group expects to be entitled to the breakage amount in contract liabilities, and the amount is recognized as revenue in proportion to the pattern of rights exercised by the customers.

22. OPERATING LEASE

(1) The Group as lessee

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within one year	**1,518,089**	1,552,676
In the second to fifth years inclusive	**4,929,865**	5,144,156
Over five years	**5,068,695**	5,410,507
	11,516,649	12,107,339

(2) The Group as lessor

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within one year	**344,553**	186,553
In the second to fifth years inclusive	**639,706**	455,229
Over five years	**258,765**	199,434
	1,243,024	841,216

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

23. CAPITAL COMMITMENTS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment, construction of buildings and land use rights: – contracted for but not provided	**215,403**	268,785

24. RELATED PARTY TRANSACTIONS

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

(1) Related party transactions

		Six months ended 30 June	
	Notes	**2018 (Unaudited) RMB'000**	2017 (Unaudited) RMB'000
Sales to fellow subsidiaries	(a)	**110,040**	43,007
Purchases from associates	(a)	**2,021**	1,775
Purchases from fellow subsidiaries	(a)	**36,995**	48,402
Rental expenses and property management fee paid to fellow subsidiaries	(b)	**28,875**	45,451
Rental income from fellow subsidiaries	(c)	**9,004**	9,769
Commission income received from fellow subsidiaries	(d)	**349**	323
Commission income arising from the redemption of contract liabilities with a fellow subsidiary	(e)	**3,238**	4,361
Commission charges arising from the redemption of contract liabilities with a fellow subsidiary	(e)	**4,931**	5,250
Interest income earned from a fellow subsidiary	(f)	**12,382**	14,175
Platform usage fee paid to fellow subsidiaries	(g)	**5,250**	1,672
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account upon membership points earned by the customers	(h)	**5,503**	4,258
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account upon redemption of membership points by the customers	(h)	**3,179**	1,785

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

24. RELATED PARTY TRANSACTIONS (Continued)

(1) Related party transactions (Continued)

Notes:

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

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

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

(d) The commission income was received from fellow subsidiaries controlled by Bailian Group in relation to the redemption of the coupons issued by the Group and a fellow subsidiaries controlled by Bailian Group in retail outlets of these related companies. The commissions were charged at a rate of 0.5% to 1% (2017: 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 contract 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 contract liabilities are settled through the other party's network, a commission would be charged at a rate of 0.5% (2017: 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) 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.

(h) 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.

24. RELATED PARTY TRANSACTIONS (Continued)

(2) Related party balances

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Cash and cash equivalents in a fellow subsidiary	**90,234**	738,015
Unrestricted term deposits in a fellow subsidiary	**320,000**	20,000

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

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

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

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

(4) Key management compensation

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

	Six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Salaries and other short-term employee benefits	**4,605**	1,604
Post-employment benefits	**229**	164
Other long-term benefits	**192**	166
	5,026	1,934

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

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

Financial assets	Fair value as at		Fair value hierarchy	valuation technique(s) and key input(s)	Significant unobservable input(s)
	30/06/2018 RMB'000	31/12/2017 RMB'000			
1) Investments in bank financial products classified as financial assets at fair value through profit or lost in the condensed consolidated statement of financial position	**Assets – 3,256,932**	Assets – 2,285,329	Level 3	Discounted cash flow. Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio, discounted at a rate that reflects the credit risk of various counterparties	Actual yield of the underlying investment portfolio and the discount rate
2) Investment in equity shares listed in Shanghai Stock Exchange classified as financial assets at fair value through profit or lost in the condensed consolidated statement of financial position	**Assets – 39,275**	Assets – 2,455	Level 1	Quoted bid prices in an active market	N/A
3) Investment in equity shares listed in Shanghai Stock Exchange classified as available-for-sales in the condensed consolidated statement of financial position	**N/A**	Assets – 46,107	Level 1	Quoted bid prices in an active market	N/A
4) Unquoted equity investments classified as financial assets at FVTPL	**Assets – 21,172**	N/A	Level 3	Discounted cash flow. Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio, discounted at a rate that reflects the credit risk of various counterparties	Actual yield of the underlying investment portfolio and the discount rate

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value measurements and valuation process

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

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

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

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

These unaudited condensed consolidated financial statements were authorised for issue by the Company's board of directors on 28 August 2018.