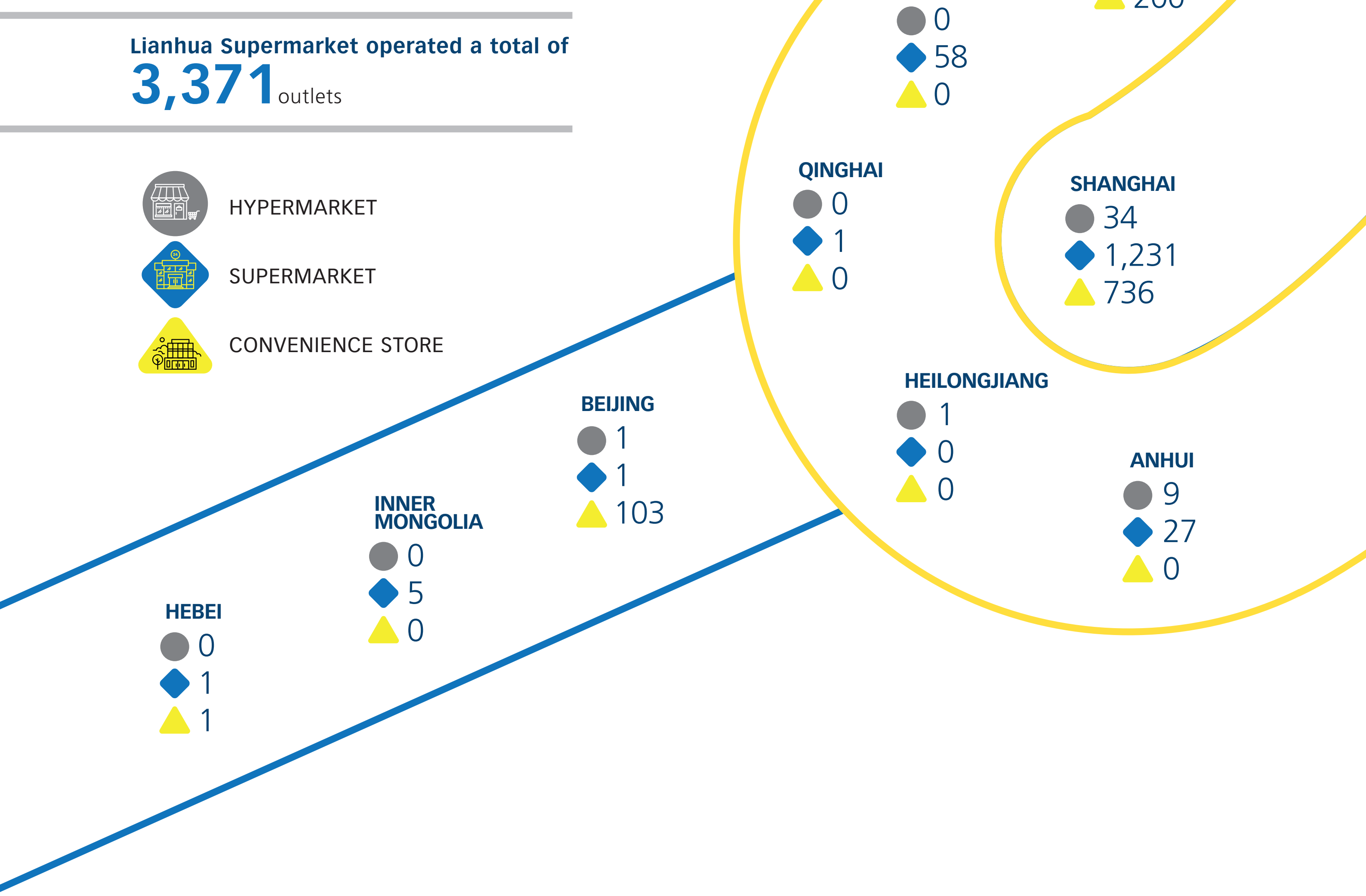
联华超市股份有限公司
LIANHUA SUPERMARKET HOLDINGS CO.,LTD.

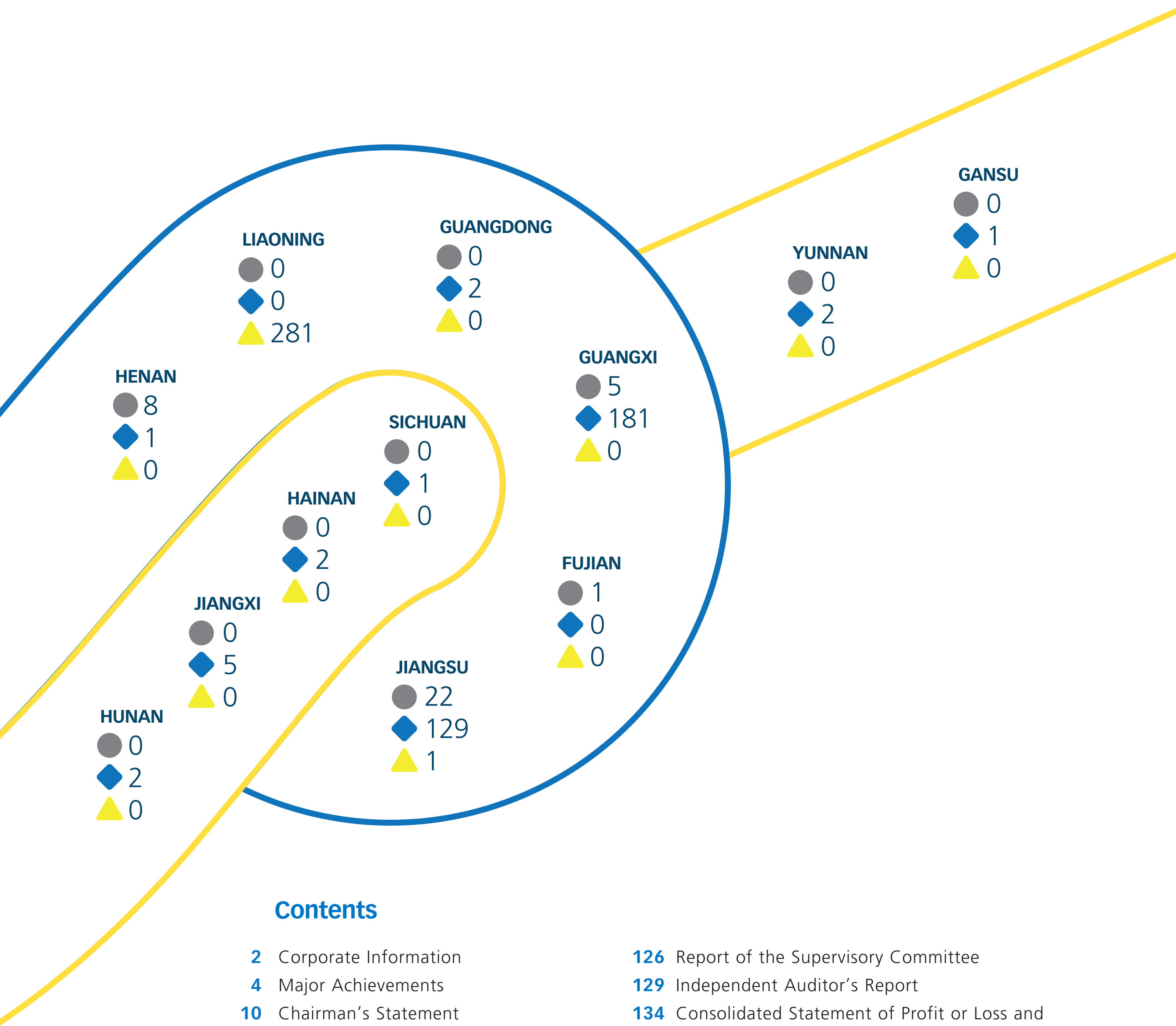
ANNUAL REPORT 2018

STOCK CODE:0980

Lianhua Supermarket Holdings Co., Ltd. ("Lianhua Supermarket" or the "Company") commenced its business in Shanghai in 1991. In the past 27 years, it has developed into a nationwide retail chain operator with a full range of retail segments, expanding through a combination of direct operation, franchises and merger and acquisitions. As at 31 December 2018, Lianhua Supermarket and its subsidiaries (the "Group") operated a total of 3,371 outlets (excluding those operated by the Company's associated companies) in 21 provinces and municipalities across the nation. The Company has maintained its leading position in the fast moving consumer goods retail industry in the People's Republic of China (the "PRC"). Lianhua Supermarket was the first Chinese retail chain operator to be listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 June 2003.

The Group operates in three main retail segments – hypermarkets, supermarkets and convenience stores, in order to cater for the diverse needs of consumers. These segments expand under the brand names of "Century Mart", "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik", respectively. In recent years, "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik" have been awarded as one of the China Outstanding Franchise Brands (「中國優秀特許品牌」) by the Franchise Committee of China Chain Store & Franchise Association.




LIAONING
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GUANGDONG
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GANSU
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YUNNAN
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HENAN
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GUANGXI
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SICHUAN
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HAINAN
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FUJIAN
1
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JIANGXI
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5
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JIANGSU
22
129
1
HUNAN
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2
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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 (Resigned on 29 March 2019)
Mr. Zhao Xin-sheng

Board Committees

Audit Committee

Mr. Lee Kwok Ming, Don *(Chairman)*
Mr. Xia Da-wei
Mr. Zhang Jun (Resigned on 29 March 2019)
Mr. Zhao Xin-sheng
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 (Resigned on 29 March 2019)
Mr. Zhao Xin-sheng

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 (Resigned on 29 March 2019)
Mr. Zhao Xin-sheng

Supervisors

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

Company Secretary

Ms. Hu Li-ping

Authorised Representatives

Mr. Xu Tao
Ms. Hu Li-ping

International Auditor

Deloitte Touche Tohmatsu

Legal Advisers to the Company

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

As to PRC laws
Grandall Law Firm (Shanghai)

Investors and Media Relations Consultant

Christensen China Limited

Principal Bankers

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

Registered and Business Office

Registered Office in the PRC

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Shanghai, PRC

Place of Business in the PRC

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No. 1258 Zhen Guang Road
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Shareholder's Enquiries

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Hong Kong Share Registrar and Transfer Office

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

Share Information

Listing Place

The Stock Exchange of Hong Kong Limited

Listing Date

27 June 2003

Stock Exchange Stock Code

980

Number of H shares Issued

372,600,000 H shares

Year-end Date

31 December

Results Announcements

Interim Results for 2018 were published on 28 August 2018
Annual Results for 2018 were published on 29 March 2019

Dividends

Interim Dividends: Nil
Proposed Final Dividends: Nil

Major Achievements

January

Guangxi Lianhua Supermarket Co., Ltd. ("Lianhua Guangxi Company") was awarded the honorable title of "2017 Liuzhou Business Integrity Demonstration Unit" ("2017年度柳州市商務誠信示範單位") issued by the Municipal Commission of Commerce of Liuzhou City.

The Jiangyan store of Lianhua Supermarket (Jiangsu) Co., Ltd. ("Lianhua Jiangsu Company") was awarded the title of "2018 Vegetable and Fruit Discounter Supermarket" ("2018年度蔬菜水果平價超市") by the Pricing Bureau of Jiangsu Province.

The Heping Shopping Mall (和平購物城) of Hangzhou Lianhua Huashang Group Co., Ltd. ("Lianhua Huashang"), among the first batch of awardees in Zhejiang Province, was awarded the title of "Quality-assured Meat and Vegetables Demonstration Supermarkets" ("放心肉菜示範超市") by the Office of Hangzhou Food Safety Committee.

At the 2018 China Hangzhou Promotion Festival and Popular Online Stores Summit sponsored by Qianjiang Evening News and co-organized by Zhejiang E-Commerce Promotion Association, the Century Lianhua Whale-Choice Future Store (世紀聯華鯨選未來店) of Lianhua Huashang won the Top Ten Brand Popular Store Award of the China Hangzhou Promotion Festival 2018 ("2018中國杭州造貨節十佳品牌紅店獎").

February

3 February Shanghai Huamu Store, the prototype community convenience store in the supermarket segment of the Group, commenced operation with new decorations, and the new functional scenes and interior design styles were firstly used and debuted in this segment.

March

Lianhua Huashang was awarded the title of "Zhejiang Province Quality-assured Consumption Demonstration Unit" ("浙江省放心消費示範單位") and appeared at the 3.15 CCTV Evening Party.

The fresh produce logistics base of Lianhua Huashang launched the first AGV fresh produce sorting project in the supermarket industry.

The Chaohu Changjiang Road store operated by Anhui Century Lianhua Supermarket Development Co., Ltd. ("Lianhua Anhui Company") was awarded the title of "Chaohu City Quality-assured Consumption Demonstration Unit" ("巢湖市放心消費示範單位") for the period from March 2018 to February 2022 by the Chaohu Consumer Rights Protection Committee.

April

The cold chain operation department of Lianhua Logistic Co., Ltd. was awarded the honorable title of "Workers' Pioneer of Shanghai" ("上海市工人先鋒號") by the Shanghai Federation of Trade Unions.

20 April Shanghai Jialong Store, the first community fresh produce sample store in the supermarket segment of the Group, opened after transformation and upgrading, bringing a different shopping experience to consumers.

May

Lianhua Guangxi Company was awarded the honorable title of "Executive Vice President Unit for 2018-2019" ("2018-2019年度常務副會長單位") by Liunan Branch of Guangxi Food Safety Association and the honorable title of "May Day Female Model Unit of Liuzhou City" ("柳州市五一巾幗標兵單位") by Liuzhou Federation of Trade Unions.

Lianhua Huashang was awarded the title of "2017 Safety Demonstration Unit of Hangzhou City" ("2017年度杭州市平安示範單位") by the "Safe Hangzhou" safety construction leading group of the Hangzhou municipal Party Committee of the Communist Party of China (CPC).

Mr. Yang Jie, the store manager of Xianxia Store of Century Lianhua, was awarded the "2018 Shanghai May Day Labour Medalist" ("2018年度上海市五一勞動獎") by Shanghai Federation of Trade Unions, and the Zhonghuan store of Century Lianhua was awarded the honorable title of "Shanghai Workers' Pioneer " ("上海市工人先鋒號") by the Shanghai Federation of Trade Unions.

June

22 June Shanghai Yiguo E-Commerce Co., Ltd.* (上海易果電子商務有限公司)("Shanghai Yiguo") entered into a share transfer agreement with Bailian Group pursuant to which Shanghai Yiguo agreed to transfer 13,109,400 domestic shares of the Company to Bailian Group. On 3 July, the relevant share transfer procedures in China Securities Depository and Clearing Corporation Limited were completed. After that, Shanghai Yiguo no longer held any shares of the Company.

The commodity digitalization of Lianhua Huashang was unveiled at the ECR China, and the supply chain optimization pilot research project won the gold medal of excellent case at the conference.

August

Lianhua Huashang was awarded the title of "Demonstration Unit of Hangzhou City in Promotion of Telecommunication Network Fraud Prevention" ("杭州市防範通訊網絡詐騙宣傳示範單位") issued by the Office of Hangzhou Joint Conference on Fighting against and Governance of New-type Crime through Communication and Network.

The Zhongshan Store of Anhui Century Lianhua Supermarket Co., Ltd. was awarded the honorable title of "Grade A Enterprise of Labor Protection Credit" ("勞動保障誠信等級評價A級") by the Human Resources and Social Security Bureau of Jinghu District, Wuhu City.

The Company launched the "Lianhua Brand Refreshment" campaign.

September

14 September the Group and a famous domestic alcoholic beverages enterprise jointly held the VIP session of "Share with All"(萬家共享) tasting party in Shanghai, and achieved a complete success.

16 September the Group successfully held the first "Lianhua Orange, Healthy Run"(聯華橙，健康跑) themed event. A total of about 200 employees and 300 consumers participated in the competition, strengthening Lianhua's "Young, Healthy and Energetic" image in the minds of consumers and contributing to the promotion of the brand.

October

Lianhua Huashang participated in the China (Hangzhou) E-business Expo for the first time.

The Huamu Store of Century Lianhua was awarded the "Advanced Collective in Protection of Consumers' Rights of Pudong New District for 2016-2017" ("2016-2017年度浦東新區消費者維權先進集體") by the Consumer Rights Protection Committee of Pudong New District, Shanghai.

November

At the first China International Import Expo (the "CIIE"), the Company established the "Cross-ocean Farming-Supermarket Connection" strategic cooperation relationship with a number of well-known overseas trading companies with a total contract amount of RMB200 million, aiming at establishing an end-to-end full value chain connection and building overseas supply chain bases to realize the integration of production, supply and sales.

The Dantu store of Lianhua Jiangsu Company was awarded the title of "Price Integrity Pioneer of Jiangsu Province" ("江蘇省價格誠信先進單位") by the Pricing Bureau of Jiangsu Province. The Jingjiang store of Lianhua Jiangsu Company was awarded the title of "Provincial Accurate Weighing Demonstration Unit" ("省級誠信計量示範單位") by Jiangsu Provincial Bureau of Quality and Technical Supervision.

At the launching ceremony of the 2018 Hangzhou Leisure Shopping Festival, Lianhua Huashang signed strategic cooperation agreements with nine major commerce bureaus of Hangzhou to jointly improve the quality of life of Hangzhou people.

December

20 December at the First Meeting of the Third General Assembly and the 12th Zhejiang Chain Industry Conference organized by the Chain Association of Zhejiang Province, Ms. Zhang Huiqin, the chairman of Lianhua Huashang, was elected as the president of the third Zhejiang Chain Management Association. Meanwhile, Lianhua Huashang was awarded the title of "Enterprise with Outstanding Contribution in the Chain Industry of Zhejiang Province" ("浙江省連鎖業傑出貢獻企業").

28 December a launching ceremony was officially held for the Shaoxing smart logistics base invested by Lianhua Huashang, on which the base commenced operation. The base has intelligent equipment including conveying and sorting system, vertical lifting system and storage robot and is a comprehensive intelligent logistics base integrating informationization, automation and intelligence.

Century Lianhua PLUS（世紀聯華PLUS）, the first whole food market store in the hypermarkets segment of the Company, commenced operation with a grand opening in Qingpu, Shanghai.

31 December the Company launched the first "Wishful Year Around You"（心意年　在身邊）Chinese New Year marketing activity involving all business segments.

CONNECTION


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折起
陶瓷器皿/食物储存容器5折 玻璃杯5折 袜子5折
水盆/水桶5折 家庭收纳用品5折 内衣5折 毛巾5折
枕头/被子5折 单件/套件床品5折 洗衣液5折
男、女鞋/鞋配件5折 包装南北货7折 酱油/醋/料酒7折
还有很多很多很多很多
温馨提示
请使用本卖场提供的购物手推车
为了您和他人的安全

金猪精选
任意选
调味料
让日子
美一点
让时光

Chairman's Statement

I am pleased to present the annual results of Lianhua Supermarket Holdings Co., Ltd. to all shareholders of the Company (the "Shareholders") for the year ended 31 December 2018.

In 2018, China's macro economy remained stable amid changes and challenges. In face of a complex and challenging external environment, China's economy has experienced downward pressure and the pressure on enterprises operation has continued to increase. The retail industry in China encountered significant changes and has come to a red-hot stage with booming model innovations and transformations of business models. In addition, new marketing approaches have emerged in the retail market. With the rapid development of new retail, numerous renowned online platforms and brands have started to develop offline business coincidentally, and cooperated with physical retailers. Integration of online and offline business has speeded up and such integration trend in the retail industry became more prevalent. Omni-channel and multi-link retail has been established and scenarized cross-sector development started to appear. The phenomenon of survival of the fittest became obvious. Community e-commerce has been rising, creating new ways of attracting consumer traffic flow. Emerging e-commerce developed vertically with an effort to capture more market position in the fresh produce market. Traditional retail companies have been accelerating their paces of transformation, and rationally returning to the essence of retail and become more realistic while exploring new types of products and business models. They paid attention to refining their management and developed their private-label brands to meet the diversified and tiered demands of consumers.

Facing an unstable and volatile retail industry, the Group forged ahead against difficulties and setbacks. Oriented by a consumer-centric, professional and interconnected approach, the Group implemented the development strategy of innovation-driven transformation, captured the market opportunities brought about by consumption upgrade and put more effort into its operation. Through building industry chains, strengthening supply chains, integrating the market chains and the digitalisation of business and organization optimizations, the Group has built an omni-channel retail model. In 2018, the Group recorded a revenue of approximately RMB25,389 million, representing an increase of approximately 0.6% from that of the corresponding period of last year. The operating profit was approximately RMB69 million. The annual loss attributable to the Shareholders of the Company was approximately RMB219 million, representing a decrease of approximately RMB64 million from that of last year. The loss per share amounted to approximately RMB0.20. Although the Group did not record a turnaround from losses to profits in its annual results, its revenue achieved positive growth after five years of decline.

Over the past year, I, as the chairman, was mostly impressed by the recovery of Lianhua Supermarket during the cold winter of retail industry. This was not only reflected in the improvement in our overall performance, but also in the re-ignition of passion of the whole team. This year, we placed emphasis on organizing procurement sources and strengthening our characteristics, and promoted the improvement on fresh produce and base building. Strategic cooperation with Joint Business Plan ("JBP") suppliers was strengthened to enhance replacement rate of new products. We introduced quality supply chains and developed our private-label brands with the synergy of all segments and interconnection across the country. We promoted the optimization of logistics and efficiency improvement, upgraded

and optimized the information system in Jiangqiao. We commenced the operation of the logistics base in Shaoxing, Zhejiang, a comprehensive intelligent logistics base integrated with informatization, automation and intelligentization, which effectively supported the Company's logistics layout across all business segments and channels and enhanced the logistics efficiency. We promoted the quick profiting of franchised stores and the establishment of franchised modes, improved the satisfaction rate of franchise prices, steadily promoted the new and intensive franchise model and enhanced operation quality and services. With the operation upgrades of "delivery-to-home" business as our main focus, we have achieved the innovation and determination of omni-channel model. This year, we overcame bottlenecks, furthered our reform on systems and mechanisms, implemented market-and contract-oriented reform and promoted the establishment of professional manager system earnestly, which motivated our management and staff.

As for the exploration of the new retail and new model, we observed consumers' demands and devised plans accordingly. While conducting digital transformation and upgrading of our current stores, we courageously carried out the pilot program of Hypermarket 3.0 (大型綜合超市3.0) and Community Live Store 2.0 (社區生活店2.0). Century Mart PLUS (世紀聯華PLUS), a whole food market store, commenced operation in December 2018 in Qingpu, Shanghai. As opposed to our traditional business model, it has brought about a newer and more convenient shopping experience. In the supermarket segment, we opened our first "Lianhua Fresh Life" (聯華生活鮮) store which incorporates new retail and new consumption elements and is dedicated to offer modern food market solutions. Meanwhile, we have incorporated new technologies, experiences and cultures into Century Mart Whale-Choice Future Store (世紀聯華鯨選未來店), a new retail comprehensive supermarket opened by the Group in the Zhejiang region in 2017, to respond to the demand of consumption upgrade, keep exploring and improving and has introduced a new model for implementation into existing directly-operated physical stores, further accelerating the transformation and upgrade towards the new retail model of other physical stores. Hangzhou Green & Health Guoda Store (杭州Green & Health 國大店), our high-storey exquisite food and beverage supermarket, allows customers to "purchase worldwide" at their "doorstep" and won the "Gold Award for Permanent Store Design" (店裝一永久性

設計金獎), which was the only supermarket store in China that has received this award. In addition, the Group also set up self-service smart stores in the Zhejiang region, which integrated technologies such as Internet of Things, artificial intelligence and big data to provide 24 hours of uninterrupted intelligent retail services.

In 2018, the first CIIE was held in Shanghai, attracting worldwide attention. It was a platform established for retail purchasers to communicate directly with suppliers from various countries and regions, and to explore imported consumer goods that may be popular in the future so as to benefit more consumers in China. As the largest local retail company in Shanghai, we were honored to be a part of the CIIE. And leveraging on this opportunity, we held the Imported Food Festival to further increase our presence in the imported food area, and achieved seamless connection of agriculture and supermarkets with New Zealand Dairy. Looking forward, we will also continue to build quality global supply chains and overcome geographical constraints to import more quality goods into our stores.

No matter how the retail industry develops, its nature remains the same, which is to provide consumers with suitable goods. It is only because of the development of information technology, the ways of providing goods become more abundant and diversified. "Increase our consumers' loyalty to us" has been our corporate vision since the establishment of Lianhua Supermarket. In 2018, we had a clearer and more profound understanding of this vision. The "Lianhua Brand Refreshment"(聯華品牌煥新)project was officially launched. By defining brand strategies and providing a more memorable presence, the project allowed Lianhua Supermarket and its sub-brands

to bring better shopping experience to consumers, achieve deep communication with consumers and realize more efficient brand building and communication from brand positioning to business positioning, thereby supporting the development of our business. On this basis, through organizing various themed activities named "Wishful Year Around You" (心意年 在身邊), we launched our first New Year marketing campaign where all business segments participated. The campaign presented the new brand image of Lianhua while bringing actual benefits to consumers and received positive feedback widely. In the "Annual Awards for Chain Brands" (連鎖品牌年度獎項) which has great credibility and influence in the chain store industry in the Yangtze River Delta, the Group won again with "Lianhua Supermarket" winning "The Most Influential Retail Brand Award" (最具影響力連鎖品牌) and "Century Mart" winning "Star of the Chain Brands in Retail Industry Award" (零售業連鎖品牌之星).

In 2019, the macro-economic environment will remain challenging. Downward pressure on domestic economy will continue to grow, economic structure will be adjusted in different ways and the international economic and trade environment will remain complex. Decreasing domestic demand will continue to affect the manufacturing end, leading to a stable yet decreasing consumer demand. However, the Yangtze River Delta in which Group operates will have new development opportunities. The integration of Yangtze River Delta has been established as a national strategy, new sub-zones will be added to the Shanghai Pilot Free Trade Zone and the China International Import Expo in Shanghai has presented the new image of Shanghai, building a global financing platform for economy and trade.

In 2019, the Group, united as one, will uphold the corporate vision of "Increase our customers' loyalty to us" to become a leading omni-channel retailer which aims at satisfying consumers' quality demands in the Yangtze River Delta. We will further foster the mindset of future growth and explore and capture market and innovation opportunities to further drive performance growth. We will also develop core capabilities, strengthen transformation achievements, create innovative businesses and optimize organization efficiency.

The year 2019 will be the second year for the Group to implement service improvement programs. We will focus on the strategy of "pursuing self-improvement and enhancing the foundation", adopt proactive approaches to improve our services and continue to promote the brand refreshment. The interconnection among different business segments will be strengthened to meet the demands of consumers in different shopping scenarios, offering our customers more reassuring, reliable and pleasant experiences when shopping in Lianhua.

The recovery of Lianhua in 2018 was attributable to the efforts of all our staff. In 2019, the Group will devote to making breakthroughs in the reform of contract-based mechanism, further improve innovation on incentive mechanism, strengthen the establishment of innovative talent and back-up talent pool, and care for entry-level staff in an all-arounded way to increase their sense of belonging.

The downturn of retail industry may last for some time, but we believe that with our devotion, we will overcome all difficulties. With our passion of internal growth, the Group will continue to devote our efforts, empower and transform, increase our influence, and expand new potentials, with a view to sharing our success with and warming our staff, consumers, suppliers and Shareholders.

Finally, on behalf of the board of directors of the Company (the "Board"), I would like to extend my respect to our management team and all our employees for their efforts and contribution, as well as to express my heartfelt gratitude to our Shareholders and business partners for their continued support.

By order of the Board
Ye Yong-ming
Chairman

29 March 2019
Shanghai, the PRC


FROZEN FOODS
今年
做大厨
食品
N FOODS
商品价格牌
凤梨

肉制品
FRESH MEAT
FRESHMEAT
pork lamb chicken beef
rib brisket
picnic shoulder
beef pork

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INTEGRATE

Five Years Financial Highlights

Unit: RMB'000 For the year ended 31 December	**2018**	2017	2016	2015	2014
Revenue	**25,389,082**	25,225,388	26,666,069	27,222,699	29,152,454
Hypermarkets	**14,838,130**	15,263,388	16,291,815	16,612,065	17,513,911
– Percentage to revenue (%)	**58.44**	60.51	61.10	61.02	60.08
Supermarkets	**8,571,730**	8,001,927	8,323,560	8,623,925	9,544,941
– Percentage to revenue (%)	**33.76**	31.72	31.21	31.68	32.74
Convenience stores	**1,896,690**	1,874,299	1,982,848	1,968,663	2,013,456
– Percentage to revenue (%)	**7.47**	7.43	7.44	7.23	6.91
Other businesses	**82,532**	85,774	67,846	18,046	80,146
– Percentage to revenue (%)	**0.33**	0.34	0.25	0.07	0.27
Gross profit	**3,587,399**	3,757,839	3,937,505	4,021,565	4,241,145
Gross profit margin (%)	**14.13**	14.90	14.77	14.77	14.55
Consolidated income margin (%) (Note 1)	**24.98**	26.54	24.51	24.50	24.46
Operating profit (loss) (Note 1)	**68,532**	110,807	(220,251)	(148,831)	241,816
Operating profit (loss) margin (%) (Note 1)	**0.27**	0.44	(0.83)	(0.55)	0.83
(Loss) profit for the year attribute to owners of the Company	**(218,724)**	(282,760)	(449,955)	(496,991)	31,033
Comprehensive (expense) income for the year attributable to owners of the Company	**(218,724)**	(269,685)	(451,284)	(487,190)	31,033
Net (loss) profit margin (%) (Note 1)	**(0.86)**	(1.12)	(1.69)	(1.83)	0.11
(Losses) earnings per share (RMB)	**(0.20)**	(0.25)	(0.40)	(0.44)	0.03
Interim dividend per share (RMB) (Note 2)	**–**	–	–	–	–
Final dividend per share (RMB) (Note 2)	**–**	–	–	–	–

Unit: RMB'000 For the year ended 31 December	**2018**	2017	2016	2015	2014
As at 31 December					
Net assets	**2,459,926**	2,488,833	2,753,879	3,199,086	3,674,386
Total assets	**17,190,110**	16,954,480	17,458,012	17,604,856	18,428,359
Total liabilities	**14,730,184**	14,465,647	14,704,133	14,405,770	14,753,973
Net cash flow	**(916,407)**	401,607	(1,271,465)	(697,905)	267,777
Average (loss) return on total assets (%)	**(1.28)**	(1.64)	(2.57)	(2.76)	0.16
Average (loss) return on net assets (%)	**(10.06)**	(12.15)	(16.73)	(15.73)	0.92
Gearing ratio (%) (Note 3)	**0.00**	0.01	0.01	0.01	0.01
Liquidity ratio (times)	**0.78**	0.73	0.79	0.70	0.77
Turnover of trade payables (days)	**62**	62	61	59	58
Turnover of inventories (days)	**37**	41	43	41	40

Notes:

1. Consolidated income margin (%) = (Gross profit + Other income and other gains and losses + Other revenue)/Revenue
   Operating profit (loss) = profit (Loss) before tax－Share of profits of associates
   Operating profit (loss) margin (%) = profit ((Loss) before tax－Share of profits of associates)/Revenue
   Net (loss) profit margin (%) = (Loss) profit for the year attribute to owners of the Company/Revenue

2. The total shares of the Company increased to 1,119,600,000 shares from 622,000,000 shares due to the bonus issue effective in September 2011. Meanwhile the Board did not recommend the payment of the final dividend for the year ended 31 December 2018 at the Board meeting held on 29 March 2019.

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

Operating Environment

In 2018, the global economic growth showed signs of slowing down and the external environment was complicated and challenging. China's domestic economy faced a downward pressure with new and worrisome developments amid generally steady economic development. The pressure on businesses increased and the market confidence was affected. The Chinese government upheld the general work principle of pursuing progress while maintaining stability, adhered to the new development philosophy, pushed forward high-quality development, intensified supply-side structural reform, and gathered people's will and power to overcome challenges. The national economy continued to perform within a reasonable range.

Based on the data from the National Bureau of Statistics of the PRC, in 2018, China's gross domestic product ("GDP") achieved a year-on-year growth of 6.6%, representing a decrease of 0.3 percentage point in growth rate over last year. Total retail sales of consumer goods nationwide had a nominal year-on-year growth of 9.0%, representing a decrease of 1.2 percentage points in growth rate over last year. In particular, the total retail sales of consumer goods of units above a designated size had a year-on-year growth of 5.7%, representing a decrease of 2.4 percentage points in growth rate over last year.

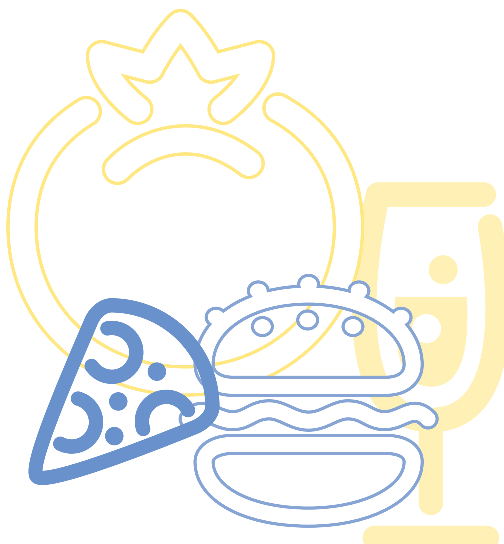
In 2018, the Chinese government further stimulated the consumption potential of residents and achieved significant results through adoption of a series of upgrading measures, including optimizing the consumption environment of urban and rural communities, expanding effective supply, innovating circulation modes and improving the consumption promotion system. As a result, the scale of consumption has steadily expanded, the momentum of consumption upgrades has not slowed down, the consumption patterns have been constantly innovated and the contribution of consumption has increased significantly. The consumption sector has become the key driving force of China's economic growth for the fifth consecutive year. Based on the data from the

National Bureau of Statistics of the PRC, in 2018, the national disposable income per capita had an actual growth of 6.5%, representing a year-on-year decrease of 0.8 percentage point in growth rate. However, the national consumption expenditure per capita had an actual increase of 6.2%, representing a year-on-year increase of 0.8 percentage point in growth rate. The contribution rate of final consumption expenditure to GDP growth was 76.2%, representing an increase of 18.6 percentage points compared to that of last year. In 2018, the national consumer price index ("CPI") had a year-on-year increase of 2.1%, representing an increase in growth of 0.5 percentage point compared to that of last year, and exceeded 2.0% for the first time since 2015. As indicated by Nelson's China Consumer Confidence Index Report, consumer confidence index remained at high levels.

According to the data issued by the Ministry of Commerce of the PRC, in 2018, retail sales of key enterprises monitored by the Ministry of Commerce increased by 4.3% year on year, which was 0.3 percentage point lower in growth rate than last year. In particular, the sales of convenience stores and supermarkets increased by 7.9% and 4.9% year on year, respectively, and the growth rate increased by 0.5 and 1.0 percentage point, respectively. Based on the data from the National Bureau of Statistics of the PRC, in 2018, national online retail sales accounted for approximately 23.6% of the total retail sales of social consumer goods, representing a year-on-year increase of approximately 4.0 percentage points.

In 2018, Chinese retail enterprises, including the Group, restored to the nature of retailing, focused on improving supply quality and efficiency, vigorously developed quality retail, cross-industry retail, smart retail and green retail, further reduced costs, increased efficiency and optimized services, so as to proactively cater to the consumption upgrade trend.

In 2018, with the acceleration of innovation and transformation in China's retail industry as well as further deepening of integration of diversified industries, new segments and new scenes continued to emerge, a proportion of online retail continued to increase and development of new retail accelerated. When it comes to consumption direction and trends, the consumption structure of residents was undergoing profound changes; consumers' consumption mindsets and behaviors were becoming more mature and rational; consumption expenditure was shifting from that of product-oriented nature to that of service-oriented nature, channels were becoming more convenient and consumer demands were more diversified and classified.



Financial Review

Revenue

During the period under review, the Group's revenue was approximately RMB25,389 million, representing a year-on-year increase of approximately RMB164 million, or approximately 0.6%, which was the first positive growth in the past five years. This was mainly attributable to the Group's newly-opened stores in the supermarket segment and the initial effects of reform and transformation of stores. The supermarket segment's revenue increased by approximately RMB570 million, or approximately 7.1%, compared to that of last year.

Gross profit

During the period under review, the Group's gross profit was approximately RMB3,587 million, representing a year-on-year decrease of approximately RMB171 million, or approximately 4.5%. This was mainly due to the effects of sorting out stores in the hypermarket segment as well as a decrease in operating areas as a result of transformation and reform. In particular, the gross profit of the hypermarket segment decreased by approximately RMB210 million compared to that of last year. During the period under review, the Group's gross profit margin was approximately 14.13%, representing a decrease of approximately 0.77 percentage point from approximately 14.90% for the corresponding period of last year. This was mainly due to the effects of marketing activities for sales expansion, such as rebate.

Other revenue

During the period under review, the Group's other revenue was approximately RMB2,154 million, representing a year-on-year increase of approximately RMB116 million, or approximately 5.7%. This was mainly because the income from suppliers increased by approximately RMB112 million as compared with that of the corresponding period of last year.

Other income and other gains and losses

During the period under review, the Group's other income and other gains or losses amounted to approximately RMB602 million, representing a year-on-year decrease of approximately RMB298 million, or approximately 33.1%, due to the effect of the gains amounting to RMB399 million obtained from the disposal of the 100% equity interests in Shanghai Lianhua Fresh Produce Processing and Distribution Center Co., Ltd. (上海聯華生鮮食品加工配送中心有限公司) ("Lianhua Fresh Produce") in the corresponding period of last year.

Distribution and selling expenses

During the period under review, the Group's distribution and selling expenses amounted to approximately RMB5,377 million, representing a year-on-year decrease of approximately RMB219 million, or approximately 3.9%, and accounting for approximately 21.18% of the revenue, representing a year-on-year decrease of approximately 1.0 percentage point. This was mainly attributable to a decrease in operating costs upon the Group's re-organization of stores, including a year-on-year decrease of approximately RMB76 million and approximately RMB128 million in the labour costs as well as the rental expenses and water and electricity charges of stores, respectively.

Administrative expenses

During the period under review, the Group's administrative expenses amounted to approximately RMB814 million, representing a year-on-year increase of approximately RMB47 million, or approximately 6.1%, and accounting for approximately 3.21% of the revenue, representing a year-on-year increase of approximately 0.17 percentage point. This was mainly due to a year-on-year increase of approximately RMB34 million in labour costs as a result of the Group's adjustment to management structure as well as the increased performance bonus of certain segments.

Other expenses

During the period under review, the Group's other expenses amounted to approximately RMB82 million, representing a year-on-year decrease of approximately RMB138 million, or approximately 62.7%, which mainly resulted from a year-on-year decrease of RMB96 million in the provision for loss from closure of stores.

Share of profits of associates

During the period under review, the Group's share of profits of associates amounted to approximately RMB42 million, representing a year-on-year increase of approximately RMB34 million, or approximately 401.7%, including a year-on-year increase of approximately RMB29 million in the return on investment of Shanghai Carhua Supermarket Company Limited（上海聯家超市有限公司）("Shanghai Carhua"), as well as the recognition of approximately RMB15 million of the return on investment of Bailian Financial Service Co., Ltd.（百聯金融服務有限公司）("Bailian Financial Services").

Profit before taxation

During the period under review, the Group's profit before taxation amounted to approximately RMB111 million, representing a year-on-year decrease of approximately RMB8 million, or approximately 7.0%.

Income tax expense

During the period under review, the Group's income tax expense was approximately RMB188 million, representing a year-on-year decrease of approximately RMB82 million, or approximately 30.4%, which was due to the effect of an increase of approximately RMB91 million in the income tax expense on the investment return from the disposal of the equity interest in Lianhua Fresh Produce in the corresponding period of last year.

Loss for the year attributable to owners of the Company

During the period under review, the Group's loss attributable to owners of the Company amounted to approximately RMB219 million, representing a year-on-year decrease of approximately RMB64 million in the losses, or approximately 22.6%, which was due to the decrease in the income tax expense. During the period under review, the net profit margin was approximately –0.86%, representing a year-on-year decrease in loss of 0.26 percentage point. Based on the 1,119.6 million shares issued by the Group, the basic loss per share were approximately RMB0.20.

Liquidity and financial resources

During the period under review, the net cash outflow of the Group was approximately RMB916,407 thousand. This was mainly due to the year-on-year decrease in sales of prepaid cards and an increase in funds withdrawal. As at 31 December 2018, cash and various balance at bank amounted to approximately RMB4,656,100 thousand.

For the year ended 31 December 2018, the accounts payable turnover period of the Group was 62 days and the inventory turnover period was approximately 37 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 31 December 2018, there were no arbitrage financial instruments in issue by the Group.

Growth of each retail business

Hypermarkets

During the period under review, the hypermarket segment reduced operating losses through sorting out stores with losses. In the meantime, the hypermarket segment conducted upgrade and reform of the profit model of existing stores. It adjusted its product structure to improve the operating capability for fresh produce, and also increased income from merchants solicitation and controlled the rigid growth of labour costs through cooperation with the transformation and upgrade of the stores and reasonable allocation of quality merchandising resources. During the period under review, the hypermarket segment of the Group recorded a revenue of approximately RMB14,838,130 thousand, accounting for approximately 58.4% of the Group's revenue, representing a decrease of approximately 2.8% compared to that of last year. In particular, same store sales had a year-on-year increase of approximately 1.74%. During the period under review, the hypermarket segment recorded a gross profit of approximately RMB2,059,124 thousand, representing a decrease of approximately RMB209,555 thousand compared to that of last year. The consolidated income was approximately RMB3,854,032 thousand, representing a decrease of approximately RMB156,100 thousand compared to that of last year. The distribution costs and administrative expenses were approximately RMB3,560,412 thousand, representing a decrease of approximately RMB287,000 thousand compared to that of last year, mainly due to a year-on-year decrease of approximately RMB102,894 thousand and approximately RMB146,517 thousand in the labour costs as well as the rental expenses and water and electricity charges of stores, respectively. The segment operating profit was approximately RMB204,789 thousand, representing a year-on-year increase in profit of approximately RMB250,444 thousand. Operating profit margin increased by 1.68 percentage points compared to that of last year to approximately 1.38%.

	As at 31 December	
	2018	2017
Gross Profit Margin (%)	**13.88**	14.86
Consolidated Income Margin (%)	**25.97**	26.27
Operating Profit Margin (%)	**1.38**	–0.30

Supermarkets

During the period under review, the Group carried out comprehensive upgrades on existing supermarkets and actively adjusted its product structure. The Group continued to promote the implementation of the online "Delivery to Home" project to improve same store sales and in the meantime, actively engaged in new business. During the period under review, the supermarket segment of the Group recorded a revenue of approximately RMB8,571,730 thousand, accounting for approximately 33.8% of the Group's revenue, representing a year-on-year increase of approximately RMB569,803 thousand, or approximately 7.1%. In particular, same store sales had a year-on-year increase of approximately 6.22%.

During the period under review, the supermarket segment recorded a gross profit of approximately RMB1,193,674 thousand. The gross profit margin decreased by 0.44 percentage point compared to that of last year to 13.93%. The consolidated income was approximately RMB1,868,753 thousand, representing a year-on-year increase of approximately RMB132,466 thousand. The consolidated income margin increased by 0.10 percentage point compared to that of last year to 21.80%. The segment operating profit was approximately RMB96,726 thousand, representing a year-on-year increase of approximately RMB49,459 thousand. Operating profit margin increased by 0.54 percentage point to approximately 1.13%.

	As at 31 December	
	2018	2017
Gross Profit Margin (%)	**13.93**	14.37
Consolidated Income Margin (%)	**21.80**	21.70
Operating Profit Margin (%)	**1.13**	0.59

Convenience Stores

During the period under review, the convenience store segment continued to improve its operational quality and brand image of existing stores, constantly optimized and adjusted store functionality and shifted the focus of the product portfolio to young customers. During the period under review, the convenience store segment recorded a revenue of approximately RMB1,896,690 thousand, accounting for approximately 7.5% of the Group's revenue, representing a year-on-year increase of approximately 1.2%. In particular, same store sales decreased by approximately 0.99% compared to that of last year. The convenience store segment recorded a gross profit of approximately RMB320,278 thousand. The gross profit margin decreased by 0.60 percentage point compared to that of last year to approximately 16.89%. The consolidated income was approximately

RMB423,577 thousand. The consolidated income margin decreased by 1.35 percentage points compared to that of last year to approximately 22.33%. The distribution costs and administrative expenses amounted to approximately RMB597,258 thousand, representing a year-on-year decrease of approximately RMB3,353 thousand. During the period under review, the convenience store segment incurred an operating loss of approximately RMB177,473 thousand with a year-on-year increase in losses of approximately RMB21,640 thousand. The operating profit margin decreased by 1.05 percentage points to approximately –9.36%.

	As at 31 December	
	2018	2017
Gross Profit Margin (%)	**16.89**	17.49
Consolidated Income Margin (%)	**22.33**	23.68
Operating Profit Margin (%)	**–9.36**	–8.31

Capital Structure

As at 31 December 2018, the Group's cash and cash equivalents were mainly held in Renminbi. There were no bank borrowings of the Group.

During the period under review, the total equity of the Company decreased from approximately RMB2,488,833 thousand to approximately RMB2,459,926 thousand, mainly due to the loss in the period amounting to approximately RMB77,132 thousand, the dividend distributed to non-controlling interests amounting to approximately RMB136,354 thousand, the decrease of capital reserve and non-controlling interests respectively by approximately RMB3,702 thousand and RMB24,474 thousand for acquisition of additional equity interests in a subsidiary. and the increase in opening balance by approximately RMB212,755 thousand adjusted for the application of a new reporting standard.

Details of the Group's Pledged Assets

As at 31 December 2018, the Group did not pledge any assets.

Foreign Exchange Risks

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

Share Capital

As at 31 December 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 at 31 December 2018, the Group did not have any material contingent liabilities.

Development of Sales Network

During the period under review, the Group adhered to its quality-focused and sustainable development strategy, promoting innovation and transformation of existing outlets and accelerating expansion of new stores. The Group further elaborated on the regional development planning, enhanced the lease renewal rate of existing outlets and actively established new outlets in key development areas in order to consolidate its market position. Meanwhile, the Group adapted to the changes in market environment and reorganized the stores incurring substantial losses to improve the overall quality of the physical stores.

During the period under review, the Group opened 314 new stores, hitting a new high since 2013, among which, 211 were new franchised stores and 103 were new directly-operated stores. In terms of geographical distribution of the new stores, 216 new stores were located in the Yangtze River Delta, accounting for 68.8% of the new stores. The Group reformed and transformed 104 stores in total, among which, 26 were within the hypermarket segment.

Region	Segment	Newly opened stores during the period under review		Closed stores during the period under review	
		Count	Operating Areas *(m²)*	Count	Operating Areas *(m²)*
Greater East China	Hypermarkets	6	25,964.0	10	79,489.0
	Supermarkets	208	83,722.9	132	44,343.6
	Convenience Stores	54	2,896.9	145	7,924.3
North China	Convenience Stores	3	129.7	9	590.0
Northeast China	Hypermarkets	1	8,530.0	0	0.0
	Supermarkets	0	0.0	1	950.0
	Convenience Stores	12	635.5	47	1,833.9
Middle China	Supermarkets	3	8,596.0	2	3,700.0
South China	Supermarkets	23	6,473.0	18	4,019.0
Southwest China	Supermarkets	2	4,300.0	0	0.0
Northwest China	Supermarkets	2	800.0	0	0.0
Total		314	142,048.0	364	142,849.8

During the period under review, the hypermarket segment opened seven new stores, namely one in Jiangsu Province, five in Zhejiang Province and one in Heilongjiang Province. The Group enhanced the operating efficiency of this segment by means of adjusting product portfolio, optimizing scenario setting, upgrading service management, sorting out stores incurring substantial losses and enhancing the overall operational quality.

During the period under review, the supermarket segment opened 238 new stores, including 76 directly-operated stores and 162 franchised stores, which turned around the trend of significant contraction of the store network scale. The directly-operated business under the supermarket segment primarily focused on transformation and upgrading while intensifying the exploration for new business models centering on "community convenience stores" (社區便捷), "community fresh produce stores" (社區生鮮) and "selected stores"(精選店). On the other hand, the franchise business primarily focused on consolidation and improvement and proactively promoted the new franchise model and the cooperation with and profiting of the franchisees.

During the period under review, oriented by diversified development, the convenience store segment optimized its product portfolio, enriched its product categories and continuously expanded the sales of fresh produce, imported goods and private-label products, while paying attention to consumers' experience, creating new scenarios for community consumption and increasing service functions to meet consumers' diverse consumption needs. During the period under review, the convenience store segment opened 69 new stores, including 20 directly-operated stores and 49 franchised stores.

During the period under review, the Group made an investment of approximately RMB494.10 million, among which, approximately RMB147.74 million was for opening new stores, approximately RMB134.01 million was for store transformation, approximately RMB602 thousand was for the Anhui Logistics Central Warehouse Project, and approximately RMB211.74 million was for the Yangxunqiao Logistics Project.

As at 31 December 2018, the Group had 3,371 stores in total, representing a decrease of 50 stores compared to that in the end of 2017, mainly due to adjustments to the store network of the convenience store segment. Approximately 82% of the Group's stores are located in eastern China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	142	612	757	1,511
Franchised operation	–	1,295	565	1,860
Total	142	1,907	1,322	3,371

Note: The data mentioned above were as at 31 December 2018.

Construction of a Supply Chain with Differentiated Categories

During the period under review, the Group strengthened the construction of fresh produce bases and enhanced its fresh produce operational level by placing emphasis on organizing procurement sources and strengthening the characteristics. The Group actively expanded the direct purchase bases for vegetable and fruit, sun-dried goods, as well as breeding and processing bases, with 40 newly added bases, of which 23 bases are direct sourcing bases. The Group cooperated with well-known agricultural enterprises in respect of placing orders and expanded cooperation channels, extending the cooperation scope and the intensity in this regard. Through the "Overseas Shopping Association" platform, the Group reached cooperation intention with 25 enterprises and established production and sales relationships with seven agricultural product planting and processing enterprises. The Group implemented the "Boosting Agriculture Through Purchase and Marketing" programme for nationwide unsalable agricultural products and built a "One City One Category", a layout of origins across the nation. In order to promote "Shared Bases, Joint Direct Purchase", the Group commenced joint direct purchase with a number of bases. For the purpose of reducing fresh produce wastage, the Group actively promoted the connection and integration between the fresh produce distribution centers and bases, promoted the construction of local warehouse and implemented the standardization of deep processing and extension. Meanwhile, the Group focused on building its private-label brand "Lianhua Tiantian", actively expanding its product portfolio and increasing sales proportion of its private-label fresh produce.

During the period under review, the Group adhered to the strategy of category upgrade, actively built analysis frameworks for category upgrading strategy, and formulated a key path for category upgrading. Through proactive measures such as introducing new brands, innovative product categories, introducing new products and improving the price competitiveness for franchise, the Group strengthened its management of product categories and enhanced its core competitiveness. Based on the understanding of the shopping needs and psychology of consumer groups from market research, the development and launch of new products have accelerated. The Group reorganized the product space based on the shopping habits of different consumer groups, thereby creating new shopping experience.

During the period under review, the Group proactively explored the segment/store combination solution. According to the types and performances of different stores, new types of stores such as community fresh produce ("fresh living"), community convenience stores and selected supermarkets were introduced to the supermarket segment, which were vested with brand new functions and definitions. The hypermarket segment promoted gradual store optimization, incorporated multiple scenarios and diverse functions by upgrading its portfolio and re-planning of original space, so as to attract more consumer groups by means of diversity and differentiation.

During the period under review, the Group intensely enhanced nationwide supplier management, aiming to optimize its gross profit and consolidated income. The Group integrated supply chain resources and activated joint procurement across China. Through the implementation of the JBP through key suppliers, the Group jointly promoted the strategic cooperation among retailers and suppliers. With innovative business model, the Group was able to share resources, enlarge the scale and increase product revenue.

During the period under review, in terms of its private-label brand strategy, the Group enhanced the coordination of various segments and regional linkages. On the one hand, it optimized and upgraded the supply chain, with a view to increasing the proportion of direct purchase, joint purchase and agency purchase. On the other hand, it increased the proportion of direct supply by enhancing the development of direct suppliers, so as to enhance the overall competitive advantage. During the period under review, the Group organized and developed five all-segment private-label brands, namely You Xiang (優饗), Shi Hui (拾惠), UPSH, Tasy and Better Living.

During the period under review, in terms of imported brand strategy, the Group seized the opportunity arising from the CIIE and held an imported food festival to promote marketing innovation. At the same time, the Group expanded the channels of imported goods. For example, the Group achieved seamless connections with New Zealand Dairy during the CIIE, enabling it to expand the categories of imported goods, increase the introduction of new products, focus on the development of fortress products and increase the replacing frequency of new products.

Excellent Implementation to Improve Operational Capability

During the period under review, the Group strengthened service improvement and focused on the consistency of operating standards. The Group designed, established and implemented a standard operation manual and continuously refined and deepened such manual during the implementation process and thereby finalized and promoted such manual. Upholding the corporate vision of "making our customers become more loyal to us", the Group has prepared a service improvement plan guided by customer satisfaction and established a high-level service system from fragmentation to integration, devoting itself to raise service awareness. The Group focused on customer experience, built high-standard and high-quality five-star stores, regulated service standards, enhanced brand reputation and built a high-quality brand of retail service in Eastern China.

During the period under review, in terms of the Group's innovative marketing tactics, the Group implemented an annual marketing plan to ensure seamless promotion activities throughout the year. On the basis of basic marketing DM, the Group strengthened the integration of marketing resources, and launched large-scale themed promotion activities with various forms and flexible arrangements to attract customers and enhance customer flow through unified theme, time period of promotion activities and preset goals. Meanwhile, the Group strengthened marketing budget management and performance analysis, evaluating marketing effectiveness from different angles, such as sales, customer flow and cost input, and conducted precise marketing catering to the needs of consumer groups to maximize marketing efficiency. Focusing on innovating marketing strategies, the Group increased exploration of new media, new channels, and new marketing methods (such as membership programs), 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 themed activities, utilization of member points for equity marketing, launch of delivery-to-home sales assisting tools, etc. In addition, the Group strengthened membership marketing to increase member participation, increased the proportion of sales to members through member-only promotions so as to increase the stickiness of members. Based on marketing activities, the Group promoted public welfare and carried out public welfare activities including "Lights Off for One Hour" and "Public Welfare Assistance to Agriculture, We Are Acting", which greatly enhanced the brand image of the Group. In December 2018, the Group launched the first all-segment joint New Year marketing campaign under the theme of "Wishful Year Around You", presenting a brand new image to attract customer flow and achieve a good start in the Spring of 2019.

During the period under review, fresh produce category has been the critical levers for attracting consumers. The Group formulated optimization plans, gradually enriched and improved the portfolio and functionality of the fresh produce category, strictly implemented product display standards to highlight "Direct Purchase from Sources" and promoted "Brand Stories" to enhance the overall image of such category, so as to explore sales potential and seek new sales growth points. In order to control fresh produce wastage, the Group has built and solidified sample stores to strengthen operation standards for fresh produce through one point to the entire district. As for the room temperature product category, the Group implemented strict seasonal display standards. The Group leveraged on the core products such as private-label brands, imported goods, new products and affordable products along with the promotion of model stores to sort out slow-selling goods in time, and improve performance comprehensively.

During the period under review, with respect to information system upgrading, the Group achieved cross-system consistency of the master data by establishing and improving Lianhua big data platform, enhancing the platform system of franchise business, as well as optimizing and upgrading the store POS cashier system. The Group focused on the establishment of digital stores as a pilot scheme, completed the basic development of the digital store system and the digital operation platform and realized the visualization of the transition information of orders from the stores. Meanwhile, the Group completed the brand new design for the functional structure of the ERP supply chain information system, promoting the construction of ERP system.

During the period under review, in order to improve logistics efficiency, the Group sorted out the major category of room temperature products, optimized the logistics operation process, clarified accountabilities among operation, procurement and allocation of goods to improve the efficiency of the supply chain operation. The Group optimized the Jiangqiao information system, launched the automatic replenishment of central warehouse, and fully implemented the T+1 delivery, improving the delivery timeliness and thereby satisfying the timely needs of goods supplement from stores. At the same time, Zhejiang Shaoxing Logistics Base, a comprehensive intelligent logistics base integrating informatization, automation and intelligence, officially commenced operation. It is equipped with intelligent facilities such as conveying and sorting system, vertical lifting system and warehouse robot, which would effectively boost the logistics layout on all segments and channels as a whole to improve the logistics efficiency.

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 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, renewed leases of existing 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 in development model of small segment business.

During the period under review, the Group accelerated the exploration of new development model of outlets based on consumer demands, giving new functions and new definitions to its existing outlets.

The Group's whole food market model store featuring hypermarket 3.0 – Century Mart PLUS (Qingpu Store) (世紀聯華PLUS(青浦店)) commenced operation on 30 December 2018. It aims to create a community center in the neighborhood that integrates composited forms of business, such as cinema, preschools, fitness, catering, leisure and service, etc., where dining-in service, Chinese pastries, cooked food, bakeries, coffee, other light snacks, fresh fruit cut and freshly made juices are offered. In the meantime, it's equipped with warehouses at front, self pick-up stations and data collection and utilization equipment to enhance the digital level of the store, bringing new shopping experience to consumers. Meanwhile, the Group has continued to incorporate new technologies, experiences and cultures into Century Mart Whale-Choice Future Store (世紀聯華鯨選未來店), a new retail hypermarket opened by the Group in Zhejiang region in 2017, to keep exploring, improving and responding to the demand for consumption upgrading and form the innovation model of such store for implementation into the existing directly-operated physical stores to further accelerate their transformation and upgrading towards the new retail model.

During the period under review, based on different functionality positioning, the Group carried out category transformation of supermarket segment by adjusting their product portfolio and featured services. The supermarkets were transformed into three types, namely selected stores (精選超市), community fresh produce stores (社區生鮮) and community convenience stores (社區便捷). "Lianhua Life Fresh" (聯華生活鮮) store incorporates new retail and new consumption elements while highlighting high-frequency fresh produce, room temperature products and friendly services to create a warm next-door shop. It is designed to establish a strong presence in the community under the omni-channel model to precisely satisfy daily demands of the community and to offer modern food market solutions. Besides, our high-storey exquisite food and beverage supermarket – Hangzhou Green & Health Guoda Store (杭州Green & Health國大店) allows customers to "purchase worldwide" at their "doorstep" and won the "Gold Award for Permanent Store Design" (店裝永久性設計金獎), which was the only supermarket store in China that received this honor. At the same time, the Group also developed 36 self-service smart stores in the Zhejiang region, which integrated technologies such as Internet of Things, artificial intelligence and big data to provide 24 hours of uninterrupted intelligent retail services.

During the period under review, the Group proactively promoted the quick profiting of the franchised stores as well as the transformation and enhancement of the new franchise model. Focusing on meeting the demands of the franchisees, the Group accelerated the support to the franchising information system and improved the fulfillment rates of product orders from the franchised stores while establishing and determining the operational criteria and improving the standard of operation and management of the franchised stores and to provide better service to the franchisees. Therefore, a market where common values were created to promote the sustainable and healthy development of the franchise business was established. At the same time, the Group actively promoted the process of the close franchise model, explored new franchise models by multi-model and diversified cooperation methods, advanced the quick profiting of the franchised stores so as to achieve 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. The Group focused on 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 strengthened front-end and back-end operations, deepened the construction of various supporting functions, adjusted the daily life products and portfolio, expanded the external resources of the "delivery-to-home" business, and accelerated the realization of innovation and determination of the omni-channel model.

During the period under review, by fully leveraging on the traffic flow of WeChat mini programs, and constantly improving their level of convenience, the Group continuously increased customer's stickiness. 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 product portfolio and implemented the product inventories tracking system to improve the accuracy of inventory management. Through optimizing the delivery-to-home products, the Group also improved the business capabilities of the product 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 such as purchase by scanning QR codes, online group purchase and offline pick-up, and value for money group purchase coupons. The interactive electronic screens at the stores were transformed and upgraded to include new functions such as electronic posters, coupon distribution, event promotion, etc.. The diversified promotional tools boosted the growth of delivery-to-home business.

During the period under review, the Group launched a brand refreshment project, under which it enabled consumers to get a complete understanding of its brand and offered them with refreshing experiences by organizing a unified brand proposition, establishing a clear brand positioning and organizing the brand structure at the enterprise level to differentiate from other brands. Besides, the Group gained information of consumer shopping behavior with the help of big data to find out the perceptions and determining factors of different types of consumer. Then, it analyzed consumer expectations based on functions, experiences, emotions etc., and dealt with problems faced by the brands to explore new opportunities in the market.

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

During the period under review, the Group actively optimized the organizational framework, reduced management hierarchy, promoted the flattening of the organization, and continuously optimized the organization and functions. The Group promoted the structure design and optimization of key business departments, strengthened the capabilities of product marketing and operations. In addition, it established a talent pool of different levels, empowering the development and properly implemented talent recruitment, retention and development work. In order to facilitate its operation and development, the Group innovated its training mechanisms, optimized the learning methods, expanded internal training resources and consolidated its internal trainer foundation. Lastly, the Group established an incentive mechanism focusing on business and front-line work while optimizing the personnel structure and diversifying the forms of employment to improve the overall labour efficiency of the Company.

During the period under review, the Group focused on the innovative incentive mechanism to help drive business development. The Group explored establishing market-oriented talent management system, strengthened contract-based management, and accelerated the introduction of market-oriented talents and the talents allocation. All staff participation and performance improvement were promoted through enlarging and refining the incentive mode of "performance increment motivation award"(業績增量提獎) and building risk and profit-sharing mechanism. The integrated and connected assessment was reinforced to stimulate the enthusiasm and competitiveness 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 progressed towards the target of cost reduction and efficiency enhancement, and focused on improving corporate management and control capabilities. It strengthened tax planning to reduce taxation costs and management costs while strengthening budget control and reducing expenses. 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 energy conservation and transformation work and the bidding process for asset purchase agreement, and fully utilized idle assets. In addition, the employment structure was adjusted to reduce the total number of full-time workers and the Group strictly controlled the headcount at the headquarters 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. The Group enhanced its product negotiation skills, intensified its efforts on negotiating for rental reduction and reduced vacancy rate of stores for merchant solicitation in order to increase the overall consolidated gross profit margin.

During the period under review, the Group incorporated work safety into the Company's performance appraisal indicators and paid special attention to production safety and food product safety. As to product quality, it improved the management system, strengthened the process of monitoring and safety inspection, and endeavored to ensure proper after-sales work in order to proactively promote the construction of "trustworthy supermarkets"(守信超市).

Employment, Training and Development

As at 31 December 2018, the Group had a total of 37,579 employees, representing a decrease of 3,187 employees during the period under review. Total employment expenses amounted to approximately RMB2,814,088 thousand.

During the period under review, the Group continued to optimise organizational framework and promote the flattening of the organization structure, improved the efficiency of information communication and reduced the level of management. The Group promoted the design and optimization of key business departments, strengthened product marketing and operating abilities and completed the structure and function design and resource allocation of new departments. The optimization of the functionality of core business departments were further improved through redesigning the structure of core business. The introduction of core talent was accelerated, a preliminary market-oriented talent management system was initially established and contract-based management was strengthened.

During the period under review, the Group continued to promote the performance assessment system for the whole Group. In the division of responsibility for operation, the Group, guided by performance culture, set up small operation units and continued to promote the outsourcing of responsibility for performance through splitting up performance targets to member companies, departments, stores and core positions. The Group has established an assessment and incentive mechanism among the headquarters, member companies and front-line stores and shares over-performance result and incremental income with all staff. The Group explored an incentive mechanism for business and front-line work and implemented special term incentives to motivate staff at front-line stores and enhance the cohesion of the operation team. Cross-sector performance-oriented teams have been established to carry out the core work of the Group. A gradual reform of the mode of incentive was explored and implemented to achieve a joint creation, joint sharing and joint undertakings sharing mechanism.

During the period under review, the Group accelerated the construction of talent pool and youth talent team, aiming to nurture talents at different levels and achieve empowered development. Firstly, the Group launched "the Eagle Nurturing Program"(雛鷹起飛計劃), through which new college graduates were recruited to expand the new management trainee team gradually, and with main cultivating measures such as training, teaching, rotation and store practice, the Group has made special training programs to accelerate the rotation of different positions of new staff, explore their potentials in an all-around way, help them master the skills required for their positions, support new staff to integrate into the Group quickly. Secondly, the Group launched "the Eagle Flying Program"(雄鷹展翅計劃), through which elites were selected among recommended back-up talents, staff with high potentials and excellent store managers, middle to teenage management was formed and trainings were held for talents with high potentials. The Group has designed character training programs for the back-up talents, which set out clearly the future cultivation direction and provided them with career development paths.

Principal Risks

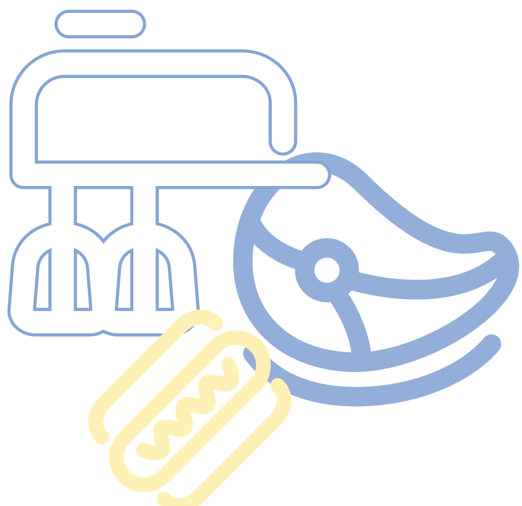
The business, financial condition, operating results and prospects may be affected by risks and uncertainties relating to the Group's business. The Group incorporates its risk management procedures into the formulation of strategies, business planning, investment decision-making, internal control and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

Risks relating to the logistic system and distribution center

Modern retail companies own a wide variety of merchandise, which includes diversified needs of distribution and storage and high ordering frequencies, and the timing is relative stringent. Relatively weak intelligent operation level of logistics services, lower logistics service quality level and low centralized distribution rate would result in slower turnover of inventory and greater value amount of unmarketable goods, which have adverse effect to the normal development and operation of such companies.

Mitigating measures

The Group has conducted necessary modifications towards operation process based on its needs, continued to improve the automatic replenishment system for central logistics warehouse and increased the satisfaction rate of products through technology method. In respect of personalized products for Jiangsu and Anhui region, the Group researched and formulated a solution towards such issue, that is, to utilize the logistics transition in Jiangqiao. The Group optimizes the online and offline operation procedure, coordinates the offline distribution resources to improve the distribution manner, applies advanced technical devices and management philosophy to realize the transparency of logistic delivery information, enhance operation efficiency and reduce operation and distribution costs.



Risks relating to the development of network

There are certain risks arising from the strategic transformation of an enterprise, such as outlet incubation and new business expansion. At the time of opening a store under a new commercial segment, expanding to a new region and transforming a store in supermarket segment, a company may experience the circumstances of prolonged market incubation and operation loss, which in turn affects the overall results of such company and increase operational risks. Otherwise, the risks of closing of stores or quitting new stores may exist in the future due to the reasons such as expiration of contract, conditions for store modification and property. As the competition in retail industry is intensive, there is no doubt that the physical retail sector faces a constantly rising trend of fees and expenditures like rental, labor cost, utilities and promotion expense, and various research and development costs in relation to new business segments and new modes also requiring continuous investment, the Company is exposed to the risks of continuous increase of operational cost, which would create significant pressure on its business performance.

Mitigating measures

The Group adheres to the quality-oriented and innovation-driven growth strategies, adopts the differentiated competitive tactics, focuses on the supermarkets and convenience stores in line with hypermarkets, targeting to business districts like residence, school, commerce and entertainment, decides and adjusts its business operation and functional position in accordance with customer group from different business districts. At the same time, the Group constantly enhances its added-value services quality, makes great efforts to expand its added-value services, so as to meet the demands for convenient daily life consumption and further strengthen its leading edges of differentiated competition in the intense market competition.

Risks relating to the level of E-commerce business

As the development of E-commerce business mode entails significant capital investment, the input-output imbalance is also one of the risks encountered by the Group. In the context of diversified connotation of retail and rapid iteration of retail modes, the retail supermarket enters into a new stage of omni-channel integration. Only by focusing on consumer's needs, demands, leveraging on the improvement of technology and retail infrastructure, gradually breaking the boundaries among online and offline business, customer groups, supply chains, time and efficiency, platforms and regions, can the Group obtain brand recognition from consumers and expand its acceptance.

Mitigating measures

With the fast development of Mobile Internet and changes of consumption attitudes, the boundary between online and offline gradually vanishes and the shopping scenario increases, for the purpose of catering to the upgrade trends of consumer market and behavior, allowing the consumer to enjoy the more convenient and customized shopping experience, the Group actively develops its "Delivery to Home" business, combines the resource advantages of offline outlets with online demands and relies on the offline outlets to achieve "Delivery in 1 hour" to meet the consumer's demand of shopping at home while giving the consumers a feeling of shopping in supermarkets in person. Through continuously upgrading the "Delivery to Home" business operation, the Group realizes the innovation of Omni-channel mode and establishes a new model.

Risks relating to employees

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

Mitigating measures

The Group strives to build a consumer-centric corporate culture and an organizational framework with the whole team supporting front-line work. The Group enhances its commodity, marketing and operation capacity through taking measure of optimizing organizational framework, promoting flattening of the organization and streamlining the level of management. In terms of attracting, retaining and cultivating talents, the Group expands talent recruiting channel and enhances talent reserves by improving market-oriented recruitment system, increasing the efficiency and satisfaction rate of external recruitment and strengthening the management and supervision of the recruitment process. In line to the business growth requirement, the Group researches the determination of employment mode of the terminal store in depth, enriches employment forms, as well as proactively explores an incentive mechanism to encourage the whole team supporting business and front-line work.

Compliance risk management

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

Strategy and Planning

Looking ahead into 2019, China's economy will continue to shift from high speed growth into high quality development and experience structure adjustment. Meanwhile, the Chinese government will persistently uphold the underlying principle of "pursuing progress while ensuring stability" to stimulate high quality growth of the manufacturing sector, facilitate the formation of a strong domestic market, promote rural revitalization, enhance solid progress in the coordinated development among regions, accelerate economic system reform, propel an all-round opening-up, stabilize the employment market, guarantee and strengthen livelihood, while stepping up its efforts in promoting tax reduction with an aim to support the substantial economic development. It is expected that the national economy will continue to operate within a reasonable range.

Domestic demand is the leading driving force of China's economic growth and the consumption, as the main driver, has increased. Accordingly, in the beginning of 2019, ten national ministries and commissions of the Chinese government jointly announced "the Implementation Plan for Further Optimizing Supply to Promote the Stable Consumption Growth and Facilitate the Formation of a Strong Domestic Market (2019)" (《進一步優化供給推動消費平穩增長促進形成強大國內市場的實施方案(2019年)》), putting forward 24 concrete measures covering six aspects in line with the major trend of consumption upgrades to better satisfy people's yearning for a good life. It is believed that the immense consumption potential and consumption demand arising from such initiative are immeasurable.

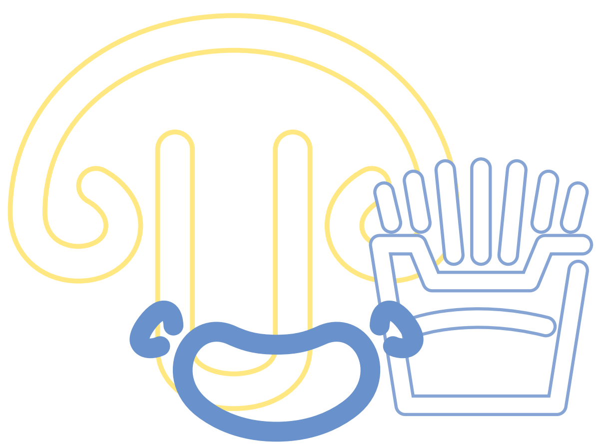
Therefore, in 2019, the Group will uphold the faith of "unity as a group, grow with passion" with a focus on "determination and expansion of the segments and end model, product portfolio planning and supply chain construction, private-label brand, excellent execution and brand refreshment" during the year along with the incentive mechanism, organizational system, capital structure and double driving system covering corporate culture-driven and digital-driven approach with a view to further fostering the mindset of future growth and capturing market and innovation opportunities, thereby consistently optimizing the operation of the Group. Meanwhile, the Group will also emphasize on "pursuing self-improvement and enhancing the foundation", adopt proactive approaches, develop core capabilities, strengthen transformation achievements, create innovative businesses, optimize organization efficiency to enable the Group to become a leading, consumer-oriented omni-channel retailer in the Yangtze River Delta and fulfill the corporate vision of "increasing our customers' loyalty".

In 2019, the Group plans to open 308 new stores, among which, eight are hypermarkets, 200 are supermarkets and 100 are convenience stores, respectively.

In 2019, with respect to the determination and expansion of the segments and end model, the Group will align its services to customers' demands. Based on the characteristics of respective business districts and subject to the property conditions and the leasing terms, the hypermarket segment will promote the determination of the whole food market model store featuring hypermarket 3.0 and high end store 3.0 in Shanghai, while the pilot of neighborhood shopping center version 1.0 and version 2.0 of compound markets were also promoted and determined in Zhejiang through enhancement in the fresh produce business, optimization of social service functions, improvement in major categories, enrichment in customers' shopping experience and reinforcement in digital construction of stores. In respect of the supermarket segment, the Group will support further determination and upgrades of three types of stores covering community fresh produce store, community convenience store and community selective store and develop a new innovative segment of "selective retailing + diversified catering experience "as its major task in 2019. In addition, the Group will also reshape its franchise system, develop close-relationship franchised stores and strengthen its new franchise model. Moreover, the Group will further refine and enhance regional development plans, clarify the major form of business of companies in respective segment, facilitate regional strategic cooperation and promote the expansion of small and medium segment in a proactive manner. The Group will speed up regional expansion of the omni-channel model, foster operational quality, produce quality commodities, develop innovative marketing models, streamline online products, overcome the bottleneck in fresh produce operation, formulate a thorough plan regarding product portfolio and profit model under the B2C model and facilitate the improvement in omni-channel sales.

Regarding the product category plan and supply chain construction in 2019, the Group aims to step up its efforts in implementing strategies concerning category management and structure adjustment of major categories. Based on the product category management model analysis of LEGS (Lead, Exit, Grow and Sustain), the Group will take a strategic approach towards respective categories, while creating TBFF (To Be Famous For) category in an all-round manner for advantageous and leading categories, attempting to create differentiated and competitive product categories. Moreover, the Group will also facilitate sustainable development of the fresh produce category, strengthen supply bases development and control product procurement from direct source to secure fresh produce product quality. Meanwhile, the Group will promote the construction of fresh food and bread factories, focus on private-label products and its sales and cultivate differentiated and characteristic categories to enhance products' core competitiveness. The Group will explore overseas resources and gradually promote overseas direct procurement with an aim to create a leading image of the fresh produce category. In addition, committed to the product positioning of providing "quality, healthy, diversified, common" product, the Group will consolidate company resources, facilitate direct procurement and promote brand direct supply and sale to reduce the involvement of supply chain, enhance price competitiveness and create a corporate image that provides comprehensive and carefully selected imported products with high cost-performance. The Group will cooperate with brand suppliers to jointly establish an innovative consumers experience center, organize tailor-made and exclusive marketing activities and promote the JBP and strategic cooperation that aligns its services to customers' demands. Lastly, the Group will carry out market segmentation, strengthen individual category and build a themed sale model.

As to private-label brand development in 2019, the Group targets to streamline its current brands, focus on its core brands, identify the future private-label brand structure of Lianhua Supermarket and build a strategic system of Lianhua's private-label brand based on the emphasis of brand development strategies. The Group will also streamline each category to increase the percentage of private-label brands in products concerning people's livelihood, speed up the duplication and promotion of high-quality life pavilion (3.0 version), establish advantageous categories and build a comprehensive supply chain. The Group will deepen the benchmarking with regional companies to realize resource complementation, achieve coordinated development of various segments and accomplish regional resource sharing. In addition, the Group will formulate a brand promotion plan, create a visual strategic system for major brands, develop an appraisal and incentive plan regarding the integration of operation and procurement segments, and extend such plan to each employee so as to raise awareness among employees about private-label brand promotion. Lastly, a R&D team comprising R&D professionals will also be introduced, while a management structure for business division system will be established with an aim to build a professional, efficient and expertized private-label brand development team.



Regarding excellent execution in 2019, the Group will continue to adhere to the code of conduct of "people oriented and serving the stores", refine implementation guidelines, clarify duties, rights and benefits, quantify implementation results and yet strengthen cross-department collaboration, continuously improving and facilitating the implementation system of key projects. Through the implementation of operational standards, continuous optimization of operational standards, enhancement in the training of operational standards and continuous reinforcement in the implementation and inspection of the operational standards, the Group will be able to improve its operational standard system. By persistently strengthening the implementation of service standards, promoting interaction with customers and keeping track of customers' satisfaction level, the Group will provide customer services that "make our customers become more loyal to us" and speed up image upgrades of store services. Through optimization of display standards, improvement in product and operational quality, enhancement in the sales of core products, promotion of the sales of private-label brands and the restructuring of product portfolio and display, the Group strives to uphold the performance enhancement plan of categories. In addition, the Group will stick to an information transparency plan on logistics distribution, persistently improve the fulfillment of orders from the stores, restore processing and distribution business step by step, refine the synergy mechanism of the supply chain and consolidate logistics information system in order to continuously enhance the logistics efficiency and service achievement. Lastly, the Group targets to enhance the supply chain efficiency and capabilities, facilitate logistics standardization and develop smart logistics.

In 2019, the Group will continuously stimulate brand refreshment through further clarification of brand positioning and proposition, preparation of a brand visual management brochure, formulation of brand asset standards, establishment of brand models, identification of corporate culture segment, depiction of its businesses and major brand segments, formulation of Lianhua brand strategies, enhancement in public communication and promotion of the brand, establishment of an unified brand image and experience, devise of Lianhua Supermarket's brand logo to establish a positive brand image. Through operational upgrades for members, membership system and database upgrades and exclusive activities for employees, the Group will conduct precise member marketing, reshape Lianhua Supermarket's membership system, increase the scale of members and increase sales to members. Furthermore, the Group will take a proactive approach to start interacting and cooperating with external quality resources, to establish a long-term, planned and reciprocal cooperative relationship and implementing cross-sector and cross-industry alliance strategies, so as to rapidly increase brand awareness and reputation. An internal and external insight analysis system will also be established to provide an insight plan to support business and organization demands through precise data analysis to explore product development trends and opportunities. The Group will continue to improve and foster its design capabilities for customer experience to effectively enhance the operation and maintenance of the digital contact end points, design and introduce efficient and diversified new scenes and new methods to facilitate the launch and implementation of the design that enhances consumers' shopping experience.

In 2019, the Group will regard a contractual mechanism reform as a breakthrough to optimize incentive mechanism innovation and carry out entry-level employee care in an all-round manner and focus on "enhancing and revitalizing the entry-level employee" as a penetration point to establish a consumer-oriented corporate culture. In addition, the Group will further build a flattening organization with an aim to increase organizational capabilities of core departments and facilitate the establishment of an innovative and back-up talent pool.

In 2019, the Group will launch and promote the ERP system, build the ERP system for the supply chain and improve the supply chain management efficiency so as to realize a regulated and efficient retail management. The Group will also launch and promote digitalised store system to realize omni-channel operation in sale channels as well as the widespread use of the Internet in customer experience and marketing through digitalization. The emphasis on the online scenes enables the Group to reach consumers through various channels and measures, enriching consumers' online and offline shopping experience to the greatest extent. Through AB sharing of store inventories, improvement in turnaround warehouse efficiency, establishment of logistics system equipped with smart dispatch and promotion of franchise contract platform, the Group is able to reduce turnaround days of store inventories and increase operating efficiency.

Environmental Policy, and Performance and Compliance of Laws and Regulations

Details of the environmental policy and performance of the Group in 2018 are set out in the Environmental, Social and Governance Report on page 228 to page 268 of the annual report.

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

Subsequent Events

From 1 January 2019 to the date of the annual report, there was no non-financial event that may cause material effects on the results of the Company.

COMMUNICATION


爱尚厨房

Executive Director

Mr. Xu Tao, aged 45, graduated from Beijing Jiaotong University with a bachelor's degree in economic information management in 1997. From 1998 to 2010, Mr. Xu Tao worked at Unilever Company, successively served as financial management manager, sales operations manager, senior finance manager of product business and supply chain department, head of audit in Greater China and finance director of catering service department. From 2010 to 2014, Mr. Xu Tao worked at Rentokil Initial, where he served as excellence executive finance director in Asia and president of Greater China. From 2014 to September 2017, Mr. Xu Tao worked at Mannings China, where he has served as executive director of China and president of China. Mr. Xu Tao has extensive experience in corporate management and operations and finance of retail sector. Mr. Xu Tao was appointed as an executive director and the general manager of the Company on 27 September 2017.

Non-executive Directors

Mr. Ye Yong-ming, aged 54, is a member of the Communist Party of China and holds a master's degree in EMBA with China Europe International Business School. Mr. Ye has been the secretary of Party Committee, chairman of the board and president of Bailian Group since September 2015, and has been chairman of the board of Shanghai Bailian Group Co., Limited (上海百聯集團股份有限公司, "Shanghai Bailian", a company listed on the Shanghai Exchange with stock code 600827) since December 2015. He has served successively as a vice president of SAIC Motor (Shanghai Automatic Industrial Corporation Motor, 上海汽車集團股份有限公司, a company listed on the Shanghai Stock Exchange with stock code 600104), general manager of SAIC General Motors Corporation Limited, deputy general manager, general manager and deputy secretary of Party Committee of SAIC Sales Co., Ltd. (上海汽車工業銷售總公司), executive manager of Shanghai Volkswagen, general manager of SAIC-Volkswagen Sales Co., Ltd. (上海上汽大眾汽車銷售有限公司), vice president (in charge of vehicle services) and a member of the Party Committee of SAIC Motor. Mr. Ye was appointed as a non-executive Director and chairman of the Board on 17 November 2015.

Ms. Xu Zi-ying, aged 50, graduated from the Department of Administrative Engineering of Shanghai Jiaotong University with a master's degree in Industry Administrative Engineering. During the period from September 2000 to December 2003, Ms. Xu Zi-ying served as deputy director and director of the High Technology Industry Development Office of Shanghai Development Planning Commission. From December 2003 to October 2007, Ms. Xu Zi-ying served as director of the High Technology Industry Department of Shanghai Development and Reform Commission. From October 2007 to April 2008, Ms. Xu Zi-ying served as deputy chief economist and director of the High Technology Industry Division of Shanghai Development and Reform Commission. From April 2008 to October 2013, Ms. Xu Zi-ying served as vice president of Shanghai Electric (Group) Company. From October 2013 to March 2017, Ms. Xu Zi-ying served as deputy director and a member of the Party Committee of the Shanghai Municipal Commission of Economy and Information. Ms. Xu Zi-ying has been the president, deputy secretary of the Party Committee and director of Bailian Group since April 2017. She has been the vice chairman of Shanghai Bailian and the chairman of Shanghai First Pharmaceutical Co., Ltd. (上海第一醫藥股份有限公司, "First Pharmaceutical", a company listed on the Shanghai Stock Exchange with stock code 600833) since June 2017. Ms. Xu Zi-ying was appointed as a non-executive Director and vice chairman of the Board on 12 June 2017.

Mr. Dong Zheng, aged 40, graduated from Cambridge University with a MBA degree in 2010. From March 2015 till now, Mr. Dong Zheng served in Alibaba Group (阿里巴巴集團), as chief strategy officer of BBC Business Group (BBC電商事業群) and then business assistant to the CEO of Alibaba Group. Alibaba Group is a company listed on The New York Stock Exchange, stock code: BABA. Previously, from July 2010 to March 2015, Mr. Dong Zheng served in McKinsey & Co. (麥肯錫公司) and his last position was global associate partner. Mr. Dong Zheng was appointed as a non-executive Director on 28 August 2017 and resigned on 28 August 2018.

Mr. Xu Hong, aged 45, graduated from the Department of Physics of Fudan University with a Bachelor of Science. He is now working at Alibaba Group as business assistant to the Alibaba Group's CEO and vice president of Alibaba Group. Before joining Alibaba Group, Mr. Xu Hong worked in PricewaterhouseCoopers (PwC) and became a partner of PwC in July 2007. Mr. Xu Hong is a member of the Chinese Institute of Certified Public Accountants (CICPA). Mr. Xu Hong was appointed as a non-executive Director on 28 August 2018.

Mr. Qian Jian-qiang, aged 57, is a postgraduate in Economic Management with Graduate School of Party School of the Central Committee of C.P.C. Mr. Qian has been the general manager, deputy secretary of the Party Committee and a director of Shanghai Bailian since June 2015. Mr. Qian once worked in the Organization & HR Department of Shanghai Foreign Supply Co., Ltd. (上海對外供應公司), and has been a manager of the Department Store of Shanghai Friendship Store, general manager of Shanghai Friendship Supply Co., Ltd. (上海友誼供貨有限公司), a director and general manager of Shanghai Friendship South Mall Co., Ltd. (上海友誼南方商城有限公司), assistant to the general manager of the Shopping Centre Department of Shanghai Bailian, assistant to the general manager of Shanghai Bailian, vice general manager of Shanghai Bailian, vice general manager of Shanghai Friendship Incorporated Company ("Shanghai Friendship"), (上海友誼集團股份有限公司, now known as Shanghai Bailian), vice general manager and deputy secretary of the Party Committee of Shanghai Bailian. Mr. Qian possesses abundant experience in operation and management of retail commerce. Mr. Qian has been appointed as a non-executive Director since November 2015.

Ms. Zheng Xiao-yun, aged 56, is a senior accountant and holds a master's degree in accounting of the Chinese University of Hong Kong. She has been the financial director and secretary of the board of Shanghai Bailian since June 2015 and has been the director of Shanghai Bailian since June 2017. Ms. Zheng once served as an accountant, assistant to the manager and vice manager of the Financial Department in Shanghai Forever Co., Ltd.(上海永久股份有限公司). She has served successively as financial director of Shanghai Advertisement & Decoration Co., Ltd.(上海市廣告裝潢公司), vice manager of the Financial Department of Shanghai Yibai (Group) Co., Ltd.(上海一百(集團)有限公司), financial director of Shanghai Quanfang Investment Management Co., Ltd.(上海全方投資管理有限公司), financial director of the Comprehensive Business Department of Shanghai Bailian, financial director of Shanghai Bailian Investment Management Co., Ltd.(上海百聯投資管理有限公司), financial director of Shanghai Bailian Group Asset Operation & Management Co., Ltd.(上海百聯集團資產經營管理有限公司), director of Shanghai Baihong Trading Co., Ltd.(上海百紅商業貿易有限公司), chairman of Hualian Group Asset Trust Co., Ltd.(華聯集團資產託管有限公司) and financial director of Bailian E-commerce Co., Ltd.(百聯電子商務有限公司). Ms. Zheng possesses abundant experience in financial management. Ms. Zheng has been appointed as a non-executive Director since November 2015.

Mr. Wong Tak Hung, aged 67, is the president of Wong Sun Hing Investment Co., Ltd.(王新興投資有限公司). From 1970 to 1978, Mr. Wong was the manager of Sun Hing Textile Factory(新興毛紡織造廠), and from 1978 to 1990, he was the managing director of Wong Sun Hing Company Limited(王新興有限公司). Since 1990, he has been the president of Wong Sun Hing Group(王新興集團). He has also been the chairman of Shenzhen Xin Xing Entrepreneurship Guarantee Company Limited(深圳新興創業擔保有限公司) since 2003 and he has been acting as the chairman of Guangzhou Wanling Properties Company Limited(廣州市萬菱置業有限公司) since 2004. Since 2005, he has also been acting as the chairman of Wanling Industrial (Guangdong) Company Limited(萬菱實業(廣東)有限公司). Mr. Wong joined the Group in April 1997, and he has over 30 years of business experience.

Independent Non-executive Directors

Mr. Xia Da-wei, aged 66, graduated from Changchun Industrial University in 1982 with a bachelor's degree in engineering. He graduated from Shanghai University of Finance and Economics in 1985 with a master's degree in economics. Mr. Xia's research direction is industrial economy and corporate strategy. Mr. Xia has been teaching at Shanghai University of Finance and Economics since 1985, and has served successively as president of the School of International Economics and Management of Shanghai University of Finance and Economics, assistant to president, vice chancellor of Shanghai University of Finance and Economics and president of Shanghai National Accounting Institute since 1993. Mr. Xia is currently a professor and doctoral tutor at the Shanghai National Accounting Institute and enjoys government subsidies from the State Council. He is also the vice president of China Institute of Industrial Economics, the vice president of China Association of Chief Accountants and the president of Shanghai Institute of Accounting. Mr. Xia also serves as an independent director of Baosteel Co., Ltd.(寶鋼股份有限公司)(a company listed on the Shanghai Stock Exchange), an independent director of Guotai Junan Co., Ltd.(國泰君安股份有限公司)(a company listed on the Shanghai Stock Exchange), an outside director of Industrial Bank Co., Ltd.(興業銀行股份有限公司)(a company listed on the Shanghai Stock Exchange) and an independent director of Juneyao Airlines Co., Ltd. (a company listed on the Shanghai Stock Exchange). Mr. Xia joined the Group in September 2004.

Mr. Lee Kwok Ming, Don, aged 61, is the financial director of Stella International Holdings Ltd.（九興控股有限公司）, which is listed on the Stock Exchange. He is a fellow of the Hong Kong Institute of Certified Public Accountants（香港會計師公會）and an associate of the Chartered Institute of Management Accountants in the United Kingdom（英國特許管理會計師公會）. He holds a master's degree of science in business administration from the University of Bath（英國巴富大學）. Mr. Lee has held the position of financial director in various listed companies of the Stock Exchange. Mr. Lee has more than 30 years of financial management experience and extensive experience in mergers and acquisitions, as well as corporate finance. He joined the Group in May 2003.

Ms. Sheng Yan, aged 50, received her MBA degree from the Hong Kong University of Science and Technology. From 1991 to 1994, Ms. Sheng was a software engineer of China Southern Airlines Hubei Branch（中國南方航空公司湖北分公司）. From 1994 to 1998, Ms. Sheng was a co-founding partner of Guangzhou Jiatu Electronics Co., Ltd（廣州嘉圖電子有限公司）. From 2000 to 2002, Ms. Sheng was a senior consultant of Arthur Anderson Inc（安達信管理諮詢有限公司）. From 2002 to 2006, Ms. Sheng was a consultant manager of BearingPoint Inc（畢博管理諮詢有限公司）. Since 2006, Ms. Sheng was a global partner and executive vice president of Greater China of Hay Group Management Consulting (Shanghai) Co., Ltd（合益集團管理諮詢（上海）有限公司）, which was acquired by KornFerry in 2015 and Ms. Sheng was a senior partner of KornFerry Shanghai Limited（光輝國際（人才）上海有限公司）. Ms. Sheng has abundant theoretical knowledge and project implementation experience in areas of senior management team building, leadership development, leadership coaching, strategic decoding, operating model and job system, senior management team performance appraisal and incentive scheme, corporate culture development, corporation innovation and so forth. Ms. Sheng Yan was appointed as an independent non-executive Director on 14 March 2017 and resigned on 28 March 2018.

Mr. Chen Wei, aged 57, is the Professor of Management Practice at Peking University HSBC Business School (PHBS) and Director of Centre of Innovation and Entrepreneurship at PHBS. Prior to joining PHBS, Mr. Chen was the senior vice president for Didi Chuxing. Before Didi, Mr. Chen served as executive vice president and CHRO at Vanke Enterprises Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000002). Mr. Chen started up the Hay Group consulting business in China and later served as managing director for Greater China and North East Asia. He became the global executive team member in 2009 and board member in 2013 of Hay Group. Mr. Chen also worked for Coca Cola and Nike in marketing and general management earlier in his business career. Mr. Chen holds a Bachelor's degree in Psychology from East China Normal University and a Master's degree in Workforce Learning and Development from Pennsylvania State University in USA. He has also graduated from AMP (Advanced Management Program) from Harvard Business School. Mr. Chen was appointed as an independent non-executive Director on 28 March 2018.

Mr. Zhang Jun, aged 43. Mr. Zhang Jun obtained his double bachelor's degrees in Accounting and Applied Mathematics, respectively, from Shanghai Jiaotong University in 1998, and he holds the title and qualification of certified public accountant of The Chinese Institute of Certified Public Accountants. Mr. Zhang Jun has over 18 years of experience in finance and operation & management. Mr. Zhang Jun currently holds the position as vice president of Shanghai Yunxiang Supply Chain Management Co., Ltd., mainly responsible for the business of catering supply chain. Prior to joining Shanghai Yunxiang, from August 1998 to July 2002, Mr. Zhang Jun was an auditor and senior auditor of Arthur Andersen (Shanghai Office)(安達信·華強會計師事務所上海分所). From July 2002 to August 2005, Mr. Zhang Jun was a senior auditor and audit manager of Price Waterhouse Coopers (PRC)(普華永道中天會計師事務所有限公司). From August 2005 to October 2006, Mr. Zhang Jun was a financial manager and director of Shanghai Shen Mei Food and Beverage Co., Ltd. (Coca-Cola bottling facility)(上海申美飲料食品有限公司(可口可樂瓶裝廠). From October 2006 to August 2007, Mr. Zhang Jun was the accounting director of Home Inns & Hotels Management Inc. (如家快捷酒店管理有限公司), a company listed on Nasdaq, stock code: HMIN. From August 2007 to November 2014, Mr. Zhang Jun worked at Xiaonanguo Restaurants Holdings Limited(小南國餐飲控股有限公司), a company listed on the mainboard of the Stock Exchange, stock code: 03666, as the chief financial officer from August 2007 to December 2013, as the chief strategy officer and vice president of supply chain from January 2014 to November 2014. From November 2014 to December 2015, Mr. Zhang Jun was the chief financial officer and senior vice president of Shanghai Pankoo Restaurants Management Co. Ltd (上海盤古餐飲管理有限公司). From December 2015 to August 2018, Mr Zhang served as chief financial officer and then president and chief operation officer at PizzaExpress China. Mr. Zhang Jun was appointed as an independent non-executive Director on 14 March 2017 and resigned on 29 March 2019.

Mr. Zhao Xin-sheng, aged 45, is a Certified Public Accountant (CPA) of Canada and Certified Information System Auditor (CISA). He has been the managing director of Shanghai Think Bridge Business Consulting Co., Ltd. since October 2002. From September 1996 to September 2002, Mr. Zhao was working at the Audit and Business Consulting Department of Arthur Andersen, mainly responsible for the financial statement auditing of listed companies and multinational enterprises and business consulting in corporate risk and control. From 2010 to 2018, Mr. Zhao served as an independent director to Shanghai Yimin Commercial Group Co., Ltd. Mr. Zhao graduated from Shanghai University of Finance and Economics in 1996 with a bachelor's degree in Accounting. He has rich experience in corporate accounting and financial consulting, human resources allocation, marketing, public relation, corporate merger and acquisition, risk management and internal control as well as legal compliance. Mr. Zhao was appointed as an independent non-executive Director on 29 March 2019.

Supervisors

Mr. Yang A-guo, aged 54, in-service postgraduate degree, senior accountant and a member of non Communist Parties. Mr. Yang graduated from Hangzhou Business School majoring in financial accounting in July 1985 with a bachelor's degree in economics. From August 1985 to June 1995, he worked in the finance department of Shanghai Hardware Machinery Corporation, successively served as financial officer, financial section chief, assistant to the director and deputy director of the finance department. From July 1995 to October 2003, he worked in the finance department of Shanghai Friendship (Group) Co., Ltd., and served as the head of the finance department, assistant minister, vice minister and minister. He worked in the financial management department of Bailian Group Limited since October 2003 and served as deputy minister, minister and executive director of the financial management department and chief financial officer. During the period from September 2005 to July 2008, he studied at the Graduate School of Economics and Management of the Party School of the Communist Party of China. Mr. Yang has been the head of the supervisory committee of Shanghai Bailian and the chairman of the supervisory committee of Shanghai Material Trading Co., Ltd. (上海物資貿易股份有限公司, "Shanghai Material Trading", a company listed on Shanghai Stock Exchange with stock code 600822) since June 2017. Mr. Yang has been appointed as a supervisor of the Company (the "Supervisor") and chairman of the Supervisory Committee of the Company (the "Supervisory Committee") on 28 November 2017.

Ms. Tao Qing, aged 54, graduated from the Party School of Central Committee of C.P.C. (中央黨校) with master's degree in economy management. Ms. Tao served for the finance department of Shanghai Hualian successively as clerk, section member, chief member and deputy section chief from September 1985 to June 1996. She was the manager of the finance division of Shanghai New Hua Lian Mansion Co., Ltd. (上海新華聯大廈有限公司) ("New Hua Lian Mansion") from June 1996 to June 1999, the deputy manager of the finance department of Shanghai Hualian Co., Ltd and the chief financial officer of New Hua Lian Mansion from June 1999 to February 2000, and promoted as general manager of the finance department of Shanghai Hualian Co., Ltd and the chief financial officer of New Hua Lian Mansion in February 2000. She took the role of chief financial officer of Shanghai Jinzhao International Trading Co., Ltd. (上海金照國際商貿有限公司) from January 2001 to January 2004. Ms. Tao has been the director assistant of the auditing center, manager of the No.1 auditing division, deputy director and director of the auditing center of Bailian Group since January 2004. Ms. Tao has been the head of the supervisory committee of First Pharmaceutical, a supervisor of Shanghai Bailian and a supervisor of Shanghai Material Trading since June 2017. Ms Tao has been appointed as a Supervisor since June 2014.

Mr. Shi Hao-gang, aged 60, is a political work instructor. Mr. Shi graduated from Macao University of Science and Technology with a major in Business Administration in August 2001, and holds a postgraduate degree. From April 1976 to January 1979, Mr. Shi served as a platoon leader and the Youth League secretary of Nanhui Chaoyang Farm (南匯朝陽農場). From February 1979 to October 1995, Mr. Shi served as an officer of Shanghai No. 6 Silk Weaving Factory (上海絲織六廠). From November 1995 to May 2010, Mr. Shi worked in Hualian Supermarket Holdings Co., Ltd., where he had successively served as a key officer, deputy manager, and manager of human resources department, the assistant to the general manager and the general manager of Shanghai operations, the assistant to the general manager and the general manager of East China operations, the manager of the operation management department and the deputy general manager. From June 2010 to February 2012, Mr. Shi served as the deputy general manager of Shanghai Lianhua Supermarket Development Co., Ltd. From March 2012 to March 2014, Mr. Shi has served as the general manager and deputy party secretary of Shanghai Lianhua Supermarket Development Co., Ltd. From April 2014 to December 2015, Mr Shi served as the deputy general manager of the Company and served as the executive Director from June 2014 to November 2015. Mr. Shi was appointed as a Supervisor in November 2015.

Company Secretary

Ms. Hu Li-ping. aged 54, graduated from Macau University of Science and Technology with a Master's Degree in Business Administration in September 2003. She is an accountant as approved by the Ministry of Finance of the PRC in 1998. She served as the deputy manager, manager of Financial Department and the chief financial officer of Shanghai Hualian Supermarket Company and Hualian Supermarket Co., Ltd from February 1993 to November 2013. Ms. Hu was also the chief financial officer of Shanghai Lianhua Supermarket Development Co., Ltd from June 2010 to November 2013. She has been the chief of Financial Administration Department of the Company from November 2013 to April 2016. She was also appointed as the chief of Securities Affairs Department of the Company from August 2014 to July 2015. Ms. Hu has been appointed as joint company secretary of the Company since 16 October 2014 and has been chief financial officer of the Company since June 2015. Ms. Hu was appointed as company secretary of the Company in 22 December 2017.

Senior Management

Mr. Liang Bao-long, aged 54, is a senior operator and a logistician. Mr. Liang graduated from Tongji University majoring in management engineering. From January 1999 to December 2001, he pursued a postgraduate degree at Shanghai Academy of Social Sciences, majoring in economics. From July 1984 to February 2003, Mr. Liang was a deputy section chief of the catering department, a deputy section chief and section chief of the general affairs office, and manager of the logistics service centre of Shanghai Materials & Equipment School（上海市物資學校）. From February 2003 to March 2012, he was the assistant to general manager and deputy general manager of Shanghai Modern Logistics Development & Investing Co., Ltd.（上海現代物流投資發展有限公司）. He has concurrently worked as the general manager and deputy secretary of Party general branch of Shanghai Changqiao Logistics Co., Ltd.（上海長橋物流有限公司）, and the chairman of board and the Party secretary of Shanghai Bailian Distribution Co., Ltd.（上海百聯配送實業有限公司）. He has been the deputy general manager of the Company since March 2012.

Mr. Chang Yu-bing, aged 46, is a senior economist and senior operator with a bachelor's degree. From September 1994 to October 2000, Mr. Chang worked in Shanghai Trading Co., Ltd., Shanghai Overseas Joint Trading Company and Shanghai Lianhua Supermarket Co., Ltd. From November 2000 to July 2003, he served as deputy minister of outlets development department, minister of asset management headquarters of Lianhua Supermarket Co., Ltd, and minister of asset-engineering management headquarters of the Company. From August 2003 to October 2008, he served as general manager of the northeast region and development director of Shanghai Century Lianhua Supermarket Development Co., Ltd.. From November 2008 to March 2014, he served as assistant to general manager and director of merchandise of the Company. Since April 2014, he has been the general manager of Shanghai Lianhua Supermarket Development Co., Ltd., and has also served as deputy Party secretary of Shanghai Lianhua Supermarket Development Co., Ltd. since August 2015. He was deputy general manager of the Company since May 2016 and resigned in June 2018.

Ms. Zhang Hui-qin, aged 45, held a master's degree in Quality Management of the Hong Kong Polytechnic University. Since July 2015, she has been vice-chairman, Party secretary and general manager of Hangzhou Lianhua Huashang Group Co., Ltd. From August 1996 to June 2003, Ms. Zhang worked with Jiayou Supermarkets of Hangzhou Department Stores Company as deputy superintendent of operation department, store manager of Wensan Store, chief of Qingchun Store and vice manager of operation department. From July 2003 to June 2016, Ms. Zhang worked with Hangzhou Lianhua Huashang Group Co., Ltd. as manager of operation department, assistant to the general manager, deputy general manager, standing deputy general manager, general manager, Party secretary and vice chairman. She has abundant operation and management experience in the retail commercial field. She has been appointed as deputy general manager of the Company since June 2016.

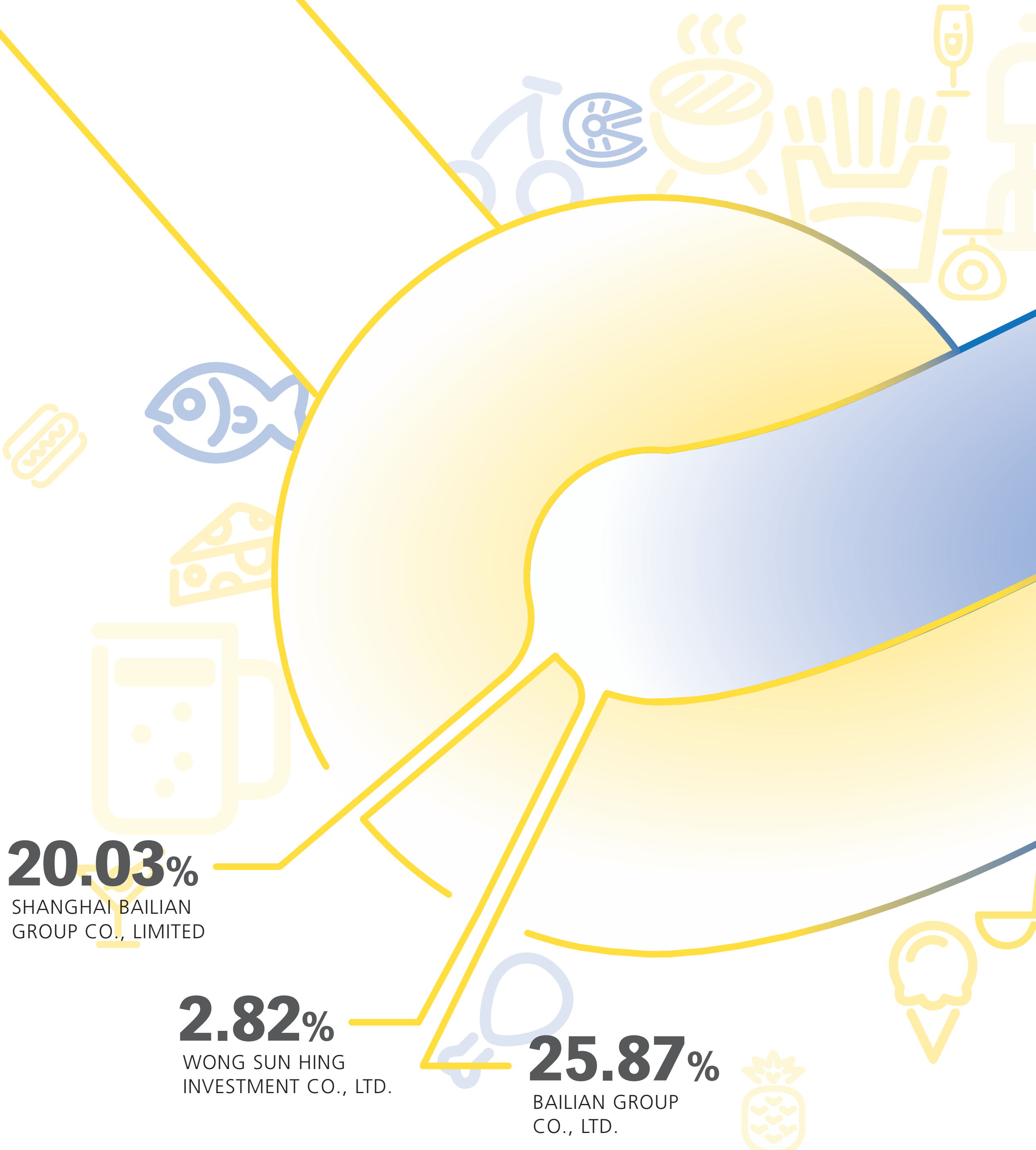
Mr. Xi Yu, aged 40, has a lawyer qualification and economist title. Mr. Xi graduated from Heilongjiang School of Business with a bachelor's degree in Economic Law in 2001 and received his master's degree of Management Engineering in Wuhan University in 2010. From September 2001 to October 2003, Mr. Xi worked with Hualian Group Limited successively holding the posts of personnel clerk, chief personnel clerk and assistant manager of the human resource department. From October 2003 to November 2016, Mr. Xi worked with Bailian Group, successively holding the positions of senior manager, deputy minister and deputy executive director of Human Resources Department. He was deputy general manager of the Company since December 2016 and resigned in March 2019.

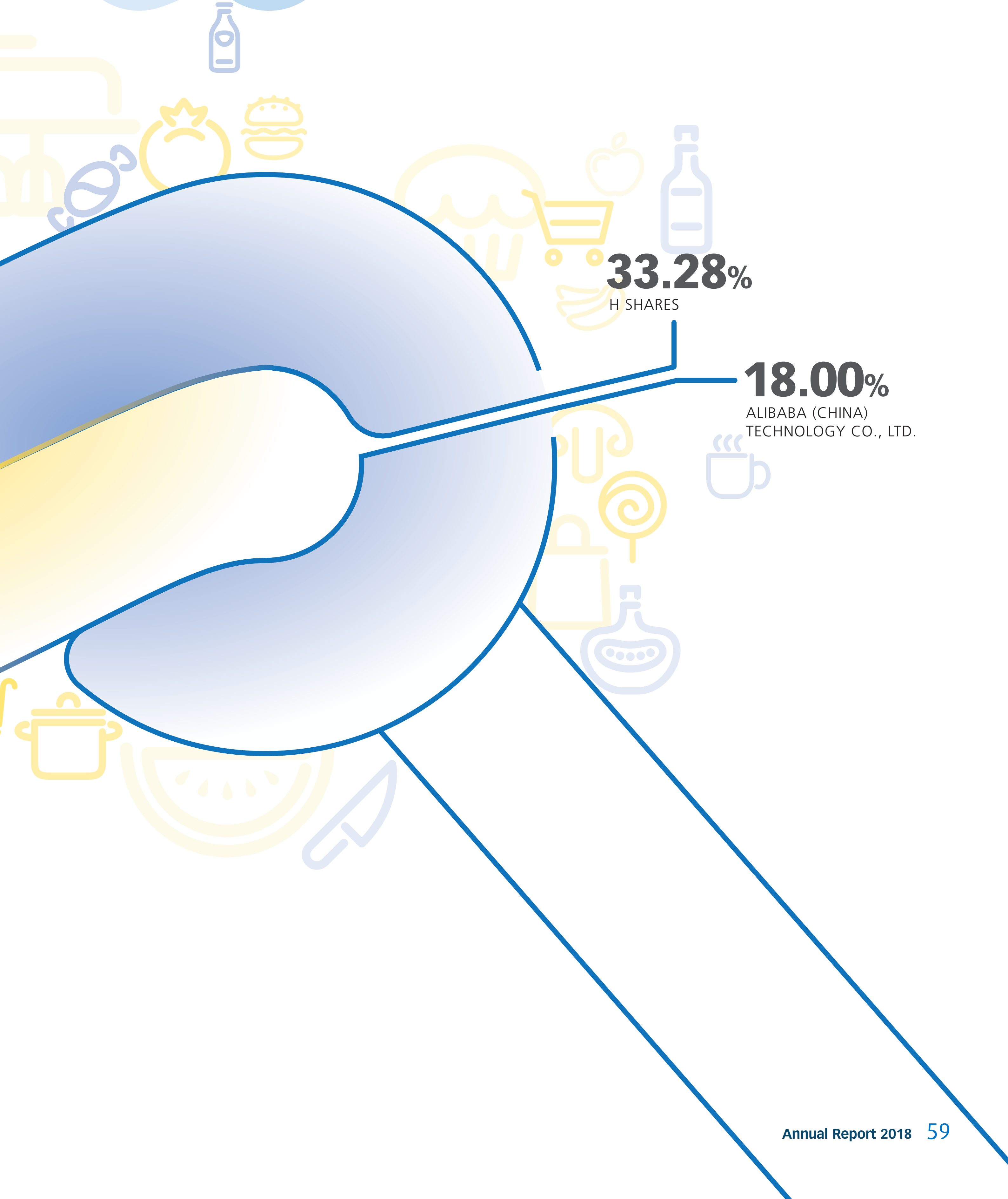
Mr. Dai Yu-peng, aged 51, holds a bachelor's degree in corporate management from Taipei Praxis University. From August 1990 to September 1997, he worked for Taiwan Wellcome Co., Ltd. From October 1997 to August 2003, he worked for RT-Mart Co., Ltd. as a senior category manager and director of Shandong store operations. From September 2003 to August 2012, he worked for Tesco Inc., where he successively served as chief product officer of the Northern District and director of the national commodity procurement department. From August 2012 to February 2014, he worked for One China Commerce (Shanghai) Co., Ltd. as the general manager. From February 2014 to May 2016, he served as a vice president at 85 Degrees C Restaurant Management Co., Ltd. (Shanghai) and was in charge of operations, commodities, marketing, internet business, group buying and new business development. From June 2016 to August 2017, he was the chief executive officer of Qingdao Weike Group Co., Ltd. Mr. Dai has extensive management experience in the commercial retail area. Mr. Dai has been appointed as deputy general manager of the Company since August 2017.

Mr. Dong Gang, aged 40, graduated from Wuchang University of Technology in 2015 with a bachelor's degree. From September 2003 to July 2015, Mr. Dong Gang worked for Tesco China. From September 2003 to March 2006, he served as store general manager, purchasing manager, regional fresh commissioner in Dalian; from March 2006 to November 2008, he was the regional general manager of Shenyang; from November 2008 to May 2010, he was chief operating officer of Shandong region; from May 2010 to June 2012, he served as chief operating officer of North China Region; from June 2012 to July 2015, he served as chief operating officer of Northeast Region. From November 2015 to April 2017, Mr. Dong Gang acted as head of store operations in Shenzhen Shunfeng Commercial Co., Ltd. Mr. Dong Gang has been appointed as deputy general manager of the Company since September 2017.

Ms. Tang Hao, aged 48, is a party member of the Communist Party of China, with a master's degree of the world economy of the Graduate School of the Party School of the Central Committee of C.P.C. From July 1991 to December 2002, Ms. Tang worked in the second chemical supply company of Shanghai Chemical Industry Corporation, serving as a statistician, office clerk, and assistant to general manager. From December 2002 to December 2006, Ms. Tang worked in Shanghai Jingtong Chemical Co., Ltd., serving as deputy manager of the first branch company, deputy manager of the second branch company and deputy manager of the plastic branch company. From December 2006 to September 2014, Ms. Tang worked in Shanghai Jingtong Chemicals Development Co.,Ltd., serving as director of general office from December 2006 to February 2008, assistant to general manager and director of general office from February 2008 to August 2009, deputy general manager from August 2009 to May 2010, the deputy general manager, the deputy secretary of the Party branch and the secretary of the Discipline Commission from June 2010 to April 2012, the secretary of the Party branch, the deputy general manager and the secretary of the Discipline Commission from April 2012 to September 2014. From September 2014 to October 2017, she served as the Party Committee member of Shanghai Modern Logistics Investment and Development Co., Ltd. and the executive director, the secretary of the Party branch and the general manager of Shanghai Jingtong Chemicals Development Co., Ltd., Since October 2017, Ms. Tang has been appointed as the deputy secretary of the Party Committee, the secretary of the Discipline Commission and union president of the Company, and secretary of the Party Committee of Lianhua Quik.

Shareholding Structure




33.28%
H SHARES
18.00%
ALIBABA (CHINA)
TECHNOLOGY CO., LTD.

RESPONSE

超级开业日

The Board is pleased to present to the Shareholders its annual working report for the year ended 31 December 2018.

Principal Activities and Business Review

The principal activities of the Group include the operation of hypermarkets, supermarkets and convenience stores in the PRC, mainly under four major brands of "Century Mart", "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik". The principal activities and other particulars of the subsidiaries are set out in note 18 and note 48 to the consolidated financial statements of the annual report.

Further discussion and analysis of these activities, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis as set out on pages 20 to 45 of the annual report. These discussions form part of this directors' report.

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

Major Suppliers and Customers

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

	2018 percentage	2017 percentage
Purchases		
Largest supplier	**2.19**	2.28
Five largest suppliers	**7.72**	7.47
Sales		
Largest customer	**0.09**	0.10
Five largest customers	**0.36**	0.34

During the year ended 31 December 2018, to the best knowledge of the Directors, Supervisors, their respective associates, nor any Shareholders (which to the knowledge of the Directors own more than 5% of the number of issued shares of the Company) had any direct or indirect interest in the share capital of the Group's suppliers and customers mentioned above.

The analysis of the key relationship with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends can be found in the Environmental, Social and Governance Report as set out on pages 228 to 268 of the annual report.

Five-year Financial Summary

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

Accounts

The audited results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 134 of the annual report.

The financial condition of the Group as at 31 December 2018 is set out in the consolidated statement of financial position on pages 135 to 136 of the annual report.

The cash flow of the Group for the year ended 31 December 2018 is set out in the consolidated statement of cash flow on pages 139 to 140 of the annual report.

Dividend Distribution

The Board recommends not to distribute final dividend for the year ended 31 December 2018.

Reserves

Details of the movements in reserves during the period under review are set out in the consolidated statement of changes in equity on pages 137 to 138 of the annual report.

Fixed Assets

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

Charitable Donations

Charitable donations made by the Group during the financial year amounted to RMB266,480.

Bank Loans, Overdrafts and Other Borrowings

As at 31 December 2018, the Group had no bank borrowings.

Capitalised Interest

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

Listing of Shares and Changes

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

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

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

Information on the performance of H shares of the Company in 2018:

Highest trading price per H share during the year	HK$3.13
Lowest trading price per H share during the year	HK$1.14
Total trading volume of H shares during the year	195 million shares
Closing price per H share as at 31 December 2018	HK$1.20

Public Float

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

Share Capital

As at 31 December 2018, the classes and number of shares of the Company are as follows:

Class of shares	Number of issued shares ('000 shares)	Percentage (%)
Domestic shares	**715,397.4**	63.90
Attributable to:		
Bailian Group Co., Ltd.	**289,661.4**	25.87
Shanghai Bailian Group Co., Limited	**224,208**	20.03
Alibaba（China）Technology Co,.Ltd.	**201,528**	18.00
Unlisted foreign shares	**31,602.6**	2.82
Attributable to:		
Wong Sun Hing Investment Company Limited	**31,602.6**	2.82
H shares	**372,600.0**	33.28
Total	**1,119,600.0**	100.00

Number of Shareholders

As at 31 December 2018, details of Shareholders as recorded in the register of Shareholders of the Company are as follows:

Total number of Shareholders	32
Shareholders of domestic shares	3
Shareholders of unlisted foreign shares	1
Shareholders of H shares	28

Legal Status of Unlisted Foreign Shares

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Disclosure of Interests

Directors, chief executive officer and Supervisors of the Company

As at 31 December 2018, other than Mr. Xia Dawei (an independent non-executive Director) who held 8,694 ordinary shares of Shanghai Bailian (representing approximately 0.0005% of the total issued shares of Shanghai Bailian), none of the Directors, Supervisors or chief executive officer of the Company had any interest and short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are regarded or deemed to have under such provisions of the SFO), or interests and short positions which were required, pursuant to section 352 of the SFO, to be entered in the Company's register referred to therein, or interests and short positions which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules.

Substantial Shareholders

So far as the Directors are aware, as at 31 December 2018, the following persons (not being a Director, chief executive officer or Supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholders	Class of shares	No. of domestic shares/unlisted foreign shares/ H shares	Approximate percentage of total voting rights of the Company	Approximate percentage of voting rights of domestic shares and unlisted foreign shares	Approximate percentage of voting rights of H shares	Capacity of Interest
Shanghai Bailian (Note 1)	domestic shares	224,208,000	20.03%	30.01%	–	Beneficial owner
Alibaba Group Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Toabao Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Toabao China Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Taobao (China) Software Co., Ltd. (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	46,762,597(L) 0 (S) 20,580,472(P)	4.18% (L) 0.00% (S) 1.84% (P)	–	12.55%(L) 0.00%(S) 5.52%(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	25,582,000(L)	2.28%	–	6.86%(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 31 December 2018, Bailian Group directly and indirectly holds approximately 51.26% of the shares in Shanghai Bailian. As at 31 December 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 31 December 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 Taobao Holding Limited, Taobao Holding Limited holds 100% of the shares in Taobao China Holding Limited, Taobao China Holding Limited holds 100% of the shares in Taobao (China) Software Co., Ltd., Taobao (China) Software Co., Ltd. holds 78.42% 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, Taobao Holding Limited, Taobao China Holding Limited and Taobao (China) Software Co., Ltd. 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 entered into a share transfer agreement with Bailian Group pursuant to which Shanghai Yiguo agreed to transfer 13,109,400 domestic shares of the Company to Bailian Group. The Company has been informed by Shanghai Yiguo., 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 to Bailian Group in China Securities Depository and Clearing Corporation Limited have been completed. By then, Shanghai Yiguo 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 31 December 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 31 December 2018.

Competing Interests

As at 31 December 2018, according to the Listing Rules, none of the Directors had any interest in any businesses which are considered to compete or are likely to compete, either directly or indirectly with the business of the Group.

Ultimate Holding Company

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

Pre-emptive Rights

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

Management Contracts

No contracts for the management and administration of the whole or any substantial part of any business of the Company existed or was entered into during the year ended 31 December 2018.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company for the year ended 31 December 2018.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

Save as disclosed in note 40 and note 41 to the consolidated financial statements in the annual report, the Group had no material acquisitions and disposals of subsidiaries and associated companies during the financial year.

Directors and Supervisors

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

Executive Director:

Mr. Xu Tao

Non-executive Directors:

Mr. Ye Yong-ming *(Chairman)*
Ms. Xu Zi-ying *(Vice Chairman)*
Mr. Dong Zheng (Note 1)
Mr. Xu Hong (Note 2)
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 (Note 3)
Mr. Chen Wei (Note 4)
Mr. Zhang Jun (Note 5)
Mr. Zhao Xin-sheng (Note 6)

Supervisors:

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

Notes:

1 Mr. Dong Zheng resigned from the office of a non-executive Director on 28 August 2018;

2 Mr. Xu Hong was appointed as a non-executive Director on 28 August 2018;

3 Ms. Sheng Yan resigned from the office of an independent non-executive Director on 28 March 2018;

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

5 Mr. Zhang Jun resigned from the office of an independent non-executive Director on 29 March 2019; and

6 Mr. Zhao Xin-sheng was appointed as an independent non-executive Director on 29 March 2019.

Details of the profiles of the Directors, Supervisors and senior management of the Company are set out on pages 48 to 57 of the annual report.

Directors' and Supervisors' Service Contracts

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

Directors' and Supervisors' Interests in Contracts

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

Interest in Shares or Debentures Acquired by the Directors and Supervisors

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

Permitted Indemnity Provision

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

Directors' Remuneration

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

Independence of the Independent Directors

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

Highest Paid Individuals

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

Retirement Pension Schemes

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

Please refer to note 39 to the consolidated financial statements of the Company for details of the retirement pension schemes.

Change of Auditors

During the past three years, there was no change of the auditor of the Company.

Significant Litigation

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

Connected and Related Party Transactions

During the year, the Group had significant transactions with related parties (as detailed in note 47 to the consolidated financial statements), certain of which fall into connected or continuing connected transactions within the meaning of Charter 14A of the Listing Rules, the details of which are set out below:

(a) Connected and related party transactions

	2018 RMB'000	2017 RMB'000
Sales to fellow subsidiaries	243,690	171,248
Purchases from fellow subsidiaries	88,318	115,664
Rental expenses and property management fee paid to fellow subsidiaries	66,352	79,798
Rental income from fellow subsidiaries	32,230	22,065
Commission income received from fellow subsidiaries	662	625
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	5,966	7,468
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	9,127	9,072
Interest income from fellow subsidiaries	24,585	26,796
Purchases from the other related parties	2,626	–
Logistics and delivery fee charged by the other related parties	1,450	–
Technical platform usage fee paid to fellow subsidiaries	11,095	8,004
Transaction amounts transferred from the Group's account into a fellow subsidiary's settlement account	11,736	8,078
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's account	7,748	6,289
Logistics resources leasing fee charged by fellow subsidiaries	2,696	2,090
Logistics and delivery service fee charged by fellow subsidiaries	2,054	–
Financial Services Agreement-Deposits in a fellow subsidiary	1,103,274	1,010,351

Fellow subsidiaries referred above are other subsidiaries of Bailian Group.

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

(b) Related party transactions not falling into connected transactions

	2018 RMB'000	2017 RMB'000
Purchases from associates – Shanghai Lianhua Supermarket, Food Co., Ltd., Shanghai Gude Commercial Trading Co., Ltd. and Sanming Taige Information Technology Co., Ltd.	**4,569**	4,018

Connected Transactions

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

Connected Transaction – Equity Transfer Agreement

On 18 May 2018, the Company entered into the Equity Transfer Agreement with Shanghai Bailian, pursuant to which, the Company conditionally agreed to purchase, and Shanghai Bailian conditionally agreed to sell, approximately 9.0909% equity interest in Lianhua E-business Co., Ltd.*（聯華電子商務有限公司）("Lianhua E-business") (the "Acquisition") for a cash consideration of RMB27,872,899.60 (equivalent to approximately HK$34,358,923.34). Upon closing, Lianhua E-business would become a wholly-owned subsidiary of the Company.

As at 18 May 2018, Shanghai Bailian was a connected person of the Company by virtue of being a substantial Shareholder. Therefore, the Acquisition constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Acquisition exceeded 0.1% but was less than 5%, the Acquisition was subject to the reporting and announcement requirements, but exempt form the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Please refer to the announcement of the Company dated 18 May 2018 for relevant details of the transaction.

Continuing Connected Transactions – Goods Procurement Framework Agreement

On 25 July 2018, the Company entered into the Goods Procurement Framework Agreement （the "Goods Procurement Framework Agreement"）with Zhejiang Tmall Supply Management Co., Ltd.*（浙江天貓供應鏈管理有限公司）("Zhejiang Tmall"), pursuant to which, the Company agreed to purchase from Zhejiang Tmall various kinds of goods, including but not limited to foods, fresh produce and industrial products, for a term commencing from 25 July 2018 to 31 December 2020 (both days inclusive).

The operating units of both parties may enter into individual goods procurement contracts setting out specific terms of procurement of goods, including the goods to be procured, price, amount, delivery method and payment arrangement. Such terms shall be consistent with the principles and the terms of the Goods Procurement Framework Agreement. If there is any discrepancy between the terms of an individual goods procurement contract and the Goods Procurement Framework Agreement, the latter shall prevail.

The prices for the goods to be procured under the Goods Procurement Framework Agreement are determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties on the basis of the market prices of such goods. The payment under the individual goods procurement contract is to be made according to the terms of the individual goods procurement contract. The prices for the goods procured by the Company from Zhejiang Tmall will not be less favourable than those available from independent third parties in similar transactions.

The respective maximum annual transaction amounts payable by the Company for the financial years ending 31 December 2018, 31 December 2019 and 31 December 2020 under the Goods Procurement Framework Agreement are RMB20 million, RMB60 million and RMB100 million, respectively.

As Zhejiang Tmall is an indirect wholly-owned subsidiary of Alibaba Group Holding Limited, which is the holding company of Alibaba (China) Technology Co., Ltd.（阿里巴巴（中國）網絡技術有限公司）("Alibaba China"). Alibaba China is a substantial Shareholder and therefore is a connected person of the Company. As such, Zhejiang Tmall is an associate of Alibaba China and a connected person of the Company. Accordingly, the transactions contemplated under the Goods Procurement Framework Agreement constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio (as defined in the Listing Rules) for the transactions contemplated under the Goods Procurement Framework Agreement exceeded 0.1% but was less than 5%, the transactions contemplated under the Goods Procurement Framework Agreement were subject to the reporting, annual review and announcement requirements, but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The actual transaction amount paid by the Company under the Goods Procurement Framework Agreement for the year ended 31 December 2018 is approximately RMB2,626 thousand.

Please refer to the announcement of the Company dated 25 July 2018 for relevant details of the transaction.

On 3 April 2019, the Company and Zhejiang Tamll terminated the Goods Procurement Framework Agreement. Please refer to the announcement of the Company dated 3 April 2019 for details.

Continuing Connected Transactions – Logistics and Delivery Services Framework Agreement

On 8 October 2018, the Company entered into the logistics and delivery services framework agreement (the "Logistics and Delivery Services Framework Agreement") with Bailian Group, pursuant to which, Bailian Group agreed to provide logistics and delivery services to the Group for a term of three years commencing from 1 January 2018 to 31 December 2020 (both days inclusive).

Bailian Group and/or its subsidiaries agreed to provide logistics and delivery services to the Group. The logistics and delivery services provided by Bailian Group include but not limited to providing delivery services, allocation services and returning services within the city of Shanghai, and providing delivery services and warehousing services outside the city of Shanghai, to the Group on a non-exclusive basis. The provision of delivery services by Bailian Group refers to the delivery of goods by Bailian Group to the Group at the various outlets of the Group and the provision of warehousing services refers to the delivery of goods into the warehouse, storage, sorting and retrieval of goods from the warehouse.

The operating units of both parties may enter into individual logistics and delivery services contracts setting out specific terms of such services including price, settlement method and payment arrangement. Such terms shall be consistent with the principles and the terms of the Logistics and Delivery Services Framework Agreement. If there is any discrepancy between the terms of an individual logistics and delivery services contract and the Logistics and Delivery Services Framework Agreement, the latter shall prevail.

The price for the logistics and delivery services under the Logistics and Delivery Services Framework Agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties on the basis of the market price of such services. The payment under the individual logistics and delivery services contract is to be made according to the terms of the individual logistics and delivery services contracts. The prices for the services provided by Bailian Group to the Company will not be less favourable than those available from independent third parties in similar transactions.

The respective maximum annual transaction amounts payable by the Company for the financial years ending 31 December 2018, 31 December 2019 and 31 December 2020 under the Logistics and Delivery Services Framework Agreement are RMB16 million, RMB20 million and RMB24 million, respectively.

As Bailian Group is a substantial Shareholder, Bailian Group is a connected person of the Company. Therefore, the transactions contemplated under the Logistics and Delivery Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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

The actual transaction amount paid by the Company under the Logistics and Delivery Services Framework Agreement for the year ended 31 December 2018 is approximately RMB2,054 thousand.

Please refer to the announcement of the Company dated 8 October 2018 for relevant details of the transaction.

Continuing Connected Transactions – Logistics Resources Leasing Framework Agreement

On 8 October 2018, the Company entered into the Logistics Resources Leasing Framework Agreement (the "Logistics Resources Leasing Framework Agreement") with Bailian Group, pursuant to which, Bailian Group agreed to lease to the Group logistics resources, including but not limited to trays and other logistics resources, for the Group's daily logistics needs for a term of three years commencing from 1 January 2019 to 31 December 2021 (both days inclusive).

The operating units of both parties may enter into individual logistics resources leasing contracts setting out specific terms of such services including price, settlement method, payment method and time of payment. Such terms shall be consistent with the principles and the terms of the Logistics Resources Leasing Framework Agreement. If there is any discrepancy between the terms of an individual logistics and delivery services contract and the Logistics and Delivery Services Framework Agreement, the latter shall prevail.

The price for the logistics resources leased under the Logistics Resources Leasing Framework Agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties on the basis of the market price of such services. The prices for the logistics resources provided by Bailian Group to the Company will not be less favourable than those available from independent third parties in similar transactions. The payment under the individual logistics resources leasing contract is to be made according to the terms of the individual logistics resources leasing contract. The payment under the individual logistics resources leasing contract are to be made in cash on a monthly or agreed period basis and shall be consistent with the market payment terms of leasing such kind of logistics resources.

The respective maximum annual transaction amounts payable by the Company for the financial year ending 31 December 2019, 31 December 2020 and 31 December 20201 under the Logistics Resources Leasing Framework Agreement are RMB3 million.

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

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

Continuing Connected Transactions – Modified Leasing Agreement

On 29 April 2005, Shanghai Century Lianhua Supermarket Jinshan Co., Ltd.*（上海世紀聯華超市金山有限公司）("Century Lianhua Jinshan"), a wholly-owned subsidiary of the Company, and Shanghai Tianle Real Estate Development Co., Ltd.*（上海天樂房產開發有限公司）("Shanghai Tianle"), an independent third party, entered into a leasing agreement in relation to the leasing of the first floor and the second floor of the premise located at No.388 Jinlongxin Street, Zhujing Town, Jinshan District, Shanghai, the PRC ("Jinshan Premise") by Shanghai Tianle to Century Lianhua Jinshan for a term of 15 years from 1 June 2007 to 31 May 2022 (the "leasing agreement").

On 12 November 2007, Century Lianhua Jinshan and Shanghai Tianle entered into a supplemental leasing agreement (the "supplemental leasing agreement", and collectively with the leasing agreement, the "original leasing agreements") to amend the total leasing area and the annual rents under the leasing agreement.

Jinshan Premise was sealed up by court in 2012. Shanghai Yibai Group Real Estate Co., Ltd.*（上海一百集團房地產有限公司）("Shanghai Yibai") then purchased Jinshan Premise and obtained the ownership of Jinshan Premise by enforcement decision of the court on 7 September 2015 through judicial auction. On 26 May 2018, Shanghai Yibai obtained the relevant ownership certificate of Jinshan Premise.

On 14 December 2018, Century Lianhua Jinshan entered into the Modified Leasing Agreement (the "Modified Leasing Agreement") with Shanghai Yibai to modify the lessor of the original leasing agreements. Pursuant to such agreement, the lessor of the original leasing agreements was modified from Shanghai Tianle to Shanghai Yibai, while the other terms of the original leasing agreements remained unchanged. Upon the entering into of the Modified Leasing Agreement, all the rights and obligations under the original leasing agreements would be transferred to and performed by Century Lianhua Jinshan and Shanghai Yibai since 7 September 2015.

The term of the Modified Leasing Agreement is the same as the original leasing agreements, namely a term of 15 years commencing from 1 June 2007 to 31 May 2022 (both days inclusive).

As the term of the Modified Leasing Agreement exceeds three years, pursuant to Rule 14A.44 of the Listing Rules, the Company has engaged an independent financial adviser to review the Modified Leasing Agreement and the independent financial adviser has confirmed that it is in the normal business practice for contracts of this type to be of such duration.

The rents payable by Century Lianhua Jinshan under the Modified Leasing Agreement comprised the property management fee and rents for equipment, which will be paid semi-annually by Century Lianhua Jinshan to Shanghai Yibai.

The annual rents are calculated as follows: annual rents = the unit price (i.e. RMB0.94 per square meter per day) × total leasing area (i.e. 12,589.65 square meters) × 365 days. The annual rents will increase by 5% for every three years starting from the first year of the original leasing agreements.

As mentioned above, Shanghai Yibai has not obtained the ownership certificate of Jinshan Premise until May 2018 and thus Century Lianhua Jinshan was not obliged to pay the relevant rents prior to May 2018. The total outstanding rents for Jinshan Premise for the term from 7 September 2015 (namely the date when Shanghai Yibai obtained the ownership of Jinshan Premise by enforcement decision of the court through judicial auction) to 30 November 2018 amounted to approximately RMB15.99 million. Century Lianhua Jinshan planned to pay such rents in lump sum to Shanghai Yibai before 31 December 2018.

The maximum annual rents payable by Century Lianhua Jinshan for the periods from 1 December 2018 to 31 May 2022 under the Modified Leasing Agreement are RMB5.5 million each year.

As the Hong Kong Financial Reporting Standards 16 "Lease" took effect from 1 January 2019 and be applicable to financial year stating on or after 1 January 2019, pursuant to the requirements of the Stock Exchange, the manual caps for the continuing connected transactions of property leasing with the Group as the lessee for the periods from 1 January 2019 to 31 May 2022 under the Modified Leasing Agreement are RMB18.1 million each year. The annual caps are set based on the total value of rights of use assets relating to Jinshan Premise under the modified Leasing Agreement.

Shanghai Yibai is a wholly-owned subsidiary of Bailian Group, a substantial Shareholder. Accordingly, the transactions contemplated under the Modified Leasing Agreement constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio of the transactions contemplated under the Modified Leasing Agreement exceeds 0.1% but is less than 5%, the relevant transactions are subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The actual transaction amount paid by Century Lianhua Jinshan under the Modified Leasing Agreement for the year ended 31 December 2018 is approximately RMB4,762 thousand.

Please refer to the announcement of the Company dated 14 December 2018 for relevant details of the transaction.

Continuing Connected Transactions – Financial Services Agreement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The maximum daily deposit balance placed by the Group in Bailian Finance under the Financial Service Agreement for the year ended 31 December 2018 was approximately RMB1,103,274 thousand (including any interest occurred).

On 8 October 2018, the Company renewed the financial services agreement with Bailian Group and Bailian Finance to regulate the continuing connected transactions for the period commencing from 1 January 2019 to 31 December 2021, pursuant to which, Bailian Finance agreed to provide the Group with deposit services, loan services and other financial services subject to the terms and conditions provided therein

The maximum daily balance of the Group's deposits with Bailian Finance (including any interest accrued therefrom) for each of the three years ending 31 December 2021 is RMB1.2 billion.

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

As the highest applicable percentage ratios for annual cap of the provision of deposit services under the financial services agreement is more than 5%, the provision of deposit services under the financial services agreement are subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

The Company expects that the highest applicable percentage ratio of the total service fees payable by the Company to Bailian Finance for the provision of other financial services under the financial services agreement will fall within the de minimis threshold as stipulated under Chapter 14A of the Listing Rules. Therefore, the provision of other financial services under the financial services agreement is fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will re-comply with the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules if the total service fees payable by the Company to Bailian Finance for the provision of other financial services under the financial services agreement exceed the de minimis threshold.

The financial services agreement and the continuing connected transactions and the annual caps contemplated thereunder were approved by the independent Shareholders at the extraordinary general meeting on 26 November 2018.

Please refer to the announcements of the Company dated 17 November 2015 and 8 October 2018 and the circulars of the Company dated 8 December 2015 and 26 October 2018 respectively for relevant details of the transactions.

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

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

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
Supply of goods framework agreement	Bailian Group and/or its associates agreed to supply various kinds of goods, including but not limited to dried meat products, electrical appliances, electrical components, kitchen products, cosmetic and sanitary products, household products and sports products, for sale in the sales outlets of the Company.	The pricing for the supply of goods under the supply of goods framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such goods from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms provided by independent third parties.	The maximum aggregate annual amount of the transactions under the supply of goods framework agreement for each of the three years ending 31 December 2018 is RMB150.00 million.	The actual transaction amount of the transactions under the supply of good framework agreement for the year ended 31 December 2018 is RMB84,014 thousand.

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

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

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
Smart cards arrangement agreement	Each of the Company and Bailian Group has its own smart cards system which enables its customers to make purchases by using smart cards with prepaid values. Pursuant to the smart cards arrangement agreement, the parties agreed to accept all payments of purchases from the customers by using the smart cards issued by the other party within their respective sales networks. The relevant subsidiaries of the parties will enter into individual smart cards arrangement contracts setting out specific terms for the arrangement, including the technologies required, operation details, settlement arrangements and the fees and charges. Such terms will be consistent with the principles and the terms of the smart cards arrangement agreement. If there is any conflict between the terms of an individual smart cards arrangement contract and the smart cards arrangement agreement, the latter shall prevail.	Each party shall charge the other party a management service fee of not more than 0.5% of such transaction amounts which are attributable to the other party. Such percentage shall be determined by arm's length commercial negotiations between the relevant parties with reference to the gross margin level of companies in the market using smart cards system for settlement of customers' purchases, size of transaction, application conditions and business operation conditions and set out in the individual smart cards arrangement contracts. The fee payable under the smart cards arrangement agreement is to be made by cash on a monthly basis.	The maximum fee payable by Bailian Group to the Company for each of the three years ending 31 December 2018 is RMB20 million, whereas the maximum fee payable by the Company to Bailian Group for each of the three years ending 31 December 2018 is RMB20 million.	The fees paid by Bailian Group to the Company for the year ended 31 December 2018 is RMB6,628 thousand, whereas the fees paid by the Company to Bailian Group for the year ended 31 December 2018 is RMB9,127 thousand.

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
Supply of resources framework agreement	Bailian Group agreed to supply various kinds of resources, including but not limited to office utilities, electrical appliances, industrial products, equipment, resources and components parts for the daily operation of the Company. The parties and/or its subsidiaries will enter into individual supply of resources contracts setting out specific terms of supply of resources including the specific goods to be supplied, the price, the payment terms and schedules and other terms of delivery of goods. Such terms will be consistent with the principles and the terms of the supply of resources framework agreement. If there is any conflict between the terms of an individual supply of resources contract and the supply of resources framework agreement, the latter shall prevail.	The pricing for the supply of resources under the supply of resources framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such resources from time to time. Depending on the specific conditions of transactions contemplated under the individual supply of resources contract, the fee payable under the supply of resources framework agreement is to be made by cash on a monthly, quarterly basis or agreed period basis and shall be consistent with the market payment terms of purchasing such particular type of resources.	The maximum aggregate annual amount of the transactions under the supply of resources framework agreement for each of the three years ending 31 December 2018 is RMB10 million.	The actual transaction amount of the transactions under the supply of resources framework agreement for the year ended 31 December 2018 is RMB4,303 thousand.

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
		Transactions contemplated under the supply of resources framework agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable from independent third parties.		
Leasing framework agreement	Pursuant to the leasing framework agreement, Bailian Group agreed to lease certain premises to the Company for the Company's establishment of various operations, including but not limited to supermarkets, convenience stores, warehouses and offices, but excluding hypermarkets. The parties will enter into individual leasing contracts setting out specific terms of leasing including the details of the relevant premises, the principles of rent determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the leasing framework agreement. If there is any conflict between the terms of an individual leasing contract and the leasing framework agreement, the latter shall prevail.	The rent for leasing certain premises under the leasing framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market rent of similar properties in the relevant area from time to time. Depending on the specific conditions of transactions contemplated under the individual leasing contracts, the fee payable under the leasing framework agreement is to be made by cash on a monthly, quarterly, half-yearly or annual basis.	The maximum aggregate annual amount of the transactions under the leasing framework agreement for each of the three years ending 31 December 2018 is RMB9 million.	The actual transaction amount of the transactions under the leasing framework agreement for the year ended 31 December 2018 is RMB5,344 thousand.

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
		Transactions contemplated under the leasing framework agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable from independent third parties.		
Property management framework agreement	Pursuant to the property management framework agreement, Bailian Group agreed to provide property management services, including but not limited to cleaning and sanitary services, maintenance and repair services, security and safety services and environmental greening and planting services to certain premises of the Company including offices and retail stores for a term of three years commencing from 1 January 2016 to 31 December 2018.	The fee for the provision of property management services under the property management framework agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the property management fees of similar properties in the market from time to time.	The maximum aggregate annual amount of the transactions under the property management framework agreement for each of the three years ending 31 December 2018 is RMB18 million.	The actual transaction amount of the transactions under the property management framework agreement for the year ended 31 December 2018 is RMB9,214 thousand.

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

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

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

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

On 8 October 2018, the Company renewed the supply of goods framework agreement, the smart cards arrangement agreement, the leasing framework agreement and the property management framework agreement with Bailian Group to further regulate the continuing connected transactions for the period commencing from 1 January 2019 to 31 December 2021.

For the supply of goods agreement, the maximum aggregate annual amounts of the transactions under the supply of goods framework agreement for each of the three years ending 31 December 2021 are RMB150 million, RMB170 million and 200 million respectively. As the highest applicable percentage ratio for the supply of goods framework agreement is more than 5%, thus, the transactions contemplated under the supply of goods framework agreement are subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The supply of goods framework agreement and the continuing connected transactions and the annual caps contemplated thereunder were approved by the independent Shareholders at the extraordinary general meeting on 26 November 2018.

For the smart cards arrangement agreement, the maximum fee payable by Bailian Group to the Company for each of the three years ending 31 December 2021 is RMB20 million, whereas the maximum fee payable by the Company to Bailian Group for each of the three years ending 31 December 2021 is RMB20 million.

For the leasing framework agreement, the maximum aggregate annual amount of the transactions under the leasing framework agreement for each of the three years ending 31 December 2021 is RMB9 million.

For property management framework agreement, the maximum aggregate annual amount of the transactions under the property management framework agreement for each of the three years ending 31 December 2021 is RMB18 million.

The highest applicable percentage ratios for the smart cards arrangement agreement, the leasing framework agreement and the property management framework agreement are more than 0.1% but less than 5%, the transactions contemplated thereunder are subject to the reporting, annual review and announcement requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Please refer to the announcements of the Company dated 17 November 2015 and 8 October 2018 and the circular of the Company dated 26 October 2018 for relevant details.

Continuing Connected Transactions – Sales Framework Agreement

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

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

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

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

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

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

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

The actual transaction amount paid by Hualian GMS under the Sales Framework Agreement 2016 for the year ended 31 December 2018 is approximately RMB15,499 thousand.

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

Continuing Connected Transactions – Sales Agency Framework Agreement

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

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

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

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

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

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

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

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

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

The actual transaction amount in respect of the goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group under the Sales Agency Framework Agreement for the year ended 31 December 2018 is approximately RMB228,191 thousand. The actual platform usage fee paid by the Group under the Sales Agency Framework Agreement for the year ended 31 December 2018 is approximately RMB11,095 thousand.

On 8 October 2018, the Company renewed the sales agency framework agreement with Bailian Omni-channel, pursuant to the sales agency framework agreement, Bailian Omni-channel agreed to sell the goods (namely, food, washing detergent, fresh produce, home textiles, home appliances and miscellaneous items) (the "Goods") on behalf of the Group through its e-commerce platform.

The maximum aggregate annual transaction amounts in respect of the Goods to be sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group under the sales agency framework agreement for the years ending 31 December 2019, 2020 and 2021 are RMB1.3 billion, RMB2 billion and RMB2.8 billion, respectively.

The maximum platform usage fee payable by the Group under the sales agency framework agreement for the years ending 31 December 2019, 2020 and 2021 are RMB52 million, RMB80 million and RMB112 million, respectively.

As the highest applicable percentage ratio for the highest annual cap under the sales agency framework agreement is more than 5%, the transactions contemplated under the supply of goods framework agreement are subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The sales agency framework agreement and the continuing connected transactions and the annual caps contemplated thereunder were approved by the independent Shareholders at the extraordinary general meeting on 26 November 2018.

Please refer to the announcements of the Company dated 29 January 2016, 13 June 2016 and 8 October 2018, respectively and the circulars of the Company dated 29 February 2016 and 26 October 2018 for relevant details of the transaction.

Continuing Connected Transactions – Membership Points Agency and Settlement Service Agreement

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

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

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

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

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

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

The actual amount withdrawn from the Company's relevant account in Bailian Finance to Bailian Finance's settlement account under the Membership Points Agency and Settlement Service Agreement for the year ended 31 December 2018 is approximately RMB11,736 thousand. The actual amount (including interests paid by Bailian Finance) transferred from Bailian Finance's settlement account to the Company's relevant account in Bailian Finance under the Membership Points Agency and Settlement Service Agreement for the year ended 31 December 2018 is approximately RMB7,748 thousand.

On 8 October 2018, the Company renewed the membership points agency and settlement service agreement with Bailian Finance, pursuant to which, Bailian Finance agreed to provide the Group with deposit, withdrawal and settlement services for the membership points of the Company for a term of three years commencing from 1 January 2019 to 31 December 2021.

The maximum aggregate annual transaction amounts to be withdrawn from the Company's relevant account in Bailian Finance to Bailian Finance's settlement account under the membership points agency and settlement service agreement for each of the three years ending 31 December 2021 are RMB30 million.

The maximum aggregate annual amounts to be transferred from Bailian Finance's settlement account to the Company's relevant account in Bailian Finance under the membership points agency and settlement service agreement (including the interests to be paid by Bailian Finance) for each of the three years ending 31 December 2021 are RMB30 million, which is determined in accordance with:

As the highest applicable percentage ratio for the transactions under the membership points agency and settlement service agreement is more than 0.1% but less than 5%, the transactions contemplated thereunder are subject to the reporting, annual review and announcement requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules

Please refer to the announcements of the Company dated 29 January 2016 and 8 October 2018 for relevant details of the transactions.

Continuing Connected Transactions – Property Leasing Framework Agreement

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

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

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

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

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

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

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

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

The actual transaction amount of the transactions under the Property Leasing Framework Agreement for the year ended 31 December 2018 is approximately RMB2,163 thousand.

On 8 October 2018, the Company renewed the property leasing framework agreement with Bailian Group, pursuant to which, the Company agreed to lease properties to Bailian Group (and/or its subsidiaries) for use as offices or other purposes

The maximum aggregate annual transaction amount in respect of the lease of the properties to Bailian Group by the Company under the property leasing framework agreement for each of the three years ending 31 December 2021 is RMB5 million.

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

Please refer to the announcements of the Company dated 30 March 2016 and 8 October 2018 for relevant details of the transaction.

Continuing Connected Transactions – Warehouse Leasing Framework Agreement

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

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

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

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

The actual transaction amount paid by Bailian Group under the Warehouse Leasing Framework Agreement for the year ended 31 December 2018 is approximately RMB10,108 thousand.

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

Continuing Connected Transactions – Lease Agreements

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

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

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

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

The actual rental and management fees paid by Century Lianhua under the lease agreement for the year ended 31 December 2018 is approximately RMB10,823 thousand.

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

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

The actual rent (inclusive of management fee) under the lease agreement and supplemental lease agreement with Homemart for the year ended 31 December 2018 is approximately RMB3,294 thousand.

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

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

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

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

The actual rent paid by Century Lianhua to Shanghai Di Lin and the management fees paid by Century Lianhua to Homemart under the lease agreement and the supplemental lease agreement for the year ended 31 December 2018 are approximately RMB3,580 thousand.

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

The actual rent fee under the lease agreement between Century Lianhua and Bailian Central for the year ended 31 December 2018 is approximately RMB16,571 thousand.

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

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

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

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

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

The actual transaction amount of the transactions under the lease agreement between Century Lianhua and Bailian Nanqiao for the year ended 31 December 2018 is approximately RMB4,222 thousand.

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

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

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

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

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

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

The actual transaction amount of the transactions under the lease agreement between Century Lianhua and Bailian Jinshan for the year ended 31 December 2018 is approximately RMB7,266 thousand.

Continuing Connected Transactions – Lease Agreements

On 15 July 2011, Shanghai Century Lianhua Yuqiao Shopping Centre Ltd. ("Lianhua Yuqiao",上海世紀聯華禦橋購物廣場有限公司) as the lessor and Shanghai Bailian, as the lessee entered into a lease agreement in respect of the property located at the first to third floors of Century Lianhua Yuqiao Shopping Centre, No. 2420 Hu Nan Road, Pudong New District, Shanghai, the PRC. The maximum annual amount of the transactions payable by Shanghai Bailian under this lease agreement are set out as follows:

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

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

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

The actual transaction amount of the transactions under the lease agreement between Lianhua Yuqiao and Shanghai Bailian for the year ended 31 December 2018 is approximately RMB19,959 thousand.

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

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

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

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

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

(1) have been approved by the Board;

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

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

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

By order of the Board

Ye Yong-ming
Chairman

29 March 2019
Shanghai, the PRC

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

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

Provision A.4.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The Articles of Association provides that each Director shall be appointed at the general meeting of the Company and for a term of not more than 3 years, and eligible for re-election. Having taken into account the continuity of the implementation of the Company's operation and management policies, the Articles of Association contains no express provision for the mechanism of Directors' retirement by rotation, thus deviating from the aforementioned provision of the Code.

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

Ms. Xu Zi-ying, a non-executive Director, Mr. Dong Zheng, a then non-executive Director, and Ms. Sheng Yan, a then independent non-executive Director, were unable to attend the 5th meeting of the sixth session of the Board convened on 28 March 2018 by the Company due to their other business commitments.

Mr. Dong Zheng, a then non-executive Director, was unable to attend the 6th meeting of the sixth session of the Board convened on 11 June 2018 by the Company due to his other business commitments.

Mr. Dong Zheng, a then non-executive Director, and Mr. Chen Wei, an independent non-executive Director, were unable to attend the 7th meeting of the sixth session of the Board convened on 28 August 2018 by the Company due to their other business commitments.

Ms. Xu Zi-ying, a non-executive Director, Mr. Qian Jian-qiang, a non-executive Director, and Mr. Wong Tak Hung, a non-executive Director, were unable to attend the 8th meeting of the sixth session of the Board convened on 26 November 2018 by the Company due to their other business commitments.

Mr. Dong Zheng, a then non-executive Director, was unable to attend the 2017 annual general meeting of the Company convened on 11 June 2018 (the "2017 AGM") due to his other business commitments.

Ms. Xu Zi-ying, a non-executive Director, Mr. Qian Jian-qiang, a non-executive Director, and Mr. Wong Tak Hung, a non-executive Director, were unable to attend the extraordinary general meeting of the Company convened on 26 November 2018 (the "EGM") due to their other business commitments.

Mr. Lee Kwok Ming, Don, an independent non-executive Director was unable to attend the 9th meeting of the sixth session of the Board convened on 29 March 2019 by the Company due to his other business commitments.

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

Moreover, the Company has provided the relevant materials and all necessary information relating to the 2017 AGM and the EGM (the "General Meetings") to all members of the Board before the respective General Meetings. All ordinary resolutions and special resolutions considered at the General Meetings were passed smoothly. The Company sent the related minutes of the General Meetings to all members of the Board after the General Meetings so that the Director who was unable to attend the meeting was able to understand the resolutions passed at the meetings.

The Board

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

As approved at the annual general meeting on 12 June 2017, the sixth session of the Board was established and the term of office of each Director (including non-executive directors) is three years, which will expire on the date of conclusion of 2019 annual general meeting of the Company. Corresponding to the term of office, the executive director and the independent non-executive Directors have entered into service contracts, which are valid for a term ending on the date of conclusion of the annual general meeting of the Company for the year 2019, and such term is renewable subject to the laws and regulations. The names of the Directors referred herein are members of the sixth session of the Board as at the date of this report.

The principal responsibilities of the Board include:

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

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

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

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

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

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

Board Meetings and General Meetings

The Company held four Board meetings, one 2017 annual general meeting and one extraordinary general meetings during the year. Attendance record of the Directors is as follows:

	Meetings Attended/Held		
Directors	**Board Meetings**	**2017 Annual General Meeting**	**Extraordinary General Meeting**
Executive Director			
Mr. Xu Tao	4/4	1/1	1/1
Non-executive Directors			
Mr. Ye Yong-ming (chairman)	4/4	1/1	1/1
Ms. Xu Zi-ying (vice chairman)	2/4	1/1	0/1
Mr. Dong Zheng (Note 1)	0/3	0/1	–
Mr. Xu Hong (Note 2)	2/2	–	1/1
Mr. Qian Jian-qiang	3/4	1/1	0/1
Ms Zheng Xiao-yun	4/4	1/1	1/1
Mr. Wong Tak Hung	3/4	1/1	0/1
Independent Non-executive Directors			
Mr. Xia Da-wei	4/4	1/1	1/1
Mr. Lee Kwok Ming, Don	4/4	1/1	1/1
Ms. Sheng Yan (Note 3)	0/1	–	–
Mr. Chen Wei (Note 4)	3/4	1/1	1/1
Mr. Zhang Jun (Note 5)	4/4	1/1	1/1

Notes:

1 Mr. Dong Zheng resigned from the office of non-executive Director on 28 August 2018;

2 Mr. Xu Hong was appointed as non-executive Director on 28 August 2018;

3 Ms. Sheng Yan resigned from the office of independent non-executive Director on 28 March 2018;

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

5 Mr. Zhang Jun resigned from the office of independent non-executive Director on 29 March 2019.

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

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

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

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

Trainings of Directors

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

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

Directors	Perusing the Training Materials on the Listing Rules	Participating in the Trainings on the Listing Rules Organised by the Company	Participating in the Trainings on the Listing Rules Organised by Other Organisations
Executive Directors			
Xu Tao	✔	✔	
Non-executive Directors			
Ye Yong-ming	✔	✔	
Xu Zi-ying	✔		
Dong Zheng			
Xu Hong	✔	✔	
Qian Jian-qiang	✔		
Zheng Xiao-yun	✔	✔	✔
Wong Tak Hung	✔		
Independent Non-executive Directors			
Xia Da-wei	✔	✔	✔
Lee Kwok Ming, Don	✔		
Sheng Yan			
Chen Wei	✔	✔	
Zhang Jun	✔	✔	

Board Diversity Policy

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

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

Duties of the Board and the Management of the Company

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

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

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

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

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

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

(5) formulate the basic rules of the Company;

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

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

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

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

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

Board Committees

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

As approved by ordinary resolutions at the annual general meeting on 12 June 2017, the sixth session of the Board was established. On the same day, the Board established the sixth session of the Board Committees in accordance with the requirements of the Code. As at the end of the period under review, members of each of the sixth session of the Board Committees are as follows[(1)(2)]:

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

Note: (1) The term of those current Directors above will end on the date of the 2019 annual general meeting of the Company.

(2) Mr. Zhang Jun resigned from the office of an independent non-executive Director. Mr. Zhao Xin-sheng was appointed as an independent non-executive Director, a member of the Audit Committee, a member of the Remuneration and Appraisal Committee and a member of the Nomination Committee on 29 March 2019.

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

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

Audit Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the year ended 31 December 2018, the Audit Committee held two meetings and performed major work including review of annual and interim financial reports, internal control, continuing connected transactions and maintaining proper relationship between the Group and external and internal auditors etc.

The Audit Committee of the Company held a meeting on 15 March 2018 to review and discuss matters such as the internal control of the Group, annual financial reports, remuneration and reappointment of domestic and international auditors and continuing connected transactions for 2017, including the review of the Company's annual financial report prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS"). The Audit Committee was of the view that the annual financial report of the Group for the year 2017 had complied with the accounting standards and requirements of the Stock Exchange and the relevant laws and had made adequate disclosures. The Audit Committee also conducted a review on the risk management and internal control system of the Company and its subsidiaries and was of the view that the Group had an effective risk management and internal control system. The Audit Committee was of the view that domestic and international auditor of the Company had carried out their work with professionalism and independence, and agreed to make recommendations to the Board in respect of their remuneration for 2017 and suggested to re-appoint the domestic and international auditors for 2018. The Audit Committee confirmed that the continuing connected transactions of the Company in 2017 did not exceed their respective caps.

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

The Audit Committee of the Company held a meeting on 13 August 2018 to review and discuss with the management the matters such as internal controls and interim financial report, including the review of the Company's condensed interim financial report prepared in accordance with the HKFRSs. The Audit Committee was of the view that the Group's interim financial report for the six months ended 30 June 2018 had complied with the applicable accounting standards, requirements of the Stock Exchange and legal requirements, and had made adequate disclosures. In relation to its review of the Group's internal audit function and risk management, internal control, the Audit Committee concluded that the Group's internal audit function, risk management and internal control system were effective.

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

Set out below is the attendance records of the meetings of the Audit Committee in 2018:

Name	15 March 2018	13 August 2018
Independent Non-executive Directors		
Mr. Lee Kwok Ming, Don *(Chairman)*	Present	Present
Mr. Xia Da-wei	Present	Present
Mr. Zhang Jun	Present	Present
Non-executive Directors		
Ms. Zheng Xiao-yun	Present	Present

Remuneration and Appraisal Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(o) other responsibilities authorized by the Board.

During the year ended 31 December 2018, the Remuneration and Appraisal Committee held two meetings and performed major work including determining the policy for the remuneration of Directors, assessing the performance of the executive Director and senior management of the Company, approving the terms of executive Directors' service contracts and reviewing and making recommendations to the Board on their remuneration packages.

The Remuneration and Appraisal Committee held a meeting on 26 March 2018. Having taken into account the factors including, but not limited to, the remuneration paid by comparable companies, amount of time required to be spent by the Director and the Director's duties, remuneration packages of other positions within the Group and performance-based remuneration, the committee made recommendations to the Board on the remuneration packages of the executive Director and approved the remunerations to an executive Director, a Supervisor, the senior management formed by general managers and deputy general managers for 2017.

The Remuneration and Appraisal Committee held a meeting on 8 October 2018, in order to improve the corporate governance structure of the Company, improve the incentive and restraint mechanism, and establish and improve the professional managers' salary distribution mechanism that is compatible with the market position of the enterprise and is linked to the business performance, the committee agreed to submit to the Board for review of "Management Measures for Professional Managers Assessment and Compensation of Lianhua Supermarket Holdings Co., Ltd. (Trial)"

Set out below is the attendance records of the meetings of the Remuneration and Appraisal Committee in 2018:

Name	26 March 2018	8 October 2018
Independent Non-executive Directors		
Mr. Xia Da-wei *(Chairman)*	**Present**	Present
Ms. Sheng Yan (Note)	**Present**	–
Mr. Chen Wei (Note)	**–**	Present
Mr. Zhang Jun	**Present**	Present
Non-Executive Director		
Ms. Xu Zi-ying	**Present**	Present

Note: Ms. Sheng Yan resigned from the office of a member of the Remuneration and Appraisal Committee on 28 March 2018 due to her personal reasons. Mr. Chen Wei was appointed as a member of the Remuneration and Appraisal Committee on 28 March 2018.

Nomination Committee

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

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

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

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

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

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

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

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

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

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

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

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

During the year ended 31 December 2018, the Nomination Committee held four meetings. The meetings were in compliance with the provisions under the Detailed Implementation Rules for the Nomination Committee under the Board and performed major work including determining the policy for nomination of Directors, reviewing, commenting and making recommendation to the Board on the candidates for Directors of the sixth sessions of the Board, adjustments of the Board Committees, and reviewing the time committed by each Director in order to perform their duties, and the structure, size and composition of the Board etc., which were approved and passed by way of resolutions at these meetings.

Please refer to the paragraph headed "Board diversity policy" for details on the Board's policy on board diversity, measurable objectives that it has set for implementation the policy and progress on achieving those objectives.

Please refer to the Terms of Reference of the Nomination Committee of the Company published on the website of the Stock Exchange for details of the policy for the nomination of directors.

Set out below is the attendance record of the meetings of the Nomination Committee in 2018:

Name	**26 March 2018**	**11 June 2018**	**24 August 2018**	**26 November 2018**
Independent Non-executive Directors				
Ms. Sheng Yan (Note)	Present	–	–	–
Mr. Chen Wei (Note)	–	Present	Present	Present
Mr. Xia Da-wei	Present	Present	Present	Present
Mr. Zhang Jun	Present	Present	Present	Present
Non-Executive Director				
Mr. Ye Yong-ming *(chairman)*	Present	Present	Present	Present

Note: Ms. Sheng Yan resigned from the office of a member of the Nomination Committee on 28 March 2018 due to her personal reasons; Mr. Chen Wei was appointed as a member of the Nomination Committee on 28 March 2018.

Corporate Governance Functions

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

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

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

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

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

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

Directors' and Auditors' Responsibilities for the Accounts

The Directors hereby confirm their responsibilities for the preparation of the accounts of the Company. The Directors confirm that the preparation of the financial statements of the Company for this year complied with the relevant laws and applicable accounting standards and that the Company will publish the financial statements of the Company on timely basis. The responsibilities of external auditors to the shareholders are set out on pages 131 to 133 of the annual report.

Compliance with Model Code

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as code of conduct for securities transactions by all Directors. After making specific enquiries with the Directors, the Board is pleased to confirm that all the Directors have fully complied with the provisions under the Model Code during the year ended 31 December 2018.

Remuneration of Auditors

The Audit Committee is responsible for considering the appointment of auditors and reviewing their remuneration. For the year under review, RMB5,167,000 was payable by the Company to the external auditors (including the PRC and international auditors) as service charge for their audit and due diligence consultancy services. For the year under review, the external international auditors had not provided any non-auditing service to the Company.

Company Secretary

Ms. Hu Li-ping was appointed as the company secretary of the Company with effect from 22 December 2017.

In compliance with Rule 3.29 of the Listing Rules, during the year ended 31 December 2018, Ms. Hu Li-ping received not less than 15 hours of the relevant professional training.

Risk Management and Internal Supervision

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

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

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

Internal Review

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

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

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

Review the Effectiveness of Risk Management and Internal Monitoring Systems

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

In 2018, the internal audit department worked closely with the operating units, senior management and the Directors to strengthen the risk management system. The work includes but not limited to, (i) increasing the number of training sessions; (ii) further harmonizing the internal control and risk assessment methods; (iii) normalizing internal control and risk assessment; and (iv) making the internal monitoring and evaluation more closely aligned with their potential risks, which are considered as conducive. Moreover, the internal audit department collects potential risk information from operating units and assess the level of risk based on implementation of risk management measures that would be facilitated, all of which form part of the process used by the Company to identify, evaluate and manage potential material risk. The key risks identified, managed and monitored during the year included downward pressure on China's economy and action plans to effectively respond to the identified risks were formulated and implemented during the year accordingly. The internal audit department has submitted to the Board and the Audit Committee the latest report on the monitoring of risk management during the year and to assist the Directors in reviewing the effectiveness of the Group's risk management and internal control systems.

In 2018, the Group's internal audit department conducted a selective review on the effectiveness of the Group's risk management and internal control systems in terms of financial, operational and compliance monitoring, focusing on intangible asset management, information system maintenance, inventory management, and procurement expenses to review the effectiveness of risk management and internal control system. In addition, the responsible person of the main business and corporate functions need to self-assess their own major monitoring matters. The results were reviewed by the Group's internal audit department and reported to the Audit Committee. The Audit Committee then reviewed the information and reported to the Board. The Audit Committee and the Board did not find any matter or failure which requires special attention relating to the Group's financial condition or results of operations. In case any material internal control defects are identified by the internal audit department, the responsible unit and the Board will discuss and assess the cause of the defect and an action plan will be formulated to rectify the defects. The Board has conducted a review and considered that the risk management and internal control system as a whole is adequate and effective, including the areas of accounting, internal audit and the Group's procedure for financial reporting and compliance with the Listing Rules are effective. There are sufficient resources, staff qualifications and experience in the financial reporting function, as well as adequate staff training courses and budget.

Inside Information

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

Liability Insurance

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

Organizational Structure

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

Authorities and Controls

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

Training on Internal Control

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

Accounting System Management

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

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

Internal Audit

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

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

Continuing Operation

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

Investor Relations

The Company reports to the Shareholders on the corporate information of the Group on a timely and accurate basis. Printed copies of the 2017 annual report and 2018 interim report have been sent to all Shareholders.

The Company places great emphasis on communication with the Shareholders and investors of the Company and in enhancing the Company's transparency. As such, a dedicated department has been set up and designated officers are assigned to handle relations with investors and analysts. During the period under review, the Company received 30 batches of fund managers and analysts and patiently answered their relevant inquiries. Site visits to stores were arranged for them so as to enhance their understanding of the Company's operation and also its latest business developments. The Company made disclosures in a careful, true, accurate, complete and timely manner in strict accordance with applicable laws and regulations, the Articles of Association and the Listing Rules. At the same time, the Company places great emphasis on collecting and analysing various comments and recommendations from analysts and investors on the Company's operation, which will be compiled into reports regularly and adopted selectively in its operation. The Company has set up a website, allowing investors to have access to access the Company's particulars, statutory announcements, management and recent operating affairs. All published annual reports, interim reports, circulars and announcements since its listing are included in the "Investors Relations" section of the website. The Company persistently adheres to its information disclosure principle of honesty and integrity and actively initiates communications with various parties. In particular, it has held seminars, press conferences and one-on-one investor meetings following the announcement of interim and annual results and decisions on major investments. The Company also participates in a series of investor activities and conducts one-on-one communication with investors on a regular basis.

Changes in Company's Constitutional Document

(i) In order to reflect that Shanghai Yiguo E-Commerce Co., Ltd. transferred its 13,109,400 domestic shares of the Company to Bailian Group, the Articles of Association was amended. The amendments are as follows:

Existing Articles	Revised Articles
Article 21	Article 21
The Company shall issue a total number of 1,119,600,000 ordinary shares, which consist of:	The Company shall issue a total number of 1,119,600,000 ordinary shares, which consist of:
(1) 715,397,400 domestic shares (276,552,000 shares to be held by Bailian Group Co. Ltd.; 224,208,000 by Shanghai Bailian Group Co., Limited; 201,528,000 by Alibaba (China) Technology Co., Ltd; and 13,109,400 by Shanghai Yiguo E-commerce Co., Ltd.), and 31,602,600 non-listed foreign shares (31,602,600 by Wong Sun Hing);	(1) 715,397,400 domestic shares (~~276,552,000~~ 289,661,400 shares to be held by Bailian Group Co. Ltd.; 224,208,000 by Shanghai Bailian Group Co., Limited; and 201,528,000 by Alibaba (China) Technology Co., Ltd)~~, and 13,109,400 by Shanghai Yiguo E-commerce Co., Ltd.)~~, and 31,602,600 non-listed foreign shares (31,602,600 by Wong Sun Hing);
(2) total number of 372,600,000 overseas-listed foreign shares.	(2) total number of 372,600,000 overseas-listed foreign shares.

(ii) In accordance with the spirit of the work meeting on Party building by state-owned enterprises in the PRC in relation to proactive fulfilment of the requirements of the organising department of the Central Committee of the Communist Party of China and the State-owned Assets Supervision and Administration Commission of the State Council on incorporating the overall requirements of Party building into the articles of association of state-owned companies, relevant amendments were made to the Articles of Association in relation to the Party building and innovative fault-tolerant mechanism. The amendments are as follows:.

Existing Articles	Revised Articles
	Chapter XV "Qualifications and Obligations of Directors, Supervisors, Managers, and Other Senior Management Officers" (1) Article 144 The Company explores to establish a fault-tolerant mechanism that encourages innovations. Subject to compliance with laws, regulations and internal rules and regulations of the Company, where the innovative projects approved by the Board fail to achieve the expected goals and the relevant personnel are diligent and responsible and do not seek for personal gains, the relevant personnel will not be subject to negative evaluation and will be exempt from relevant liabilities according to laws. Chapter XX Party Organizations and Organizations of the Trade Union and Communist Youth League (2) Section I Institutional Setting of the Party Organization Article 172 In accordance with the provisions of the Company Law and the Constitution of the Communist Party of China, the Company shall set up Party organizations at all levels and their disciplinary inspection agencies, and the Company is required to provide necessary supports for the normal activities of Party organizations at all levels. Article 173 The Company shall have one secretary to the Party Committee and several other Party Committee members, and shall set up a Commission for Discipline Inspection in accordance with regulations. Article 174 The institutional setting of the Party Committee of the Company, the division of responsibilities, and the tasks of work are incorporated into the Company's management system, management rules, and work norms. The Company shall be equipped with sufficient number of staff in charge of Party affairs and guarantee the working funds for the Party organizations.

Existing Articles	Revised Articles
	Section II Powers of the Party Organizations and the Exercise Thereof Article 175 When the Board decides on material issues of the Company, it shall communicate with the Party Committee in advance and seek opinions of the Party Committee. Article 176 The Party Committee of the Company shall formulate working rules including rules of procedure to clarify the principles, scope, organization, execution and supervision in relation to the consideration of matters by the Party Committee. The system and mechanism in which the Party organizations participate in material issues shall be formed to support the exercise of powers by the Board, the Supervisory Committee and the management according to laws. Section III Organizations of the Trade Union and Communist Youth League Article 177 In accordance with the Constitution of the Communist Youth League of China, the Company shall set up the organizations of the Communist Youth League at all levels to carry out the activities of the organizations of the Communist Youth League and guide the members of the Communist Youth League to proactively participate in the Company's reform, innovation and development. The Company shall provide necessary conditions for the activities of the organizations of the Communist Youth League at all levels. Article 178 The employees of the Company have the right to set up a Trade Union and engage in the activities of the Trade Union in accordance with the Trade Union Law of the People's Republic of China. The activities organized by the Trade Union shall be carried out beyond the normal working hours unless otherwise specified by the Board.

Notes:

(1) One article is added after Article 143 under Chapter XV “Qualifications and Obligations of Directors, Supervisors, Managers, and Other Senior Management Officers” in the original Articles of Association, and the numbering of the subsequent sections and articles of the Articles of Association shall be adjusted accordingly.

(2) Chapter XX Trade Union in the original Articles of Association is changed into “Party Organizations and Organizations of the Trade Union and Communist Youth League” and relevant articles are added, and the numbering of the original Chapter XX and subsequent sections and articles of the original Articles of Association shall be adjusted accordingly. The original Article 171 shall be changed into Article 178.

(3) The amendments to the Articles of Association were originally drafted in Chinese and the English translation is for reference only. In case of any inconsistencies between the Chinese version and the English version, the Chinese version shall prevail.

(4) After addition of certain articles in the amendments to the Articles of Association, the subsequent articles shall be re-numbered. The cross references to the numbering of articles of the original Articles of Association as so amended shall also be revised accordingly.

For further details of amendments, please refer to the announcements of the Company dated 19 October 2018, and the circular of the Company dated 26 October 2018, respectively.

Shareholders’ Rights

Convening extraordinary general meetings by shareholders

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

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

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

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

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

Raising proposals at general meetings

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

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

Putting forward enquiries to the Board

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

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

Report of the Supervisory Committee

Dear Shareholders,

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

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

During the period under review, the Supervisory Committee held five meetings. On 28 March 2018, the Supervisory Committee of the Company held a meeting, at which the Supervisory Committee objectively evaluated the Group's business operation for the year 2017, and was fully satisfied with the work done by the Group in 2017, including the Group's development plan, network expansion in the year, improvement of the internal control systems and conduct of connected transactions. The Supervisory Committee also received reports on the financial position of the Group for 2017 and discussed and adopted the report of the Supervisory Committee for 2017. The Supervisory Committee reviewed and approved the proposal of the Company to write off the loss of closing stores, and agreed to write off the actual amount of closing of the two wholly-owned subsidiaries of the Company in 2017. The Supervisory Committee considered and approved the proposal of the Company for the provision for impairment of Shanghai Lianhua Supermarket Distribution Co., Ltd., and confirmed the asset impairment loss on net book value of "Long-term Expenses – Assets Improvement Expenditure" of Shanghai Lianhua Supermarket Distribution Co., Ltd. which was included in the 2017 profit and loss of the Group. The Supervisory Committee reviewed and approved the proposal of the connected transaction of the Company to acquire the equity interest of Lianhua E-business held by Shanghai Bailian, and confirmed that the above transaction was conducted on normal commercial terms, and the terms of the transaction were fair and reasonable and in the interests of the Shareholders as a whole.

On 24 July 2018, the Supervisory Committee convened a meeting to consider and approve the proposal of the connected transaction that the Company would enter into the Goods Procurement Framework Agreement with Zhejiang Tmall for a term commencing from 2018 to 2020. The Supervisory Committee considered and approved the proposal of the connected transaction that the Company would enter into the Logistics and Delivery Service Framework Agreement with Bailian Group for a term commencing from 2018 to 2020, and confirmed that the above transactions were the daily business of the Company, were conducted on normal commercial terms, and the terms of the transactions were fair and reasonable and in the interests of the Shareholders as a whole.

On 28 August 2018, the Supervisory Committee held a meeting regarding the operating conditions of the first half of the year ended 30 June 2018 and received reports from the management relating to the financial condition of the first half of 2018. The Supervisory Committee considered and approved the proposal of the connected transactions that the Company would enter into the property management framework agreement, the supply of resources framework agreement, the leasing framework agreement, the smart cards arrangement agreement, the staff training business cooperation framework agreement, the personnel trusteeship business cooperation framework agreement, the Logistics Resources Leasing Framework Agreement, the Property Leasing Framework Agreement and the supply of goods framework agreement with Bailian Group for a term commencing from 2019 to 2021, and confirmed that the above transactions were the daily business of the Company, were conducted on normal commercial terms, and the terms of the transactions were fair and reasonable and in the interests of the Shareholders as a whole. The Supervisory Committee considered and approved the proposal of the connected transactions that the Company entered into the membership points agency and settlement service agreement with Bailian Group for a term commencing from 2019 to 2021, and the Company entered into the Financial Services Agreement with Bailian Group and Bailian Finance for a term commencing from 2019 to 2021, and confirmed that the above transactions were the daily business of the Company, were conducted on normal commercial terms, and the terms of the transactions were fair and reasonable and in the interests of the Shareholders as a whole.

On 8 October 2018, the Supervisory Committee convened a meeting to reconsider and approve the proposal of the connected transaction that the Company entering into the Sales Agency Framework Agreement with Bailian Omni-channel for a term commencing from 2019 to 2021 taking into account the company's online development speed and strategic planning in the next three years, and agreed to increase the annual cap under the Sales Agency Framework Agreement, and confirmed that the above transaction are the daily business of the Company and are conducted in accordance with normal commercial terms, and the terms of the transactions are fair and reasonable and in the interests of the Shareholders as a whole.

The Supervisory Committee considered and approved the connected transaction proposal that the Company accepting the transfer of 11.765% equity of Bailian Financial Services Co., Ltd. (formerly "Bailian E-commerce Co., Ltd.", "Bailian Financial Services ") from Lianhua E-Commerce, a wholly-owned subsidiary of the Company, the trading base date is 31 July 2018, the transfer price is determined by the net asset value of the proportion of transferred equity corresponding to the audit report of Bailian Financial Services on base date issued by a qualified audit institution, transferring through the Shanghai United Assets and Equity Exchange, paying in cash, trading price off-site settlement, and agreed that the transitional profit and loss of this equity transaction will be enjoyed and assumed by the Company in proportion to its shareholding. The Supervisory Committee considered and approved the connected transaction proposal that Century Lianhua Jinshan, a wholly-owned subsidiary of the Company, entering into the Modified Leasing Agreement with Shanghai Yibai, pursuant to which, the lessor of the original leasing agreements was modified from Shanghai Tianle to Shanghai Yibai, while the other terms of the original leasing agreements remained unchanged. Upon the entering into of the Modified Leasing Agreement, all the rights and obligations under the original leasing agreements would be transferred to and performed by Century Lianhua Jinshan and Shanghai Yibai since 7 September 2015, and confirmed that the above transaction are the daily business of the Company and are conducted in accordance with normal commercial terms, and the terms of the transactions are fair and reasonable and in the interests of the Shareholders as a whole.

On 26 November 2018, the Supervisory Committee convened a meeting to review the follow-up issues after the completion of the transfer of equity interest Bailian Financial Services.

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

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

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

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

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

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

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

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 134 to 227, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (Continued)

Key audit matter *Impairment assessment on property, plant and equipment and intangible assets (including goodwill)*	**How our audit addressed the key audit matter**
We identified impairment assessment as a key audit matter because the amounts of property, plant and equipment and intangible assets(including goodwill) were significant and impairment assessment involved significant estimations or assumptions. Note 13 to the consolidated financial statements described the reasons of impairment loss made on property, plant and equipment and note 16 to the consolidated financial statements described the impairment loss made on intangible assets (including goodwill) was due to the decrease in recoverable amount which was determined based on the value-in-use calculation of the cash-generating units. Details of these value-in-use calculation for these cash-generating-units were set out in note 17 to the consolidated financial statements. During the year ended 31 December 2018, the Group has recognised impairment losses of RMB5,814,000 on property, plant and equipment.	Our audit procedures in relation to the impairment assessment include: • Understanding the management consideration and process for the identification of property, plant and equipment that were impaired; • Understanding the methodology and the process management applied in preparing the cash flow forecast, including the key assumptions used such as the historical financial information, market outlooks and trends, growth rates, discount rates, budgeted sales and gross margin; • Assessing whether the management estimates and judgement are appropriate and reasonable with regards to our understanding and the operating performance of the Group; and • Evaluating whether the model used by the management to calculate the value-in-use of the individual cash-generating unit is in compliance with the requirement under Hong Kong Accounting Standard 36 Impairment of Assets.

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

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	notes	**Year ended 31/12/2018 RMB'000**	Year ended 31/12/2017 RMB'000
Revenue	5	**25,389,082**	25,225,388
Cost of sales		**(21,801,683)**	(21,467,549)
Gross profit		**3,587,399**	3,757,839
Other revenue	5	**2,153,816**	2,037,808
Other income and other gains and losses	7	**601,582**	899,296
Distribution and selling expenses		**(5,376,741)**	(5,595,679)
Administrative expenses		**(814,173)**	(767,667)
Impairment losses, net of reversal		**(1,432)**	(966)
Other expenses		**(81,919)**	(219,704)
Share of profits of associates		**42,435**	8,458
Finance cost		**–**	(120)
Profit before taxation	8	**110,967**	119,265
Income tax expense	9	**(188,099)**	(270,290)
Loss for the year		**(77,132)**	(151,025)
Other comprehensive income (expenses)			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain on available for sale ("AFS") financial assets		**–**	19,275
Income tax relating to items that may be reclassified subsequently		**–**	(4,819)
Other comprehensive income for the year, net of income tax		**–**	14,456
Total comprehensive expense for the year		**(77,132)**	(136,569)
(Loss) profit for the year attributable to:			
Owners of the Company		**(218,724)**	(282,760)
Non-controlling interests		**141,592**	131,735
		(77,132)	(151,025)
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(218,724)**	(269,685)
Non-controlling interests		**141,592**	133,116
		(77,132)	(136,569)
Loss per share – basic and diluted	12	**RMB0.20**	RMB0.25

Consolidated Statement of Financial Position

At 31 December 2018

	notes	31/12/2018 RMB'000	31/12/2017 RMB'000
Non-current assets			
Property, plant and equipment	13	**3,503,796**	3,176,870
Construction in progress	14	**31,279**	313,168
Land use rights	15	**838,878**	865,234
Intangible assets	16	**210,423**	198,430
Interests in associates	18	**682,370**	511,251
AFS financial assets	19	**–**	93,589
Financial assets at fair value through profit or loss ("FVTPL")	20	**52,901**	–
Term deposits	21	**375,000**	1,200,000
Prepaid rental	22	**49,202**	19,617
Deferred tax assets	23	**79,146**	74,150
Other non-current assets	24	**12,834**	14,292
		5,835,829	6,466,601
Current assets			
Inventories	25	**2,509,078**	2,414,652
Trade receivables	26	**175,002**	133,564
Deposits, prepayments and other receivables	27	**1,118,289**	1,179,216
Amounts due from fellow subsidiaries	28	**29,556**	15,050
Amounts due from associates	29	**42**	106
Financial assets at FVTPL	20	**3,241,214**	2,287,784
Term deposits	21	**1,620,000**	880,000
Cash and cash equivalents	30	**2,661,100**	3,577,507
		11,354,281	10,487,879
Total assets		**17,190,110**	16,954,480

(Continued)

Consolidated Statement of Financial Position

At 31 December 2018

	notes	31/12/2018 RMB'000	31/12/2017 RMB'000
Capital and reserves			
Share capital	37	**1,119,600**	1,119,600
Reserves		**1,037,397**	1,073,552
Equity attributable to owners of the Company		**2,156,997**	2,193,152
Non-controlling interests	38	**302,929**	295,681
Total equity		**2,459,926**	2,488,833
Non-current liability			
Deferred tax liabilities	23	**93,210**	76,625
Current liabilities			
Trade payables	31	**4,129,974**	3,818,411
Other payables and accruals	32	**2,439,121**	2,383,756
Coupon liabilities	33	**–**	7,846,974
Contract liabilities	34	**7,816,494**	–
Deferred income	35	**17,082**	42,897
Amounts due to Shanghai Bailian (as defined in note d of consolidated statement of changes in equity)		**28,176**	–
Amounts due to fellow subsidiaries	28	**59,384**	55,978
Amounts due to associates	29	**1,156**	1,278
Amounts due to other related parties		**785**	–
Bank borrowing	36	**–**	2,000
Tax payable		**144,802**	237,728
		14,636,974	14,389,022
Total liabilities		**14,730,184**	14,465,647
Net current liabilities		**(3,282,693)**	(3,901,143)
Total equity and liabilities		**17,190,110**	16,954,480

The consolidated financial statements on pages 134 to 227 were approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

YE YONG-MING
DIRECTOR

XU TAO
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 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 (note 38)	Total RMB'000
At 1 January 2017	1,119,600	258,353	(227,420)	559,800	752,504	2,462,837	291,042	2,753,879
(Loss) profit for the year	–	–	–	–	(282,760)	(282,760)	131,735	(151,025)
Other comprehensive income for the year	–	–	13,075	–	–	13,075	1,381	14,456
Total comprehensive income (expense) for the year	–	–	13,075	–	(282,760)	(269,685)	133,116	(136,569)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(128,477)	(128,477)
At 31 December 2017	1,119,600	258,353	(214,345)	559,800	469,744	2,193,152	295,681	2,488,833
Adjustments (see note 2.3)	–	–	(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
(Loss) profit for the year	**–**	**–**	**–**	**–**	**(218,724)**	**(218,724)**	**141,592**	**(77,132)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**(218,724)**	**(218,724)**	**141,592**	**(77,132)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(136,354)**	**(136,354)**
Acquisition of additional equity interests in a subsidiary (note d)	**–**	**–**	**(3,702)**	**–**	**–**	**(3,702)**	**(24,474)**	**(28,176)**
At 31 December 2018	**1,119,600**	**258,353**	**(235,497)**	**559,800**	**454,741**	**2,156,997**	**302,929**	**2,459,926**

notes:

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

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

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

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

iii. acquisition of additional equity interests in subsidiaries;

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

v. recognition of changes in fair value of AFS financial assets. (The amounts were adjusted to retained profits when the Group adopted HKFRS 9 at 1 January 2018).

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

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

(d) In 2018, the Group entered into a share transfer agreement with Shanghai Bailian Group Co., Limited ("Shanghai Bailian"), the minority shareholder of Lianhua E-business Co., Ltd. ("Lianhua E-business"), a subsidiary of the Company, pursuant to which the Group agreed to purchase additional 9.0909% equity interest in Lianhua E-business at a cash consideration of RMB28,176,000. The carrying amount in respect of the 9.0909% equity interest of Lianhua E-business on date of acquisition of additional interest was RMB24,474,000, resulting in RMB3,702,000 debited to other reserve, accordingly.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	notes	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		**110,967**	119,265
Adjustments for:			
Depreciation of property, plant and equipment		**378,552**	384,897
Amortisation of land use rights		**26,312**	16,293
Amortisation of intangible assets		**13,415**	11,279
Amortisation of other non-current assets		**1,458**	1,459
(Gain) loss on disposal of property, plant and equipment and intangible assets		**(86,380)**	12,003
Impairment loss recognised on property, plant and equipment		**5,814**	47,640
Impairment loss on goodwill		**1,790**	–
Recognition of allowance for write-down of inventories		**–**	10,487
Reversal of allowance for write-down of inventories		**(8,370)**	(3,370)
Gain on change in fair value of financial assets at FVTPL		**(133,025)**	(103,163)
Dividends from financial assets at FVTPL		**(2,090)**	(135)
Share of results of associates		**(42,435)**	(8,458)
Dividends from AFS financial assets		**–**	(2,314)
Gain on disposal of a subsidiary	40	**(2,243)**	(399,132)
Allowance for credit losses, net of reversal		**1,432**	966
Interest income on bank balances and term deposits		**(150,513)**	(183,973)
Finance cost		**–**	120
Operating Profit (loss) before movements in working capital		**114,684**	(96,136)
(Increase) decrease in inventories		**(91,129)**	643,463
Decrease in trade receivables, deposits, prepayments and other receivables		**(74,564)**	(32,151)
Decrease in prepaid rental		**1,717**	25,171
Decrease (increase) in amounts due from associates		**64**	(48)
(Increase) decrease in amounts due from fellow subsidiaries		**(14,506)**	718
Increase (decrease) in amounts due to fellow subsidiaries		**3,406**	(6,730)
Increase in amounts due to other related parties		**785**	–
(Decrease) increase in deferred income		**(5,063)**	19,889
Decrease in restricted term deposits		**(130,000)**	(229,000)
Increase (decrease) in trade payables, other payables and accruals		**414,276**	(352,007)
Decrease in contract liabilities		**(33,899)**	–
Decrease in coupon liabilities		**–**	(94,040)
Decrease in amounts due to associates		**(122)**	(139)
Cash generated from (used in) operations		**185,649**	(121,010)
Income taxes paid		**(288,126)**	(157,909)
Interest received		**237,694**	282,855
Interest paid		**–**	(120)
Net cash from operating activities		**135,217**	3,816

(Continued)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	notes	**Year ended 31/12/2018 RMB'000**	Year ended 31/12/2017 RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment and construction in progress		**(429,662)**	(427,216)
Purchase of land use rights		**–**	(19)
Proceeds from disposal of property, plant and equipment		**113,916**	15,317
Proceeds from disposal of intangible assets		**–**	1,585
Purchase of intangible assets		**(13,015)**	(3,891)
Purchase of AFS financial assets		**–**	(347)
Purchase of financial assets at FVTPL		**(3,100,000)**	(2,600,000)
Net cash outflow on acquisition of a subsidiary	41	**–**	(886,607)
Capital investment in associates		**–**	(2,000)
Net cash (outflow) inflow on disposal of a subsidiary	40	**(5)**	361,746
Dividends received from AFS financial assets		**–**	2,314
Dividend from financial assets at FVTPL		**2,090**	135
Proceeds on disposal of financial assets at FVTPL		**2,296,406**	2,393,273
Withdrawal of unrestricted term deposits		**480,000**	2,137,851
Placement of unrestricted term deposits		**(265,000)**	(480,000)
Net cash (used in) generated from investing activities		**(915,270)**	512,141
FINANCING ACTIVITIES			
New bank borrowing raised		**–**	2,000
Repayment of bank borrowing		**–**	(2,000)
Dividends paid to non-controlling shareholders		**(136,354)**	(114,350)
Net cash used in financing activities		**(136,354)**	(114,350)
Net (decrease) increase in cash and cash equivalents		**(916,407)**	401,607
Cash and cash equivalents at 1 January		**3,577,507**	3,175,900
Cash and cash equivalents at 31 December		**2,661,100**	3,577,507
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		**2,661,100**	3,577,507

1. GENERAL

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

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

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

As of 31 December 2018, the Group has net current liabilities of RMB3,282,693,000 (2017: RMB3,901,143,000). Taking into account of the Group's ability to withdraw the non-current unrestricted term deposits of RMB65,000,000, the historical settlement and addition pattern of the coupon liabilities (disclosed under contract liabilities), the directors of the Company consider the liquidity risk is significantly reduced and the Group is able to be continued as a going concern.

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

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

New and Amendments to HKFRSs that are mandatorily effective for the current year

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

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*

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

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

2.1 HKFRS 15 Revenue from Contracts with Customers

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

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.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sales of merchandise
- Service income from suppliers
- Royalty income from franchise stores
- Commission income from coupon redemption in other retailers
- Other income arising from recognition of unutilized and aged balances on contract liabilities

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

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

2.1 HKFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of HKFRS 15

The following table summarises the impacts of transition to HKFRS 15 on retained profits and non-controlling interests at 1 January 2018.

	RMB'000
Retained earnings	
Breakage amount arising from the contract liabilities	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

The following adjustments were made to the amounts recognised in the 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	Reclassification	Remeasurement	Carrying amounts under HKFRS 15 at 1 January 2018*
		RMB'000	RMB'000	RMB'000	RMB'000
Capital and Reserves					
Reserves	(a)	1,073,552	–	43,829	1,117,381
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.

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

2.1 HKFRS 15 Revenue from Contracts with Customers (Continued)

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

notes:

(a) HKFRS 15 includes guidance regarding the customers' unexercised right ("breakage"). For the breakage amount to which the Group expects to be entitled in contract liabilities, the amount is recognised as revenue in proportion to the pattern of rights exercised by the customers, taking into account of constrain in the estimation of variable consideration. For the breakage amount to which the Group does not expects to be entitled, revenue for the expected breakage amount are recognised when the likelihood of the customers exercising their remaining rights becomes remote.

At the date of initial application of HKFRS 15, other income arising from recognition of unutilised and aged balances on 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.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss and other comprehensive income for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	Adjustments	Amounts without application of HKFRS 15
	RMB'000	RMB'000	RMB'000
Capital and Reserves			
Reserves	1,037,397	(86,186)	951,211
Non-controlling interests	302,929	(7,434)	295,495
Current Liabilities			
Other payables and accruals	2,439,121	126,444	2,565,565
Contract liabilities	7,816,494	(7,816,494)	–
Coupon liabilities	–	7,784,081	7,784,081
Deferred income	17,082	30,795	47,877
Tax payable	144,802	(31,206)	113,596

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

2.1 HKFRS 15 Revenue from Contracts with Customers (Continued)

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

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

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
Other income and other gains and losses	601,582	(50,066)	551,516
Profit before tax	**110,967**	**(50,066)**	**60,901**
Profit tax expense	(188,099)	12,517	(175,582)
Total comprehensive expense for the year	**(77,132)**	**(37,549)**	**(114,681)**

Impact on the consolidated statement of cash flows

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
OPERATING ACTIVITIES			
Profit before taxation	110,967	(50,066)	60,901
Operating loss before movements working capital	**114,684**	**(50,066)**	**64,618**
Increase in trade payables, other payables and accruals	414,276	69,017	483,293
Decrease in contract liabilities	(33,899)	33,899	–
Decrease in coupon liabilities	–	(62,893)	(62,893)
(Decrease) increase in deferred income	(5,063)	10,043	4,980
Cash generated from operations	**185,649**	**–**	**185,649**
Net cash from operating activities	**135,217**	**–**	**135,217**

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

2.2 HKFRS 9 Financial Instruments and the Related Amendments

In the current year, 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 under ECL model) 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.

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

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement 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.

	AFS financial assets	Financial assets at FVTPL required by HKAS 39 /HKFRS9	AFS reserve	Retained profits	Non-controlling interests
	RMB'000	RMB'000	RMB'000	RMB'000	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 AFS financial assets	(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	**–**	**2,538,058**	**–**	**673,465**	**322,165**

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

2.2 HKFRS 9 Financial Instruments and the Related Amendments (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

Notes:

AFS financial assets

From AFS financial assets to FVTPL

At the date of initial application of HKFRS 9, the Group's equity investments of RMB93,589,000 were reclassified from AFS financial assets 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.

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

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Non-current Assets				
AFS financial assets	93,589	–	(93,589)	–
Financial assets at FVTPL	–	–	250,274	250,274
Total non-current assets	6,466,601	–	156,685	6,623,286
Total assets	16,954,480	–	156,685	17,111,165

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

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

	31 December 2017 (Audited) RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Capital and Reserves				
Reserves	1,073,552	43,829	142,442	1,259,823
Equity attributable to owners of the Company	2,193,152	43,829	142,442	2,379,423
Non-controlling interests	295,681	12,241	14,243	322,165
Total equity	2,488,833	56,070	156,685	2,701,588
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
Total current liabilities	14,389,022	(56,070)	–	14,332,952
Total liabilities	14,465,647	(56,070)	–	14,409,577
Total equity and liabilities	16,954,480	–	156,685	17,111,165

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[2]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*[1]

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

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

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

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

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

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

HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of –use asset and corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB11,237,168,000 as disclosed in note 41. An assessment indicated that these arrangements met the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

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

HKFRS 16 Leases (Continued)

In addition, the Group currently considers refundable rental deposits paid of RMB280,969,000 and refundable rental deposits received of RMB20,123,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits are adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements result in changes in measurement, presentation and disclosure as indicated above. The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement* contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group did not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group has elected the modified retrospective approach for the application of HKFRS 16 as lessee and recognised the cumulative effect of initial application to opening retained profits without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

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

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in the profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in related to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when the control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate of a joint venture.

Goodwill

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

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

Interests in associates

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates (Continued)

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

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

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

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Continued)

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.

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.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

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

Sales of goods that result in rewarding 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Sale with a right of return/exchange

For a sale of products with a right of return/exchange for dissimilar products, the Group recognises all of the following:

(a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned/exchanged);

(b) a refund liability/contract liability; and

(c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (prior to 1 January 2018)

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

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

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

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

Service income is recognised when services are provided.

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

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

The Group as lessor

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

The Group as lessee

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

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

Leasehold land and building

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Retirement benefit costs and termination benefits

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

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

Short-term employee benefits

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

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

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

Intangible assets

Intangible assets acquired separately

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Inventories

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

Provisions

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

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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

Interest which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

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

Financial assets 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; and

- the contractual terms 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 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 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 financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

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.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

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 collectively using a provision matrix with appropriate.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) 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 regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, 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.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) 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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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 other comprehensive income and accumulated in the FVTOCI reserve without reducing the carrying amounts of these debt instruments/receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial assets at FVTPL, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial asset at FVTPL

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

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other income and gains" line item. Fair value is determined in the manner described in note 45.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

(ii) AFS financial assets

AFS financial assets are non-derivatives that are either designated or not classified as FVTPL, held-to-maturity investments or loans and receivables. The Group designated certain items as AFS financial assets on initial recognition of those items, including investments in legal person shares, unlisted and listed equity investments and unlisted debts.

Equity and debt securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of other reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the other reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

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

(iii) Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

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

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the AFS revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Derecognition of financial liabilities

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

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Principal versus agent consideration (principal)

The Group engages in trading of merchandises. Upon application of HKFRS 15, the Group reassessed whether the Group should continue to recognise revenue on gross basis based on the requirements in HKFRS 15. The Group concluded that the Group acts as the principal for such transactions as it controls the specified good before it is transferred to the customer after taking into consideration indicators such as the Group is primarily responsible for fulfilling the promise to provide the goods. The Group has inventory risk on the merchandises.

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

Key sources of estimation uncertainty

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit at a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which results in downward revision of future cash, a material impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill was RMB127,953,000 (net of accumulated impairment loss of RMB23,988,000) (2017: RMB129,743,000 (net of accumulated impairment loss of RMB22,198,000)). Details of the recoverable amount as determined by value-in-use calculation are disclosed in note 17.

Estimated impairment of tangible and intangible assets other than goodwill

The Group follows HKAS 36 to determine whether tangible and intangible assets (other than goodwill stated in paragraph "Estimated impairment of goodwill") have suffered any impairment. The recoverable amount of an asset is determined based on the higher of the asset's fair value less costs of disposal and value in use. The value in use calculations requires the use of estimates. As at 31 December 2018, the carrying amount of property, plant and equipment was RMB3,503,796,000 (net of accumulated impairment loss of RMB41,009,000) (2017: carrying amount RMB3,176,870,000 (net of accumulated impairment loss of RMB67,257,000)) and the carrying amount of intangible assets other than goodwill was RMB82,470,000 (2017: carrying amount of RMB68,687,000).

Income taxes

As at 31 December 2018, no deferred tax asset has been recognised in respect of the tax losses of RMB3,371,750,000 (2017: RMB3,060,626,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future taxable profits generated are more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such recognition takes place.

Fair value measurement of financial instruments

Certain of the Group's financial assets amounting to RMB3,294,115,000 as at 31 December 2018 (2017: RMB2,381,373,000) are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 45c for further disclosures.

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

Key sources of estimation uncertainty (Continued)

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivable. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and other receivables are disclosed in notes 26 and 27 respectively.

Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. As at 31 December 2018, the carrying amount of property, plant and equipment was RMB3,503,796,000 (net of accumulated impairment loss of RMB41,009,000 (2017: RMB3,176,870,000 (net of accumulated impairment loss of RMB67,257,000)).

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly in response to both competitor's actions and market conditions. The Group will reassess the estimations by the end of the reporting period. As at 31 December 2018, the carrying amount of inventories was RMB2,509,078,000 (net of accumulated impairment loss of RMB7,864,000) (2017: RMB2,414,652,000 (net of accumulated impairment loss of RMB16,234,000)).

Estimated store closure provision

The Group follows HKAS 37 to recognise store closure provision. Provisions are recognised when the Group has a constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Store closure provision comprises mainly lease termination penalties and employee compensations with corresponding amounts included in other expenses. The determination of provision requires the use of estimates. As at 31 December 2018, the carrying amount of store closure provision was RMB53,757,000 (2017: RMB72,758,000).

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 revenue from contract liabilities according to HKFRS 15. As at 31 December 2018, the carrying amount of the contract liabilities was RMB7,816,494,000.

5. REVENUE AND OTHER REVENUE

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

For the year ended 31 December 2018

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	Year ended 31/12/2018 RMB'000
Revenue from contracts with customers	26,927,056
Rental income from leasing of shop premises	615,842
Total revenue and other revenue	27,542,898

(i) Disaggregation of revenue from contracts with customers

Type of Revenue	Year ended 31/12/2018 RMB'000
Revenue	
Sales of merchandise	25,389,082
Services	
Income from suppliers (service income)	1,492,814
Royalty income from franchised stores	41,477
Commission income from coupon redemption in other retailers	3,683
	1,537,974
Total	26,927,056

Timing of revenue recognition	Year ended 31/12/2018 RMB'000
At a point in time	25,392,765
Over time	1,534,291
Total	26,927,056

5. REVENUE AND OTHER REVENUE (Continued)

(ii) Performance obligations for contracts with customers

Sales of merchandise

Sales of merchandise is recognized at a point in time when the goods are sold to the end consumers either by consumer themselves or through delivery company which is the independent third party, the Group transfers the control of goods when the end consumers or the delivery company merchandises the goods at the point of sales ("POS") terminals.

Service income from suppliers

Service income from suppliers primarily involves IT services, promotion services as well as logistical services. Such service is recognized over time at the rate of each service item specified in the contract.

Royalty income from franchise stores

Royalty income is charged to the franchisee for the utilization of the brand of the Group. Royalty income is recognized over time and charged at daily rates specified in the contract.

Commission income from coupon redemption in other retailers

Commission income is charged to the retailers other than the Group. Commission fee is recognized at a point in time when the customers merchandise certain goods in those retailers with the coupon issued by the Group.

For the year ended 31 December 2017

	Year ended 31/12/2017 RMB'000
Revenue	
Sales of merchandise	25,225,388
Other revenue	
Income from suppliers (service income)	1,380,871
Rental income from leasing of shop premises	607,770
Royalty income from franchised stores	44,363
Commission income from coupon redemption in other retailers	4,804
	2,037,808
Total revenue and other revenue	27,263,196

6. SEGMENT INFORMATION

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

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

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

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

Segment revenues and results

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

	Segment revenue		Segment results	
	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000	**Year ended 31/12/2018 RMB'000**	Year ended 31/12/2017 RMB'000
Hypermarkets	**16,322,527**	16,692,516	**204,790**	(45,655)
Supermarkets	**9,144,786**	8,512,010	**96,727**	47,268
Convenience stores	**1,982,914**	1,966,564	**(177,473)**	(155,833)
Other operations	**92,671**	92,106	**81,537**	395,112
	27,542,898	27,263,196	**205,581**	240,892

6. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

The reconciliation of the total segment results to consolidated profit before taxation is as follows:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Segment results	**205,581**	240,892
Unallocated interest income	**76,173**	71,212
Unallocated income	**4,401**	109
Unallocated expenses	**(217,623)**	(201,406)
Share of profit of associates	**42,435**	8,458
Consolidated profit before taxation	**110,967**	119,265

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

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

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

Segment assets

The following is the analysis of the Group's assets by reportable and operating segment:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
– Hypermarkets	**8,025,826**	8,795,002
– Supermarkets	**2,844,832**	2,796,313
– Convenience stores	**484,199**	489,609
– Other operations	**140,153**	148,271
Total segment assets	**11,495,010**	12,229,195
Interests in associates	**682,370**	511,251
Other unallocated assets	**5,012,730**	4,214,034
Total assets	**17,190,110**	16,954,480

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

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

6. SEGMENT INFORMATION (Continued)

Other segment information

Year ended 31/12/2018

	Hypermarkets RMB'000	Supermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets (note)	300,161	158,245	25,260	472	484,138
Depreciation	241,141	93,532	33,103	10,776	378,552
Amortisation	28,147	8,346	1,545	3,147	41,185
Impairment loss on property, plant and equipment	5,814	–	–	–	5,814
Impairment loss on goodwill	–	685	1,105	–	1,790
Loss (gain) on disposal of property, plant and equipment and intangible assets	(71,084)	(18,027)	3,081	(350)	(86,380)
Interest income on bank balance and term deposits	55,823	16,923	387	1,207	74,340
Finance cost	–	–	–	–	–

Year ended 31/12/2017

	Hypermarkets RMB'000	Supermarkets RMB'000	Convenience stores RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets (note)	1,148,063	128,478	61,565	387	1,338,493
Depreciation	233,473	96,325	44,903	10,196	384,897
Amortisation	15,747	6,368	1,520	5,396	29,031
Impairment loss on property, plant and equipment	39,498	–	–	8,142	47,640
Impairment loss on goodwill	–	–	–	–	–
Loss (gain) on disposal of property, plant and equipment and intangible assets	7,368	4,613	(123)	145	12,003
Interest income on bank balance and term deposits	92,083	19,321	365	992	112,761
Finance cost	–	–	–	120	120

note: Addition to non-current assets include the additions of RMB315,206,000 (2017: RMB552,767,000) to property, plant and equipment, RMB155,917,000 (2017: RMB163,315,000) to construction in progress and RMB13,015,000 (2017: RMB3,891,000) to intangible assets.

6. SEGMENT INFORMATION (Continued)

Geographical information

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

Information about major customers

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

7. OTHER INCOME AND OTHER GAINS AND LOSSES

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Interest income on bank balances and term deposits	**150,513**	183,973
Government subsidies (note i)	**51,535**	68,319
Gain on change in fair value of financial assets at FVTPL	**133,025**	103,163
Dividends from financial assets at FVTPL	**2,090**	135
Gain on disposal of property, plant and equipment (note ii)	**86,380**	–
Gain on disposal of a subsidiary (note iii, 40)	**2,243**	399,132
Dividends from AFS financial assets	**–**	2,314
Salvage sales	**32,273**	28,492
Early termination of an operating lease contract by lessor (note iv)	**38,000**	54,830
Income from breakage (note 2.1.a)	**50,066**	–
Others	**55,457**	58,938
Total	**601,582**	899,296

7. OTHER INCOME AND OTHER GAINS AND LOSSES (Continued)

notes:

i. The Group received unconditional subsidies of RMB45,482,000 from the PRC local government as an encouragement for the operation of certain subsidiaries in certain areas. In addition, amount of RMB6,053,000 has been recognised as other income and other gains and losses from deferred income regarding the government grants related to assets during the current year.

ii. On 31 October 2017, a subsidiary of the Group entered into a conditional arrangement with the local government in connection with the compensation of RMB109,988,000 for the dismantlement plan carried out by the local government. The amount was received during the current year of 2018 and resulted in a gain of RMB93,152,000 on disposal of property, plant and equipment.

iii. On 2 May 2017, the Company entered into a disposal agreement with Bailian Group, pursuant to which Bailian Group conditionally agreed to purchase, and the Company conditionally agreed to sell, 100% equity interest in Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. ("Lianhua Live and Fresh") for a cash consideration of RMB371,977,000, resulting in a gain on disposal of a subsidiary of RMB399,132,000 credited to profit or loss in the prior year. The disposal was completed on 26 July, 2017.

iv. 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 RMB38,000,000 has been received during the year in accordance with the terms of the contract.

   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 year.

8. PROFIT BEFORE TAXATION

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Amortisation and depreciation		
Depreciation of property, plant and equipment (note 13)	**378,552**	384,897
Amortisation of Land use rights (note 15)	**26,312**	16,293
Amortisation of intangible assets (note 16)	**13,415**	11,279
Amortisation of other non-current assets (note 24)	**1,458**	1,459
Total amortisation and depreciation	**419,737**	413,928
Share of results of associates		
Share of profit before taxation	**65,035**	8,823
Less: Share of income tax expense	**22,600**	365
	42,435	8,458
Auditors' remuneration	**5,167**	5,536
(Gain) Loss on disposal of property, plant and equipment and intangible assets	**(86,380)**	12,003
Impairment loss on property, plant and equipment recognised (included in other expenses)	**5,814**	47,640
Impairment loss on goodwill (included in other expenses)	**1,790**	–
Director's remuneration (note 10)	**3,337**	1,745
Salaries, wages and other employee benefits of other staff	**2,558,448**	2,592,836
Retirement benefit scheme contribution of other staff	**252,303**	262,216
Total staff costs	**2,814,088**	2,856,797
Allowance for credit losses	**1,432**	1,224
Reversal of allowance for credit losses	**–**	(258)
Recognition of allowance for write-down of inventories	**–**	10,487
Reversal of allowance for write-down of inventories	**(8,370)**	(3,370)
Cost of inventories recognised as expenses	**21,801,683**	21,467,549

9. INCOME TAX EXPENSE

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Current tax on the PRC Enterprise Income Tax ("EIT")	**176,510**	290,867
Deferred tax expense (credit) (note 23)	**11,589**	(20,577)
	188,099	270,290

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on EIT ("EIT Law") and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%. Certain subsidiaries are entitled to compute the EIT with a preferential rate of 15% as those entities which are located in the western of China.

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Profit before tax	**110,967**	119,265
Tax at PRC EIT tax rate of 25% (2017: 25%)	**27,742**	29,816
Tax effect of share of results of associates	**(10,609)**	(2,115)
Tax effect of expenses not deductible for tax purpose	**2,058**	1,578
Tax effect of income not taxable for tax purpose	**(1,696)**	(841)
Tax effect of tax losses and deductible temporary differences not recognised	**199,953**	251,604
Utilisation of tax losses previously not recognised	**(29,349)**	(9,752)
Income tax expense for the year	**188,099**	270,290

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION

(1) Directors' emoluments

The remuneration of each director for the year ended 31 December 2018 is set out below:

Name of director	Fees		Basic salaries allowances and benefits in kind		Discretionary bonus (note a)		Retirement benefit costs		Medical benefits		Total	
RMB'000	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Executive/Non-executive Directors:												
Mr. Xu Tao (note b)	–	–	1,320	345	1,320	330	72	17	24	6	2,736	698
Ms. Qi Yue-hong (note c)	–	–	–	202	–	181	–	48	–	16	–	447
Mr. Ye Yong-ming	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Xu Zi-ying	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Dong Zheng (note d)	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Qian Jian-qiang	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Zheng Xiao-yun	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Wong Tak Hung	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Xu Hong (note e)	–	–	–	–	–	–	–	–	–	–	–	–
Independent non-executive Directors:												
Mr. Xia Da Wei	150	150	–	–	–	–	–	–	–	–	150	150
Mr. Lee Kwok Ming, Don	150	150	–	–	–	–	–	–	–	–	150	150
Ms. Sheng Yan (note f)	38	106	–	–	–	–	–	–	–	–	38	106
Mr. Zhang Jun	150	106	–	–	–	–	–	–	–	–	150	106
Mr. Gu Guo-jian (note g)	–	44	–	–	–	–	–	–	–	–	–	44
Mr. Wang Jin (note h)	–	44	–	–	–	–	–	–	–	–	–	44
Mr. Chen Wei (note i)	113	–	–	–	–	–	–	–	–	–	113	–
Total	601	600	1,320	547	1,320	511	72	65	24	22	3,337	1,745

notes:

(a) The discretionary bonus is determined based on the growth of the Group's annual results.

(b) Mr. Xu Tao was elected as the executive director and the general manager of the Company on 27 September 2017.

(c) Ms. Qi Yue-hong was resigned from the executive director and the general manager of the Company on 27 September 2017.

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(1) Directors' emoluments (Continued)

notes: (Continued)

(d) Mr. Dong Zheng was resigned from the non-executive director of the Company on 28 August 2018.

(e) Mr. Xu Hong was elected as the independent non-executive director of the Company on 28 August 2018.

(f) Ms. Sheng Yan was resigned as the independent non-executive director of the Company on 28 March 2018.

(g) Mr. Gu Guo-jian was resigned from the independent non-executive director of the Company on 14 March 2017.

(h) Mr. Wang Jin was resigned from the independent non-executive director of the Company on 14 March 2017.

(i) Mr. Chen Wei was elected as the independent non-executive director of the Company on 28 March 2018.

The executive director's emoluments shown above were for his services in connection with the management of the affairs of the Company and the Group.

The non-executive director's emoluments shown above were for their services as directors of the Company or its subsidiaries. Certain directors received their emoluments from Bailian Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

There was no arrangement under which a director or the chief executive officer waived or agreed to waive any emoluments during the years ended 31 December 2018 and 2017.

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(2) Supervisory committee members' emoluments

The remuneration of each supervisor for the year ended 31 December 2018 is set out below:

Name of supervisor	Fees		Basic salaries, allowances and benefits in kind		Discretionary bonus (note a)		Retirement benefit costs		Medical benefits		Total	
RMB'000	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Mr. Yang A-guo	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Tao Qing	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Shi Hao-gang	–	–	333	243	500	216	72	65	24	22	929	546
Total	–	–	333	243	500	216	72	65	24	22	929	546

note:

The supervisors' emoluments shown above were for their services as supervisors of the Company. Certain supervisors received their emoluments from Bailian Group. There was no arrangement under which a supervisor waived or agreed to waive any emoluments during the years ended 31 December 2018 and 2017.

(3) Senior management's emoluments

The remuneration of each senior management for the year ended 31 December 2018 is set out below:

Name of senior management	Fees		Basic salaries, allowances and benefits in kind		Discretionary bonus (note a)		Retirement benefit costs		Medical benefits		Total	
RMB'000	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Ms. Hu Li-ping	–	–	752	237	501	211	72	66	24	22	1,349	536
Mr. Liang Bao-long	–	–	617	237	303	211	72	66	24	22	1,016	536
Ms. Zhang Hui-qin	–	–	311	288	7,654	6,527	62	57	19	20	8,046	6,892
Mr. Chang Yu-bing (note b)	–	–	138	237	94	211	40	66	14	22	286	536
Mr. Xi Yu	–	–	295	237	354	211	72	66	24	22	745	536
Mr. Dai Yu-peng	–	–	1,080	417	800	200	–	–	22	6	1,902	623
Mr. Dong Gang	–	–	1,080	295	800	150	72	23	23	6	1,975	474
Ms. Tang Hao	–	–	295	40	354	35	72	11	24	4	745	90
Ms. Xu Ling-yun (note c)	–	–	–	209	–	–	–	26	–	9	–	244
Total	–	–	4,568	2,197	10,860	7,756	462	381	174	133	16,064	10,467

10. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(3) Senior management's emoluments (Continued)

notes:

(a) The discretionary bonus is determined based on the growth of the Group's annual results.

(b) Mr. Chang Yu-bing was resigned from the vice general manager of the Company on June 2018.

(c) Ms. Xu Ling-yun was elected as the vice general manager of the Company on 5 December 2016 and resigned from the vice general manager of the Company on 17 July 2017.

The senior management's emoluments shown above were for their services as one of the key management team rendered to the Company.

11. FIVE HIGHEST PAID EMPLOYEES

In both years, none of the five highest paid individuals was a director or supervisor of the Company. The aggregate emoluments of these five highest paid individuals are as follows:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Salaries, allowances and benefits in kind	**1,260**	1,152
Discretionary bonuses	**30,824**	26,109
Retirement benefits	**316**	295
Medical benefits	**96**	97
	32,496	27,653

11. FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands:

	Number	
	Year ended 31/12/2018	Year ended 31/12/2017
HK$5,500,001 — HK$6,000,000	**3**	3
HK$7,000,001 — HK$7,500,000	**1**	–
HK$7,500,001 — HK$8,000,000	**–**	1
HK$8,000,001 — HK$8,500,000	**1**	–
HK$8,500,001 — HK$9,000,000	**–**	1

During the years, no emoluments was paid by the Group to any of the directors, supervisors or the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

12. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Loss for the year attributable to owners of the Company	**(218,724)**	(282,760)

	Year ended 31/12/2018	Year ended 31/12/2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,119,600,000**	1,119,600,000

No diluted loss per share is presented as there was no potential ordinary shares in issue for both years.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Transportation vehicles and equipment	Operating and office equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST					
At 1 January 2017	2,608,484	2,182,608	336,218	1,790,606	6,917,916
Additions	(19)	152,786	7,347	122,312	282,426
Acquired on acquisition of a subsidiary	270,303	–	35	3	270,341
Transfer from construction in progress (note 14)	2,373	56,240	–	1,898	60,511
Disposals	(299)	(179,712)	(37,953)	(292,391)	(510,355)
Disposal of a subsidiary	(116,792)	–	(10,098)	(17,010)	(143,900)
At 31 December 2017	2,764,050	2,211,922	295,549	1,605,418	6,876,939
Additions	45,883	113,851	12,038	143,434	315,206
Transfer from construction in progress (note 14)	369,538	53,865	–	220	423,623
Disposals	(15,041)	(312,525)	(44,187)	(163,030)	(534,783)
Disposal of a subsidiary	–	–	(1)	–	(1)
At 31 December 2018	**3,164,430**	**2,067,113**	**263,399**	**1,586,042**	**7,080,984**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2017	696,769	1,632,597	203,726	1,302,458	3,835,550
Provided for the year	79,171	132,632	23,323	149,771	384,897
Impairment loss recognised	–	25,607	–	22,033	47,640
Eliminated on disposals	–	(174,869)	(30,533)	(277,633)	(483,035)
Disposal of a subsidiary	(65,088)	–	(4,997)	(14,898)	(84,983)
At 31 December 2017	710,852	1,615,967	191,519	1,181,731	3,700,069
Provided for the year	81,194	144,268	20,581	132,509	378,552
Impairment loss recognised	–	–	–	5,814	5,814
Eliminated on disposals	(8,277)	(293,815)	(42,498)	(162,657)	(507,247)
At 31 December 2018	**783,769**	**1,466,420**	**169,602**	**1,157,397**	**3,577,188**
CARRYING VALUES					
At 31 December 2018	**2,380,661**	**600,693**	**93,797**	**428,645**	**3,503,796**
At 31 December 2017	2,053,198	595,955	104,030	423,687	3,176,870

notes:

(a) During the year, the directors of the Company conducted a review of the Group's leasehold improvements and operating and office equipment and determined that a number of those assets relating to those used in the retail stores which had been selected to be closed, were impaired due to physical damage and obsolescence. Accordingly, impairment losses of RMB5,814,000 (2017: RMB47,640,000) in respect of those identified assets have been recognised in full for the year ended 31 December 2018.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

notes: (Continued)

(b) Amongst the depreciation expense of RMB378,552,000 (2017: RMB384,897,000), RMB327,167,000 (2017: RMB331,684,000) and RMB51,385,000 (2017: RMB53,213,000) were included in distribution and selling expenses and administrative expenses respectively.

(c) As at 31 December 2018, the carrying amount of certain buildings without building ownership certificates is RMB13,027,000 (2017: RMB13,545,000) in aggregate.

The above items of property, plant and equipment are depreciated, taking into account their residual values, on a straight-line basis as follows:

Buildings	25 – 40 years
Leasehold improvements	Over the shorter of the term of the lease, or 5-8 years
Transportation vehicles and equipment	5 – 8 years
Operating and office equipment	3 – 8 years

14. CONSTRUCTION IN PROGRESS

	Construction in progress RMB'000
At 1 January 2017	221,066
Additions	163,315
Transfer to property, plant and equipment (note 13)	(60,511)
Transfer to intangible assets (note 16)	(8,620)
Transfer to others	(2,082)
At 31 December 2017	313,168
Additions	**155,917**
Transfer to property, plant and equipment (note 13)	**(423,623)**
Transfer to intangible assets (note 16)	**(14,183)**
Transfer to others	**–**
At 31 December 2018	**31,279**

15. LAND USE RIGHTS

	Land use rights RMB'000
COST	
At 1 January 2017	415,132
Additions	19
Acquired on acquisition of a subsidiary	618,501
Disposal of a subsidiary	(68,175)
At 31 December 2017 and 31 December 2018	**965,477**
AMORTISATION	
At 1 January 2017	79,552
Charge for the year	16,293
Disposal of a subsidiary	(21,816)
At 31 December 2017	74,029
Charge for the year	26,312
At 31 December 2018	**100,341**
CARRYING VALUES	
At 31 December 2018	**865,136**
At 31 December 2017	891,448

	31/12/2018 RMB'000	31/12/2017 RMB'000
Analysed for reporting purposes as:		
Non-current portion	**838,878**	865,234
Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (note 27)	**26,258**	26,214
Total	**865,136**	891,448

note: Amongst the amortisation charge for the year of RMB26,312,000 (2017: RMB16,293,000), RMB24,107,000 (2017: RMB14,186,000) and RMB2,205,000 (2017: RMB2,107,000) were included in distribution and selling expenses and administrative expenses respectively.

16. INTANGIBLE ASSETS

	Software RMB'000	Goodwill RMB'000	Total RMB'000
COST			
At 1 January 2017	216,279	151,941	368,220
Additions	3,891	–	3,891
Transfer from construction in progress (note 14)	8,620	–	8,620
Disposals	(3,397)	–	(3,397)
At 31 December 2017	225,393	151,941	377,334
Additions	13,015	–	13,015
Transfer from construction in progress (note 14)	14,183	–	14,183
Disposals	(7,478)	–	(7,478)
At 31 December 2018	**245,113**	**151,941**	**397,054**
AMORTISATION AND IMPAIRMENT			
At 1 January 2017	147,239	22,198	169,437
Charge for the year	11,279	–	11,279
Eliminated on disposals	(1,812)	–	(1,812)
At 31 December 2017	156,706	22,198	178,904
Charge for the year	13,415	–	13,415
Impairment loss recognised	–	1,790	1,790
Eliminated on disposals	(7,478)	–	(7,478)
At 31 December 2018	**162,643**	**23,988**	**186,631**
CARRYING VALUES			
At 31 December 2018	**82,470**	**127,953**	**210,423**
At 31 December 2017	68,687	129,743	198,430

notes:

(a) Amongst the amortisation charge for the year of RMB13,415,000 (2017: RMB11,279,000), RMB2,401,000 (2017: RMB2,255,000) and RMB11,014,000 (2017: RMB9,024,000) were included in distribution and selling expenses and administrative expenses respectively.

(b) The above software has finite useful lives and is amortised on a straight-line basis over 5 to 10 years.

(c) During the year ended 31 December 2018, the Group recognised an impairment loss of RMB1,105,000 and RMB685,000 in relation to goodwill (present as other in note 17), presented in others in note 17, arising from prior acquisition of Hangzhou Lianhua Kuaike Grain Co., Ltd. and Shanghai Songjiang Lianhua Supermarket Co., Ltd. respectively in light of its continuous losses and change in market environment and conditions of hypermarket operation in the PRC. Details of the value-in-use calculations are set out in note 17.

17. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill set out in note 16 has been allocated to each individual cash-generating unit (CGU) identified according to the separate acquisition. The goodwill as at 31 December 2018 allocated to these units is as follows:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Hangzhou Lianhua Huashang Supermarket Group Co., Ltd. （杭州聯華華商集團有限公司）	**69,534**	69,534
Guangxi Lianhua Supermarket Joint Stock Co., Ltd. （廣西聯華超市股份有限公司）	**47,638**	47,638
Shanghai Century Lianhua Hypermarket Supermarket Development Co., Ltd. （上海世紀聯華超市發展有限公司）	**–**	–
Others	**10,781**	12,571
	127,953	129,743

The recoverable amounts of the cash-generating units are determined based on a value-in-use calculations. Their recoverable amounts are based on certain similar key assumptions. All value-in-use calculations use cash flow projections based on financial budgets approved by the management covering a one-year period as extrapolated for perpetuity using a growth rate ranging from 0% to 5% (2017: 0% to 5%), as appropriate, and a discount rate at 15.2% (2017: 15.2%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate of the relevant industry. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on these relevant cash-generating units' past performance and the management's expectations for the market condition The management believes that any reasonably possible change in any of these assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this CGU.

18. INTERESTS IN ASSOCIATES

The Group

	31/12/2018 RMB'000	31/12/2017 RMB'000
Unlisted equity investments	**415,451**	235,001
Share of post – acquisition profits and post – acquisition other comprehensive income net of dividends received	**266,919**	276,250
	682,370	511,251

18. INTERESTS IN ASSOCIATES (Continued)

Details of each of the Group's associates at the end of the reporting period are as follow:

Name of entity	Business structure	Place of registration and operation	Proportion of ownership interest held by the Group		Principal activity
			2018 %	2017 %	
Shanghai Carhua Supermarket Co., Ltd. ("Carhua") （上海聯家超市有限公司（"聯家"））	Corporate	The PRC	**45.00**	45.00	Hypermarket
Shanghai Sanming Taige information technology Co., Ltd. （上海三明泰格資訊技術有限公司）	Corporate	The PRC	**45.00**	45.00	Trading Company
Shanghai Gude commerce Company （上海谷德商貿合作公司）	Corporate	The PRC	**27.00**	27.00	Trading Company
Tianjin Yishang Friendship Holdings Co.,Ltd. ("Tianjin Yishang") （天津一商友誼股份有限公司 （"天津一商"））	Corporate	The PRC	**20.00**	20.00	Department Stores
Shanghai Aofa Trading Development Co., Ltd. （上海澳發商貿發展有限公司）	Corporate	The PRC	**30.00**	30.00	Trading Company
Hangzhou Longlian Selected Restaurant Co., Ltd. （杭州龍聯精選餐飲有限公司）	Corporate	The PRC	**40.00**	40.00	Catering Service
Bailian Financial Services Co., Ltd. ("Bailian Financial Services") （百聯金融服務有限公司 （"百聯金服"））(note)	Corporate	The PRC	**11.77**	N/A	E-commerce

note:

On 7 February 2018, Bailian E-commerce Co., Ltd ("Bailian E-Commerce") approved the appointment of additional directors to their board, whereas certain directors are designated to represent the Group's interest in Bailian E-Commerce in the board. As such, the Group is able to exercise significant influence over Bailian E-commerce and since then the relevant investment was reclassified as interests in associates. The Group expected that the fair value of the investment of Bailian E-Commerce was approximately the same as the carrying amount measured as interests in associates as at 1 January 2018. Bailian E-commerce was renamed as Bailian Financial Services on 7 September 2018.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

18. INTERESTS IN ASSOCIATES (Continued)

Summarised financial information in respect of each of the Group's material associates are set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs:

Carhua

	31/12/2018 RMB'000	31/12/2017 RMB'000
Current assets	**1,801,179**	1,641,624
Non-current assets	**728,941**	852,882
Current liabilities	**1,683,192**	1,727,999

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Revenue	**4,421,924**	4,854,540
Profit for the year	**80,421**	17,001
Dividends received from the associate during the year	**–**	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Net assets of Carhua	**846,928**	766,507
Proportion of the Group's ownership interest in Carhua	**45%**	45%
Carrying amount of the Group's interest in Carhua	**381,118**	344,928

Tianjin Yishang

	31/12/2018 RMB'000	31/12/2017 RMB'000
Current assets	**419,733**	549,675
Non-current assets	**3,844,208**	4,826,793
Current liabilities	**1,940,970**	2,422,658
Non-current liabilities	**1,611,560**	2,200,571

18. INTERESTS IN ASSOCIATES (Continued)

Tianjin Yishang (Continued)

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Revenue	**3,452,466**	3,614,903
(Loss) profit for the year	**(27,468)**	4,231
Other comprehensive income during the year	**–**	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Net assets of Tianjin Yishang	**711,411**	753,239
Proportion of the Group's ownership interest in Tianjin Yishang	**20%**	20%
The Group's interest in Tianjin Yishang	**142,282**	150,648
Goodwill	**6,787**	6,787
Carrying amount of the Group's interest in Tianjin Yishang	**149,069**	157,435

Bailian Financial Services

	31/12/2018 RMB'000	31/12/2017 RMB'000
Current assets	**8,026,454**	N/A
Non-current assets	**40,738**	N/A
Current liabilities	**6,840,048**	N/A

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Revenue	**93,661**	N/A
Profit for the year	**131,703**	N/A
Dividends appropriation from the associate during the year	**51,766**	N/A

The summarised financial information of Bailian Financial Service presented above covering the period from 7 February 2018, the date becoming an associate of the Group, to 31 December 2018.

18. INTERESTS IN ASSOCIATES (Continued)

Bailian Financial Services (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Net assets of Bailian Financial Services	**1,227,144**	N/A
Non-controlling interests of Bailian Financial Services	**2,393**	N/A
	1,224,751	N/A
Proportion of the Group's ownership interest in Bailian Financial Services	**11.77%**	N/A
Carrying amount of the Group's interest in Bailian Financial Services	**144,091**	N/A

Aggregate information of associates that are not individually material:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
The Group's share of loss	**(798)**	(39)
Aggregate carrying amount of the Group's interests in these associates	**8,092**	8,888

19. AFS FINANCIAL ASSETS

	31/12/2018 RMB'000	31/12/2017 RMB'000
Non-current (Note 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

20. FINANCIAL ASSETS AT FVTPL

	31/12/2018 RMB'000	31/12/2017 RMB'000
Non-current		
Unlisted equity instruments (note a)	**21,172**	–
Equity securities listed in Shanghai Stock Exchange	**31,729**	–
Total	**52,901**	–
Current		
Equity securities listed in Shanghai Stock Exchange	**1,864**	2,455
Unlisted financial products (note b)	**3,239,350**	2,285,329
Total	**3,241,214**	2,287,784

note:

(a) These represent certain unlisted equity investments in the PRC which are measured with fair value upon application of HKFRS 9.

During the year, 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 and losses".

(b) Unlisted financial products investments are managed by licensed financial institutions in the PRC to invest principally in certain financial assets including bonds, trusts, cash funds, bond funds or unlisted equity investment issued and are transacted 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 RMB149,730,000, credited to "other income and other gains and losses" in the current year.

21. TERM DEPOSITS

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

As at 31 December 2018, restricted term deposits amounting to RMB1,730,000,000 (2017: RMB1,600,000,000) amongst the balance of term deposits were placed by the Group, with certain banks as a security for coupons issued to customers and are not available for other use by the Group. RMB1,420,000,000 of the restricted term deposits has been classified as current assets, and RMB310,000,000 has been classified as non-current assets.

The effective interest rates on term deposits range from 1.75% to 4.99% (2017: 1.75% to 4.80%) per annum for the Group. The carrying amounts of the term deposits of the Group approximated their fair value.

22. PREPAID RENTAL

Prepaid rental is for the lease of certain store premises and is amortised over the relevant lease periods. Prepaid rental, amounting to RMB280,969,000 (2017: RMB312,271,000), to be charged to profit or loss within one year subsequent to the end of the reporting period is included in current assets in note 27.

23. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Deferred tax assets	79,146	74,150
Deferred tax liabilities	(93,210)	(76,625)
	(14,064)	(2,475)

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Fair value adjustments RMB'000	Credit loss and inventory allowances RMB'000	Accrued expenses RMB'000	Accrued income RMB'000	Operating lease expenses RMB'000	Total RMB'000
At 1 January 2017	(57,496)	1,546	4,638	(28,959)	62,038	(18,233)
Credit (charge) to profit or loss	(416)	(120)	(325)	15,065	6,373	20,577
Credit to other comprehensive income	(4,819)	–	–	–	–	(4,819)
At 31 December 2017	(62,731)	1,426	4,313	(13,894)	68,411	(2,475)
Credit (charge) to profit or loss	(7,706)	341	(157)	(8,879)	4,812	(11,589)
At 31 December 2018	**(70,437)**	**1,767**	**4,156**	**(22,773)**	**73,223**	**(14,064)**

The unrecognised tax losses and deductible temporary differences are as follows:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Unrecognised unused tax losses	3,371,750	3,060,626
Unrecognised deductible temporary differences	657,578	709,391
	4,029,328	3,770,017

At the end of the reporting period, the Group has unused tax losses of approximately RMB3,371,750,000 (2017: RMB3,060,626,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams.

23. DEFERRED TAXATION (Continued)

The unrecognised unused tax losses will expire as follows:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Year of expiring		
2018		393,972
2019	397,635	449,393
2020	489,936	518,351
2021	804,930	834,450
2022	827,626	864,460
2023	851,623	
	3,371,750	3,060,626

24. OTHER NON-CURRENT ASSETS

Other non-current assets of the Group represent prepayments for the leasing of certain buildings and are amortised over the shorter of the contract periods and the estimated useful lives of the buildings.

Amongst the amortisation of RMB1,458,000 (2017: RMB1,459,000), RMB1,335,000 (2017: RMB1,336,000) and RMB123,000 (2017: RMB123,000) were included in distribution and selling expenses and administrative expenses respectively.

25. INVENTORIES

	31/12/2018 RMB'000	31/12/2017 RMB'000
Merchandise for resale	2,508,876	2,420,167
Write-down for obsolescence	(7,864)	(16,234)
	2,501,012	2,403,933
Low value consumables	8,066	10,719
	2,509,078	2,414,652

During the year, there was a significant increase in the net realisable value of certain finished goods due to the general reverse in selling price. As a result, a reversal of write-down of RMB8,370,000 (2017: RMB3,370,000) has been recognised and included in cost of sales in the current year.

26. TRADE RECEIVABLES

	31/12/2018 RMB'000	31/12/2017 RMB'000
Trade receivables	179,876	138,469
Less: allowance for credit losses (note 45b)	(4,874)	(4,905)
	175,002	133,564

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB175,002,000 and RMB133,564,000 respectively.

The aging analysis of the trade receivables net of allowance for credit losses 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 (2017: 30 to 60 days), presented based on the invoice date is as follows:

	31/12/2018 RMB'000	31/12/2017 RMB'000
0-30 days	171,377	129,850
31-60 days	1,353	777
61-90 days	1,915	–
91 days – one year	357	2,937
	175,002	133,564

The trade receivables are mainly major retailer chains and well established banks with good credit standing. The management considered the credit quality of the trade receivables that are neither past due nor impaired were good and there was no default from those debtors in historical record.

Aging of trade receivables which are past due:

	31/12/2018 RMB'000	31/12/2017 RMB'000
61-90 days	1,915	–
91 days – one year	357	2,937
	2,272	2,937

Movement in allowance for doubtful debts is as the follows:

	2017 RMB'000
1 January	3,872
Impairment losses recognised	1,224
Amounts written off during the year	(191)
31 December	4,905

27. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	31/12/2018 RMB'000	31/12/2017 RMB'000
Land use rights – current portion (note 15)	**26,258**	26,214
Prepaid rental (note 22)	**280,969**	312,271
Deposits and prepayments	**206,985**	201,535
Dividend receivables (note 18)	**51,766**	–
Other receivables (note)	**178,103**	240,484
VAT recoverable	**377,961**	402,087
Less: allowance for credit loss (note 45b)	**(3,753)**	(3,375)
	1,118,289	1,179,216

Note: Other receivables included mainly interest recoverable from bank deposits in both years.

Movement in the allowance for doubtful debts is as the follows:

	2017 RMB'000
At 1 January	3,638
Impairment losses recognised	–
Impairment losses reversal	(258)
Amounts written-off during the year	(5)
At 31 December	3,375

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 45.b.

28. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

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

29. AMOUNTS DUE FROM/TO ASSOCIATES

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

30. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprising cash on hand and cash placed with banks in the PRC are denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control imposed by the PRC government.

Bank balances carry interest at prevailing market rates ranging from 0.30% to 4.99% (2017: ranging from 0.30% to 4.80% per annum) per annum for the year ended 31 December 2018.

31. TRADE PAYABLES

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

	31/12/2018 RMB'000	31/12/2017 RMB'000
0-30 days	**2,178,686**	2,165,607
31-60 days	**679,871**	555,930
61-90 days	**357,182**	322,647
91 days – one year	**914,235**	774,227
	4,129,974	3,818,411

32. OTHER PAYABLES AND ACCRUALS

	31/12/2018 RMB'000	31/12/2017 RMB'000
Payroll, staff welfare and other staff cost payable	**358,701**	339,220
Value added tax and other tax payables	**73,436**	84,031
Rental payable	**810,480**	814,440
Deposits from lessees, franchisees and other third parties	**210,033**	203,485
Dividend payable to non-controlling interests	**14,127**	14,127
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	**27,391**	25,814
Prepayments received from franchisees and other third parties	**566,387**	476,675
Payables for acquisition of property, plant and equipment and low value consumables	**213,587**	156,109
Store closure provision	**53,757**	72,758
Accruals	**90,291**	126,240
Advance from customers	**–**	57,427
Other miscellaneous payables	**20,931**	13,430
	2,439,121	2,383,756

33. COUPON LIABILITIES

The Group incurs coupon liabilities when coupons are sold. Coupons redeemed in exchange for products of the Group during the year are recognised as sales in the consolidated statement of profit or loss and other comprehensive income using the coupon sales value. Certain coupons redeemed in exchange for products or services of other retailers which have agreements with the Group are settled and paid to these retailers after deducting the Group's commission based on the agreement. Coupon liabilities have been reclassified as contract liabilities at 1 January 2018. (Note 2.1)

34. CONTRACT LIABILITIES

	31/12/2018 RMB'000	01/01/2018* RMB'000
Unredeemed balance of the Group's loyalty points under loyalty reward programs	**30,795**	20,752
Coupon liabilities	**7,659,255**	7,772,214
Advance from customers	**126,444**	57,427
Total	**7,816,494**	7,850,393

* The amounts in this column are after the adjustments from the application of HKFRS 15. (Note 2.3)

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.

The following table shows how much of the revenue recognized in the current year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	Coupon liabilities RMB'000
Revenue recognized that was included in the contract liability balance at the beginning of the year	5,882,060
Revenue recognized from performance obligations satisfied in prior periods	–

35. DEFERRED INCOME

	31/12/2018 RMB'000	31/12/2017 RMB'000
Government grants (note a)	**17,082**	22,145
Unredeemed balance of the Group's loyalty points under loyalty reward programs (note b)	**–**	20,752
	17,082	42,897

notes:

(a) During the year, the Group received a government subsidy of RMB990,000 (2017: RMB26,500,000) mainly related to compensation for acquisition of plant and equipment. The amount has been treated as deferred income and is recognised as income over the useful lives of related assets. This policy has resulted in a credit to other income and other gains and losses in the current year of RMB6,053,000 (2017: RMB5,723,000). As at 31 December 2018, an amount of RMB17,082,000 (31 December 2017: RMB22,145,000) remains to be amortised.

(b) Unredeemed balance of the Group's loyalty points under loyalty reward programs have been reclassified as contract liabilities at 1 January 2018. (Note 2.1.b)

36. BANK BORROWING

	31/12/2018 RMB'000	31/12/2017 RMB'000
Bank loan, repayable within one year, unsecured, (2017 effective interest rate: 6.09%) per annum	–	2,000

37. SHARE CAPITAL

	Number of shares		Nominal value	
	31/12/2018	31/12/2017	31/12/2018 RMB'000	31/12/2017 RMB'000
Ordinary shares of RMB1.00 each				
Registered, issued and fully paid:				
At 1 January 2017, 31 December 2017 and 31 December 2018	1,119,600,000	1,119,600,000	1,119,600	1,119,600

The share capital of the Company as at 31 December 2018 and 2017 comprises:

	Number of shares of RMB1.00 each		Nominal value	
	31/12/2018	31/12/2017	31/12/2018 RMB'000	31/12/2017 RMB'000
Domestic shares	715,397,400	715,397,400	715,397	715,397
Unlisted foreign shares	31,602,600	31,602,600	31,603	31,603
H shares	372,600,000	372,600,000	372,600	372,600
	1,119,600,000	1,119,600,000	1,119,600	1,119,600

The H shares rank pari passu in all respects with the domestic shares and the unlisted foreign shares and rank equally for all dividends declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between, legal or natural persons of Hong Kong, Taiwan, Macau Special Administrative Region of the PRC or any countries other than the PRC. The transfer of the domestic and unlisted foreign shares is subject to such restrictions as the PRC laws may impose from time to time.

38. NON-CONTROLLING INTERESTS

	31/12/2018 RMB'000	31/12/2017 RMB'000
Adjustment at 1 January 2018	**26,484**	–
Balance at beginning of year	**322,165**	291,042
Share of profit for the year	**141,592**	131,735
Dividend paid to non-controlling interest during the year	**(136,354)**	(128,477)
Change in fair value of AFS financial assets	**–**	1,381
Acquisition of additional equity interest in a subsidiary	**(24,474)**	–
Balance at end of year	**302,929**	295,681

The summarised financial information in respect of the Group's subsidiary that has material non-controlling interests, namely Hangzhou Lianhua Huashang Group Co., Ltd. (杭州聯華華商集團有限公司) ("Lianhua Huashang") and its subsidiaries at the end of the reporting period is set out below. The summarised financial information blow represents amounts before intra group eliminations:

Lianhua Huashang and its subsidiaries

	31/12/2018 RMB'000	31/12/2017 RMB'000
Current assets	**7,084,611**	6,761,324
Non-current assets	**2,829,720**	2,706,259
Current liabilities	**8,985,681**	8,565,996
Non-current liabilities	**97,150**	89,927
Equity attributable to owners of the Company	**605,459**	591,474
Non-controlling interests	**226,041**	220,186

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Revenue	**12,822,263**	12,700,092
Total cost of sales, expense and other income	**(12,392,084)**	(12,294,073)
Profit for the year	**430,179**	406,019
Profit attributable to owner of the Company	**315,088**	298,314
Profit attributable to non-controlling interests	**115,091**	107,705
Dividends paid to non-controlling shareholders	**109,237**	99,376
Dividends paid to the Group	**301,102**	274,557
Net cash inflow from operating activities	**599,250**	913,164
Net cash outflow from investing activities	**(261,840)**	(854,374)
Net cash outflow used in financing activities	**(410,867)**	(379,060)
Net cash outflow	**(73,457)**	(320,270)

39. RETIREMENT BENEFIT PLANS

Defined contribution plans

The employees of the Group are members of a state-managed retirement benefit scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total expenses recognised in profit or loss of RMB252,375,000 (2017: RMB262,281,000) represents contributions payable to these scheme by the Group in respect of the current accounting period.

40. DISPOSAL OF A SUBSIDIARY

On 13 April 2018, the Company entered into a disposal agreement with Yang, Lizhong, pursuant to which Yang, Lizhong conditionally agreed to purchase, and the Company conditionally agreed to sell, 51% equity interest in Shanghai Lianhua Supermarket Jilin Purchase and Distribution Co., Ltd. ("上海聯華超市吉林配銷有限公司") ("Lianhua Jilin") for a cash consideration of RMB1. The disposal was completed on 18 April 2018.

Consideration received:

	RMB'000
Cash received	–*

	RMB'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	1
Financial asset at FVTPL	112
Inventories	5,073
Trade receivables	1,697
Deposits, prepayments and other receivables	622
Cash and cash equivalents	5
Trade payables	(890)
Other payables and accruals	(6,863)
Borrowing	(2,000)
Net liabilities disposed of	(2,243)
Gain on disposal of a subsidiary:	
Consideration received and receivable	–
Net liabilities disposed of	(2,243)
Gain on disposal	2,243
Consideration received	–
Less: bank balances and cash disposed of	5
Net cash flow out on disposal	(5)

* The amount is rounded down to nil.

41. ACQUISITION OF A SUBSIDIARY

On 2 May 2017, Lianhua Huashang, a subsidiary of the Company, entered into an acquisition agreement with Bailian Group, pursuant to which Lianhua Huashang conditionally agreed to purchase, and Bailian Group conditionally agreed to sell, 100% equity interest in Yiwu City Life for a cash consideration of RMB973,925,000.

On 26 July 2017, the acquisition transaction closed and Lianhua Huashang acquired 100% of the issued share capital of Yiwu City Life Supermarket Co., Ltd. ("義烏都市生活超市有限公司") ("Yiwu City Life"), the existing landlord, for consideration of RMB973,925,000.

The major non-current assets of Yiwu City Life was the property located at No. 168 Wang Dao Road, Yiwu City, Zhejiang Province, the PRC ("Yiwu Property") and is principally engaged in the development and operation of the Yiwu Property. The Yiwu Property is used as a hypermarket site and is operated by a subsidiary of the Group, Zhejiang Century Lianhua Supermarket Co., Ltd. ("Zhejiang Century Lianhua"). The Group continued to use it as a hypermarket site and it is operated by the Group after the acquisition. Therefore, the Yiwu Property is held for use in the production or supply of goods or services rather than to earn rentals, so the acquisition of Yiwu City Life does not constitute a business and therefore the acquisition is accounted for as acquisition of assets.

Consideration transferred:

	RMB'000
Cash	973,925

Acquisition-related costs amounting to RMB189,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the other expenses line item in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	270,341
Land use rights	600,129
Deposits, prepayments and other receivables	18,372
Cash and cash equivalents	87,318
Tax liabilities	(127)
Other payables and accruals	(2,108)
	973,925

41. ACQUISITION OF A SUBSIDIARY (Continued)

The purchase price was first allocated to the financial assets and financial liabilities at their respective fair values. The remaining balances of the purchase price was then allocated to the land use rights and was therefore adjusted to its fair value by increasing RMB134,208,000 (including non-current portion of RMB130,222,000 and current portion of RMB3,986,000 included in deposits, prepayments and other receivables, respectively).

Net cash outflow on acquisition of Yiwu City Life

	RMB'000
Cash consideration paid	973,925
Less: cash and cash equivalent balances acquired	87,318
	886,607

42. OPERATING LEASE

(1) The Group as lessee

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Minimum lease payment paid and recognised as an expense under operating leases during the year – Land and buildings	**1,504,750**	1,562,607

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Within one year	**1,504,195**	1,552,676
In the second to fifth years inclusive	**4,908,546**	5,144,156
Over five years	**4,824,427**	5,410,507
	11,237,168	12,107,339

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 5 years and rentals are fixed for an average of 5 years.

The operating lease rental of certain shop premises with fellow subsidiaries is based on the higher of a minimum guaranteed rental or amount determined based on the sales performance.

42. OPERATING LEASE (Continued)

(2) The Group as lessor

The Group had aggregate minimum lease receipts under non-cancellable operating leases in respect of shop premises as follows:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Minimum lease received under operating leases in respect of shop premises during the year	**615,842**	607,770

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Within one year	**284,384**	186,553
In the second to fifth years inclusive	**572,174**	455,229
After five years	**189,431**	199,434
	1,045,989	841,216

The minimum lease payments related to leasing of shop premises were negotiated for a lease period ranging from short to medium terms ranging from 1 to 20 years (2017: 1 to 20 years).

43. CAPITAL COMMITMENTS

	31/12/2018 RMB'000	31/12/2017 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment, construction of buildings and land use rights: – contracted for but not provided in the consolidated financial statements	**178,932**	268,785

44. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group generally represents equity attributable to owners of the Company, comprising issued share capital, various reserves and retained profits.

The management of the Group reviews the capital structure regularly. The Company considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as issue of new debts or the redemption of existing debts.

45. FINANCIAL INSTRUMENTS

45a. CATEGORIES OF FINANCIAL INSTRUMENTS

Financial assets

	31/12/2018 RMB'000	31/12/2017 RMB'000
Financial assets at FVTPL	**3,294,115**	2,287,784
AFS financial assets	**–**	93,589
Loans and receivables (including cash and cash equivalents)	**5,086,816**	6,043,336
	8,380,931	8,424,709

Financial liabilities

	31/12/2018 RMB'000	31/12/2017 RMB'000
Bank borrowing	**–**	2,000
Other financial liabilities, at amortised cost	**5,305,991**	4,899,587
	5,305,991	4,901,587

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, financial assets at FVTPL, term deposits, cash and cash equivalents, amounts due from/to fellow subsidiaries/associates/other related parties and trade and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

45. FINANCIAL INSTRUMENTS (Continued)

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, term deposits, and bank borrowing (see notes 21, 30 and 36 for details). The group is also expected to fair value interest rate risk in relation to fixed-rate bank balances, term deposits, and bank borrowing. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the People's Bank of China benchmark rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

Total interest income from financial assets that are measured at amortised cost is as follows:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Interest income		
– Financial assets at amortised cost	**150,513**	183,973

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the Group's variable-rate bank balances and term deposits. The analysis is prepared assuming the variable-rate financial assets outstanding at the end of the reporting period were outstanding for the whole year. A 10-basis point (2017: 10-basis point) increase or decrease in the interest rates is the sensitivity rate used when reporting interest risk internally to key management personal and represent the management's assessment of the reasonably possible change in interest rates.

If the interest rate had been 10-basis point (2017: 10-basis point) higher/lower and all other variables were held constant, the Group's post-tax loss for the years ended 31 December 2018 and 2017 would have decreased/increased by approximately RMB5,922,000 and RMB6,028,000 respectively.

Equity price risk

The Group is exposed to equity and debt security price risk in relation to its financial assets at FVTPL (2017: AFS financial assets) which mainly include listed equity investments and debt security. The unlisted equity investments and legal person shares are measured at FVTPL (2017: AFS financial assets measured at cost less impairment) since they were the Group's investments in certain unlisted companies in the PRC or non-tradable shares. In the management's opinion, the sensitivity of these investments is then insignificant to the Group.

The Group currently does not have a price risk hedging policy and the management will continue to monitor price risk exposure and consider hedging against it should the need arise.

45. FINANCIAL INSTRUMENTS (Continued)

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk (Continued)

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date, excluding AFS financial assets measured at cost less impairment as at 31 December 2017.

If the market prices of the respective equity instruments had been 5% (2017: 5%) higher/lower, post-tax loss for the year ended December 31 2018 would decrease/increase by RMB123,529,000 (2017: decrease/increase by RMB87,251,000) as a result of the changes in fair value of the financial assets at FVTPL (2017: FVTPL).

Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised as trade and other receivables, financial assets at FVTPL, term deposits, cash and cash equivalents as stated in the consolidated statement of financial position.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

Trade receivables are due from regular institutional customers with an appropriate financial strength. The Group did not experience any significant defaults by the debtors.

The credit risk on liquid funds, i.e., bank balances and short-term term deposit, is limited because the counterparties are banks with high reputation in the PRC. In addition, the credit risk on long-term term deposit and unlisted financial products recognized as financial assets at FVTPL is also limited because the counterparties are either banks with high reputation or nationwide and regional renowned financial institutions in the PRC.

As at 31 December 2018, the Group's bank balances and term deposits deposited in the major five banks in the PRC accounted for 74.0% (2017: 81.8%) of total term deposits and cash and cash equivalents of the Group.

45. FINANCIAL INSTRUMENTS (Continued)

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch risk	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

45. FINANCIAL INSTRUMENTS (Continued)

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Note	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000	
Amounts due from associate	29	Low risk Loss	Lifetime ECL (not credit Impaired)	42	42
Amounts due from fellow subsidiaries	28	Low risk Loss	Lifetime ECL (not credit Impaired)	29,556	29,556
Trade receivables	26	Low risk Loss	Lifetime ECL (not credit Impaired)	176,454	
		Watch risk loss	Lifetime ECL (not credit Impaired)	3,422	179,876
Other receivables	27	Low risk Loss	Lifetime ECL (not credit Impaired)	153,888	
		Watch risk loss	Lifetime ECL (not credit Impaired)	24,215	178,103
Dividend receivables	27	Low risk Loss	Lifetime ECL (not credit Impaired)	51,766	51,766

Notes:

1. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due RMB'000	Not past due/ No fixed repayment terms RMB'000	Total RMB'000
Amounts due from associate	–	42	42
Amounts due from fellow subsidiaries	–	29,556	29,556
Trade Receivables	3,422	176,454	179,876
Other receivables	24,215	153,888	178,103
Dividend receivables	–	51,766	51,766

2. For trade receivables and other receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items on an individual basis for customer with significant balance and/or collectively by using a provision matrix, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

45. FINANCIAL INSTRUMENTS (Continued)

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate %	**Trade Receivable** RMB'000	**Loss allowance** RMB'000
Current (not past due)	2	176,454	(3,723)
1 – 30 days past due	2	1,954	(39)
More than 30 days past due	76	1,468	(1,112)
		179,876	(4,874)

The following table provides information about the Group's exposure to credit risk and ECLs for other receivables as at 31 December 2018:

	Expected loss rate %	**Other Receivable** RMB'000	**Loss allowance** RMB'000
Current (not past due)	2	153,888	(2,845)
1 – 30 days past due	2	4,802	(96)
More than 30 days past due	4	19,413	(812)
		178,103	(3,753)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables and other receivables under the simplified approach.

	Total RMB'000
As at 31 December 2017 under HKAS 39	8,280
Adjustment upon application of HKFRS 9	–
As at 1 January 2018 – As restated	8,280
– Impairment losses recognised	1,432
– Write-offs	(1,085)
As at 31 December 2018	8,627

45. FINANCIAL INSTRUMENTS (Continued)

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

As of 31 December 2018, the Group has net current liabilities of RMB3,282,693,000 (2017: RMB3,901,143,000). Taking into account of the Group's ability of withdrawal of non-current unrestricted term deposits of RMB65,000,000, the historical settlement and addition pattern of the contract liabilities, the directors of the Company consider the liquidity risk is significantly reduced and the Group is able to be continued as a going concern.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the earliest date on which the Group can be required to pay. The amounts disclosed in the table are contractual undiscounted cash flows.

Financial liabilities	Weighted average interest rate	On demand or Less than 6 months	6 months to 1 year	Undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2018					
Trade payables	**–**	**4,129,974**	**–**	**4,129,974**	**4,129,974**
Other payables and accruals	**–**	**1,086,516**	**–**	**1,086,516**	**1,086,516**
Amounts due to Shanghai Balian	**–**	**–**	**28,176**	**28,176**	**28,176**
Amounts due to fellow subsidiaries	**–**	**59,384**	**–**	**59,384**	**59,384**
Amounts due to associates	**–**	**1,156**	**–**	**1,156**	**1,156**
Amounts due to other related parties	**–**	**785**	**–**	**785**	**785**
		5,277,815	**28,176**	**5,305,991**	**5,305,991**
As at 31 December 2017					
Trade payables	–	3,818,411	–	3,818,411	3,818,411
Bank borrowing	6.09	–	2,122	2,122	2,000
Other payables and accruals	–	1,023,920	–	1,023,920	1,023,920
Amounts due to fellow subsidiaries	–	55,978	–	55,978	55,978
Amounts due to associates	–	1,278	–	1,278	1,278
		4,899,587	2,122	4,901,709	4,901,587

45. FINANCIAL INSTRUMENTS (Continued)

45c. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Some of the Group's financial instruments are measured at fair value for financial reporting purposes.

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group discussed with banks (representing the counterparties of the Group's purchased financial assets at FVTPL) to perform the valuation. The chief financial officer works closely with the bankers to establish the appropriate valuation techniques, inputs to the model and verified the indicated expected return with the actual return on date of maturity. The chief financial officer reports the findings to the board of directors of the Company at the end of each reporting period to explain the cause of fluctuations in the fair value of the assets and liabilities.

Fair value measurements recognised in the consolidated statement of financial position that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	31/12/2018 RMB'000	31/12/2017 RMB'000			
1) Investments in low risk bank financial products classified as financial assets at FVTPL in the consolidated statement of financial position	**Assets – 3,239,350**	Assets – 2,285,329	Level 3	Discounted cash flow was used to capture the present value of the expected future economic benefit that will flow to the Group.	Actual yield of the underlying investment portfolio and the discount rate.
2) Investment in equity shares listed in Shanghai Stock Exchange classified as financial assets at FVPTL in the consolidated statement of financial position	**Assets – 33,593**	Assets – 2,455 Equity securities: – Real estates (2,434) – Agricultural (21)	Level 1	Quoted bid prices in an active market	Not applicable
3) Investment in equity shares listed in Shanghai Stock Exchange classified as AFS financial assets in the consolidated statement of financial position	**N/A**	Assets – 46,107	Level 1	Quoted bid prices in an active market	Not applicable
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.

46. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable to non-controlling interests RMB'000 note 32	Bank and other borrowings RMB'000 note 36	Total RMB'000
At 1 January 2017	–	2,000	2,000
Financing cash flows (note)	(114,350)	–	(114,350)
Others: dividend appropriation to non-controlling shareholders	128,477	–	128,477
At 31 December 2017	14,127	2,000	16,127
Financing cash flows	(136,354)	–	(136,354)
Dividend appropriation to non-controlling shareholders	136,354	–	136,354
Disposal of subsidiary (note 40)	–	(2,000)	(2,000)
At 31 December 2018	**14,127**	**–**	**14,127**

Note: The Group had new bank borrowing of RMB2,000,000 raised and RMB2,000,000 repaid during the prior year.

47. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into significant related party transactions during the year, the details of which are set out below:

(1) Related party transactions

	notes	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Sales to fellow subsidiaries	(a)	**243,690**	171,248
Purchases from associates Gude Trading Co., Ltd. (上海谷德商業 流通有限公司) and Sanming Taige Information Technology Co., Ltd. (三明泰格資訊技術有限公司)	(a)	**4,569**	4,018
Purchases from fellow subsidiaries	(a)	**88,318**	115,664
Purchases from other related parties	(b)	**2,626**	–
Rental expenses and property management fee paid to fellow subsidiaries	(c)	**66,352**	79,798
Rental income from fellow subsidiaries	(d)	**32,230**	22,065
Commission income earned from fellow subsidiaries	(e)	**662**	625
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	(f)	**5,966**	7,468
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	(f)	**9,127**	9,072
Interest income earned from a fellow subsidiary	(g)	**24,585**	26,796
Platform usage fee charged by fellow subsidiaries	(h)	**11,095**	8,004
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account	(i)	**11,736**	8,078
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account upon redemption of membership points by the customers	(i)	**7,748**	6,289
Logistics resources leasing fee charged by fellow subsidiaries	(j)	**2,696**	2,090
Logistics and delivery services fee charged by fellow subsidiaries	(k)	**2,054**	–
Logistics and delivery fee charged by the other related parties	(l)	**1,450**	–

47. 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) This represents purchase from Zhejiang Tmall Supply Management Co., Ltd. ("Zhejiang Tmall") in respect of various kinds of goods, including but not limited to foods, fresh produce and industrial products. Zhejiang Tmall is a fellow subsidiary of Alibaba (China)Technology Co., Ltd. ("Alibaba China"), which is a substantial shareholder and therefore is a connected person of the Group.

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

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

(e) The commission income was earned 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.

(f) According to the business agreement on the settlement of coupon liabilities entered into between the Group and a fellow subsidiary controlled by Bailian Group, when the coupons issued by one party are redeemed in exchange for products or services to the retailers contracted by the other party or when the coupon liabilities are settled through the other party's network, a commission would be charged at a rate of 0.5% (2017: 0.5%) as agreed between 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.

(g) 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.

(h) This represents the platform usage fee charged by Bailian which is no more than 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.

47. RELATED PARTY TRANSACTIONS (Continued)

(1) Related party transactions (Continued)

notes: (Continued)

(i) These represent the transaction amounts transferred between Bailian Finance and the Group in respect of the membership bonus 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 bonus points by the customers to the Group.

(j) These represent rental fee of the Group was charged by Bailian Group and fellow subsidiaries controlled by Bailian Group. The fee was charged in accordance with the terms of the contracts at the market price.

(k) The distribution service fee of the Group was charged by Bailian Group and fellow subsidiaries controlled by Bailian Group. The fee included but was not limited to distribution, transfer and return services in Shanghai, as well as distribution and warehousing services outside Shanghai. Distribution service referred to the distribution of goods from Bailian Group to the Group in the stores, while warehousing service referred to the service of storing, sorting and discharging goods.

(l) The distribution service fee of the Group was paid to the fellow subsidiaries of Alibaba China. The fee was charged in accordance with the terms of the contracts at market price.

(2) Related party balances

The Group entered into a financial services agreement with a fellow subsidiary controlled by Bailian Group, pursuant to which 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. The summary of cash and cash equivalents and unrestricted deposits placed to the fellow subsidiary is set out as below：

	31/12/2018 RMB'000	31/12/2017 RMB'000
Cash and cash equivalents in a fellow subsidiary	**753,664**	738,015
Unrestricted term deposits in a fellow subsidiary	**20,000**	20,000

47. RELATED PARTY TRANSACTIONS (Continued)

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

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

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

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

(4) Compensation of key management personnel

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

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Salaries and other short-term employee benefits	**18,669**	11,611
Post-employment benefits	**534**	446
Other long-term benefits	**198**	155
	19,401	12,212

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANYS

Details of the Company's principal subsidiaries at the end of the reporting period are set out below.

Name of entity	Date of establishment	Paid up issued/ registered capital RMB'000	Proportion voting power and ownership interest held by the Company Directly 2018 %	Directly 2017 %	Indirectly 2018 %	Indirectly 2017 %	Principal activities
Subsidiaries							
Tianjin Yishang Lianhua Supermarket Co., Ltd. (天津一商聯華超市有限公司)	1 September 2002	30,000	**100.00**	100.00	**–**	–	Hypermarket
Shanghai Century Lianhua Supermarket Development Co., Ltd. (上海世紀聯華超市發展有限公司)	24 November 1997	500,000	**100.00**	100.00	**–**	–	Hypermarket
Hangzhou Lianhua Huashang Group Co., Ltd. (杭州聯華華商集團有限公司)	1 June 2001	120,500	**74.19**	74.19	**–**	–	Supermarket and hypermarket
Lianhua Supermarket Jiangsu Co., Ltd. (聯華超市(江蘇)有限公司)	21 March 2003	50,000	**100.00**	100.00	**–**	–	Supermarket and hypermarket
Guangxi Lianhua Supermarket Joint Stock Co., Ltd. (廣西聯華超市股份有限公司)	18 November 2001	68,670	**95.00**	95.00	**–**	–	Supermarket hypermarket and convenience store
Shanghai Lianhua Supermarket Development Co., Ltd. (上海聯華超級市場發展有限公司)	8 April 2006	10,000	**100.00**	100.00	**–**	–	Supermarket
Lianhua Quik Stores Co., Ltd. (上海聯華快客便利有限公司)	25 November 1997	63,000	**100.00**	100.00	**–**	–	Convenience store
Shanghai Lianhua Supermarket Distribution Co., Ltd. (上海聯華超市配銷有限公司)	29 October 1998	5,000	**100.00**	100.00	**–**	–	Purchase and distribution
Lianhua Logistic Co., Ltd. (聯華物流有限公司)	17 October 2007	50,000	**100.00**	100.00	**–**	–	Purchase and distribution
Lianhua E-business Co., Ltd. (聯華電子商務有限公司)	4 October 1995	55,000	**100.00**	90.91	**–**	–	Trading
Hualian Supermarket Holdings Company Limited (華聯超市股份有限公司)	15 August 2006	300,000	**99.40**	99.40	**0.60**	0.60	Supermarket

49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Non-current assets		
Property, plant and equipment	**190,318**	196,802
Construction in progress	**1,378**	1,747
Land use rights	**24,459**	25,388
Intangible assets	**16,671**	19,470
Investments in subsidiaries	**1,276,220**	1,248,553
Interests in associates	**231,714**	231,714
AFS financial assets	**–**	8,605
Financial assets at fair value through profit or loss ("FVTPL")	**4,761**	–
Deferred tax assets	**87**	67
Other non-current assets	**2,223**	2,347
	1,747,831	1,734,693
Current assets		
Inventories	**786,503**	701,116
Deposits, prepayments and other receivables	**168,189**	186,585
Amounts due from fellow subsidiaries	**2,336**	2,460
Amounts due from subsidiaries	**5,390,621**	5,617,299
Amounts due from associates	**42**	106
Financial assets at FVTPL	**518,779**	–
Term deposits	**200,000**	1,630,000
Cash and cash equivalents	**1,492,370**	222,099
	8,558,840	8,359,665
Total assets	**10,306,671**	10,094,358

49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

	31/12/2018 RMB'000	31/12/2017 RMB'000
Capital and reserves		
Share capital	**1,119,600**	1,119,600
Reserves	**4,700,921**	4,470,774
Total equity	**5,820,521**	5,590,374
Non-current liability		
Deferred tax liabilities	**862**	1,218
Current liabilities		
Trade payables	**1,789,577**	1,758,445
Other payables and accruals	**146,505**	50,924
Coupon liabilities	**–**	1,904,280
Contract liabilities	**1,779,252**	–
Amounts due to Shanghai Bailian	**28,176**	–
Amounts due to fellow subsidiaries	**37,022**	52,122
Amounts due to subsidiaries	**693,668**	653,245
Amounts due to associates	**1,156**	1,278
Amounts due to other related parties	**785**	–
Tax payable	**9,147**	82,472
	4,485,288	4,502,766
Total liabilities	**4,486,150**	4,503,984
Total equity and liabilities	**10,306,671**	10,094,358
Net current assets	**4,073,552**	3,856,899
Total assets less current liabilities	**5,821,383**	5,591,592

49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Movement in the Company's reserves

	Share capital RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory common reserve fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	1,119,600	258,353	7,969	559,800	3,014,221	4,959,943
Profit for the year	–	–	–	–	631,152	631,152
Other comprehensive expense for the year	–	–	(721)	–	–	(721)
Total comprehensive expense for the year	–	–	(721)	–	631,152	630,431
At 31 December 2017	1,119,600	258,353	7,248	559,800	3,645,373	5,590,374
Adjustments	**–**	**–**	**(3,653)**	**–**	**3,653**	**–**
At 1 January 2018 (restated)	**1,119,600**	**258,353**	**3,595**	**559,800**	**3,649,026**	**5,590,374**
Profit for the year	**–**	**–**	**–**	**–**	**230,147**	**230,147**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**230,147**	**230,147**
At 31 December 2018	**1,119,600**	**258,353**	**3,595**	**559,800**	**3,879,173**	**5,820,521**

The amount of the Company's retained profits available for distribution to shareholders as at 31 December 2018 amounted to approximately RMB3,879,173,000 (2017: RMB3,645,373,000).

About the Report

The 2018 Environmental, Social and Governance Report of Lianhua Supermarket (hereinafter referred to as the "Report") states the principles adopted by Lianhua Supermarket Holdings Co., Ltd. ("Lianhua Supermarket" or the "Company") in 2018 in fulfilling its social responsibility and the performance of the work, including topics about sustainable development of environment and society that attract attention of important stakeholders.

Reasons for Compilation

The Report is compiled based on Environmental, Social, Governance Reporting Guide by The Stock Exchange of Hong Kong Limited (hereinafter referred to as "HKEX") and by referring to the matrix approach of material topics raised in Sustainability Reporting Standards by Global Reporting Initiative (GRI Standards).

Range of Reporting

The Report is mainly about Lianhua Supermarket and covers all segments, regional companies (listed below) and all directly-operated outlets.

Full Name of companies	Abbreviation in the Report
Lianhua Supermarket Holdings Co., Ltd.	Lianhua Supermarket or the Company
Lianhua Logistics Co., Ltd.	Lianhua Logistics
Shanghai Lianhua Quik Convenience Stores Co., Ltd.	Lianhua Quik
Hangzhou Lianhua Huashang Group Co., Ltd.	Lianhua Huashang
Anhui Century Mart Development Co., Ltd.	Lianhua Anhui Company
Henan Century Mart Supermarket Co., Ltd.	Lianhua Henan Company
Lianhua Supermarket (Jiangsu) Co., Ltd.	Lianhua Jiangsu Company
Guangxi Lianhua Supermarket Joint Stock Co., Ltd.	Lianhua Guangxi Company
Lianhua E-business Co., Ltd.	Lianhua E-business

Range of Period

The range of period is from 1 January 2018 to 31 December 2018, and the Report is an annual version report.

Explanation on Data

All data and cases are based on the original records or financial reports about the actual operation of the Company.

Reliability Assurance

The Board of the Company warrants that this Report does not contain any false information, misleading statement or material omission.

Table of Contents

1 Social Responsibility Management

The Company commenced its business in Shanghai in 1991. It has developed into a nationwide retail chain operator with a full range of retail segments, expanding through a combination of organic growth, franchises, and mergers and acquisitions. Lianhua Supermarket was listed on the HKEX in 2003. The Company operates in three main retail segments, i.e. hypermarkets, supermarkets and convenience stores under the brand names of "Century Mart", "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik", respectively. With the continuous development of the Company, Lianhua Supermarket and its subsidiaries operated a total of 3,371 outlets (excluding those operated by the Company's associated companies) in 21 provinces and municipalities across the nation, providing daily necessities for consumers.

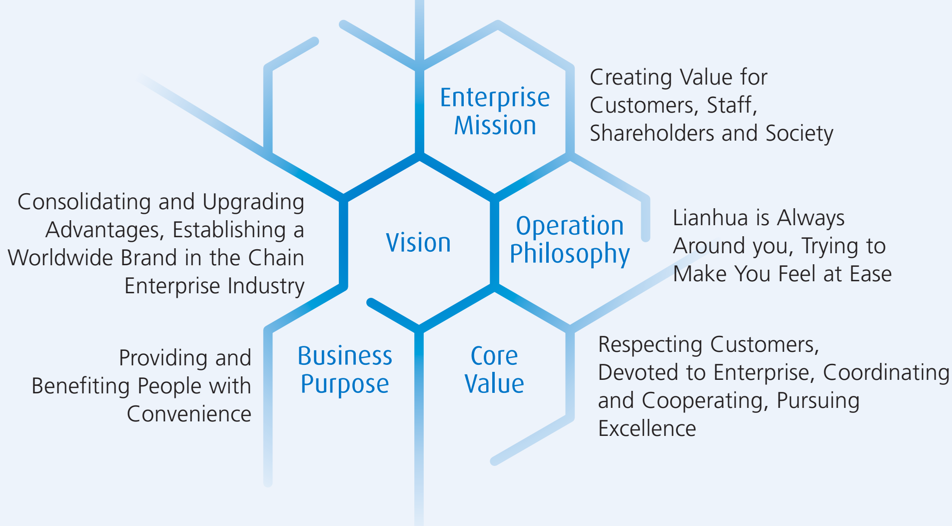
Our brands

世纪联华 CenturyMart　快客　华联超市　联华超市

1.1 Concept of Social Responsibility

Enterprise mission, vision and value

As an operator running business concerned with people's livelihood, by adhering to the mission of "creating values for customers, staff, shareholders and society", to the operation objective of "making our customers become more loyal to us", to the business purpose of "providing and benefiting people with convenience" and to the operation philosophy that "Lianhua is always around you, trying to make you feel at ease", the Company has established three main retail segments, i.e. hypermarkets, supermarkets and convenience stores, in order to meet the diverse needs of consumers, provide consumers with convenience and create shared values for the society by means of responsible operation.



Concept of social responsibility

As a labour-intensive company, the Company has been continuously focused on protecting the rights and interests of workers and providing an equal, inclusive, healthy and safe working environment. At the same time, as an operator of daily necessities, we regard the provision of a safe consumption environment to consumers and the offer of convenient, quality and healthy commodities as important aspects of the Company's operation quality, as well as its important missions to fulfil and realize the business purpose of "providing and benefiting the people with convenience". In addition, as a corporate citizen, the Company attaches great importance on environmental protection and joint development with the community. We promote green operation in department stores and supermarkets, advocate sustainable consumption and carry out various social welfare and community volunteer services.

Social responsibility management

Under the guidance of the Company's overall social responsibility concepts, the Company actively incorporates its social responsibilities into every aspect of its operation and administration. By establishing a social responsibility management system which involves the management and various departments, the Company continues to live up to its own responsibility concepts as well as commitments to stakeholders and guarantee the implementation and advance of social responsibility tasks.

Decision-makers for Social Responsibility

Board of Directors

Forming strategies and setting goals

Company's mission: Creating value for customers, staff, shareholders and society

Executives for Social Responsibility

General Manager's Office

Office of Board of Directors, Department of the Party and the Masses, Department of Fresh Products Purchasing, Department of Grocery Purchasing, Department of General Merchandise Purchasing, Department of Product Planning, Department of Comprehensive Management of Product, Department of Investment Attraction Management, General Manager's Office, Department of Legal Affairs, Department of Financial Management, Department of Asset Engineering, Department of System Information, Department of Safety and Quality, Department of Auditing and Supervision, Department of Human Resources, Department of Marketing, Department of Strategic Investment, Department of Operation Management, Department of Outlets Development, Operation Center (Shanghai), Department of External Area Management, Department of Logistic Control, Office of ERP Project, Preparation Office of Jiangqiao Project, Lianhua Quik, Lianhua Logistics., Lianhua E-business, Lianhua Huashang, Lianhua Guangxi Company, Lianhua Jiangsu Company, Lianhua Anhui Company, Lianhua Henan Company.

CSR implementation

Consumers - We try to make you feel at ease	Providing products that are convenient, quality and healthy
Staff - Establishing a harmonious enterprise	Providing a working environment that is equal, inclusive, healthy and safe
Environment - Promoting sustainable development	Practicing green operation and promoting sustainable development
Community - Lianhua is always around you	Establishing disaster prevention center and convenience center in the community

Social responsibility management framework for Lianhua Supermarket

1.2 Stakeholder Engagement

The Company values the wishes and appeals of stakeholders. Based on the Company's businesses and operation conditions and in view of peer experiences and practices both at home and abroad, the Company has identified the major stakeholders and their concerns and devotes to realizing its sustainable development by exploring diverse communication methods and responding proactively to day-to-day management and business practices.

Table of major stakeholders and their concerns of Lianhua Supermarket

Major stakeholders	Stakeholders' concerns	Communication and response
Shareholders	• Compliant operations • Risk management • Economic performance • Anti-corruption	• Information disclosure of listed companies • Shareholders meeting • Investors conference
Customers and consumers	• Product and service quality • Responsible sales • Customers/consumers relationship management • Customers/consumers information and privacy protection	• Consumer consultation and complaint platform • Customer satisfaction survey
Suppliers	• Supply chain management	• Supplier review and evaluation • Communications and visits
Government and regulators	• Compliant operations • Anti-corruption • Green operation • Use of packages • Climate change mitigation and adaptation	• Policy implementation • Information disclosure
Staff	• Staff's rights, interests and welfares • Staff's health and safety • Staff's development and training • Attracting and retention of talents	• Trade union and workers' representative conference • Staff's activities • Staff's training • Internal publications
General public and community	• Community and public welfare • Green operation	• Social poverty alleviation activities • Community service activities
Industry organization	• Industry development	• Industry association activities

1.3 Material Issues Analysis

In 2018, based on its own business and operational characteristics making reference to the ESG Reporting Guide of the HKEX and GRI Standards as well as national and industry policies and reviewing peer industry reports at home and abroad, the Company identified 16 environmental, social and governance issues.

Compared with the Company's previous annual report, the main changes in the material issues of this report include the addition of targeted poverty alleviation and the division of green operations into pollution prevention and use of resources, which aim to timely and clearly reflect the issues of concern of stakeholders such as the government and the public.

After consulting with external experts, the Company ranks the importance of material issues based on the importance to stakeholders and the significance of economic, environmental and social impacts on Lianhua Supermarket, and regards issues of high impact on stakeholders when assessing and making decisions and issues of significant impact to the economy, environment and society as high material issues by making reference to material issues analysis methods of GRI.

Identification of issues

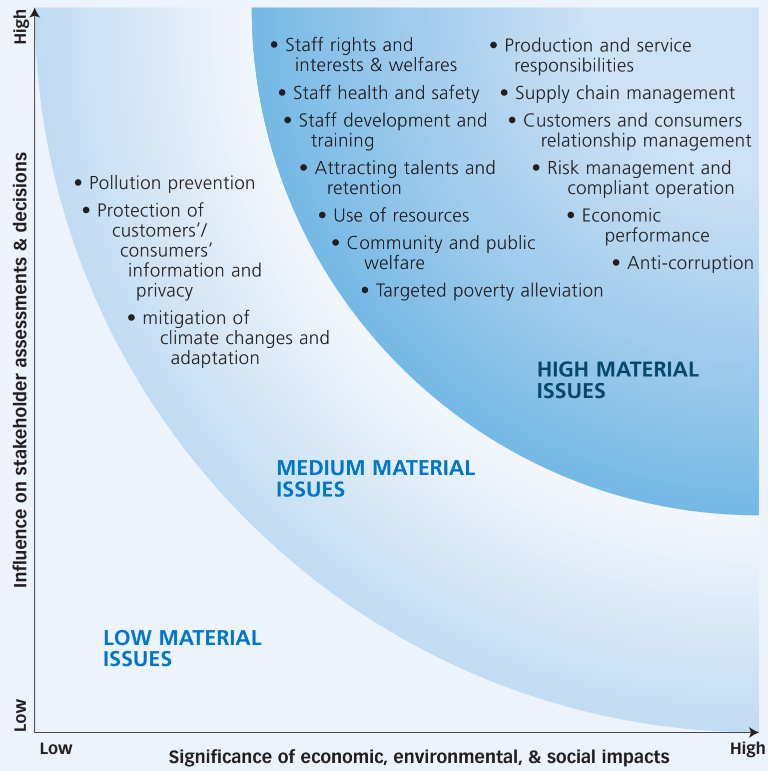
To identify environmental, social and governance issues based on the ESG Reporting Guide of the HKEX and GRI Standards.

Sequence

Ranked issues based on peer-reviewed research at home and abroad and practical operation conditions of the Company and picked 16 issues with respect to the Company's operations are screened by sequence.

Verification

High substantive issues shall be further screened on the basis of the experts' opinion, and are addressed in the report.



Distribution matrix of material issues

2 Responsibility to Consumers · We Try to Make You Feel at Ease

As an operator running business concerned with people's livelihood, the quality of goods is the cornerstone of winning consumers' trust and its most basic social responsibility. Taking construction of "Honest Supermarket" and safe production standardization as the starting point, the Company paid attention to the requirements of the relevant laws and regulations including Product Quality Law of the People's Republic of China, Food Safety Law of the People's Republic of China, Measures for the Supervision and Administration of Quality and Safety of Edible Agriculture Products Marketing, Measures for Management of Food Recall, Regulations of Shanghai Municipality on the Protection of Consumers' Rights and Interests and Regulations of Shanghai Municipality on Food Safety, with a view to continuously improving the product safety management system, ensuring the safety of goods and building trust with consumers.

Area of responsibility	Major stakeholder	Primary responsibility practice	Primary responsibility result
• Products and services responsibility • Corresponding United Nations Sustainable Development Goals (SDGs): Item 8: Decent work and economic growth 	• Market regulators • Customers and consumers • Suppliers	• Full-process control of product quality • Establishing food safety and public opinions management and inspection system • Conducting special inspections on store safety and providing a variety of consumer complaint channels	• Forming a more complete quality control process and supplier management system • Continuing to promote the construction of honest supermarkets with 400 supermarkets completed in 2018 • 100% of consumer complaint handling rate

2.1 Full-process Control of Product Quality

Following the quality principles of "People Oriented, Leading Service, Enhanced Management and Quality First", the Company stipulated the "Requirements on Inspections of Products and Examination of Suppliers of Lianhua Supermarket Holdings Co., Ltd.", "Procedure about Product Procurement Management" and "Procedure about Product Acceptance and Control" and other similar management systems and procedures to provide guidelines on product quality control procedures. At the same time, the Company set up the Safety and Quality Department which is responsible for product quality and safety. The Company holds a food safety communication meeting attended by food safety management personnel from various business companies (including external companies) on a monthly basis to discuss food safety management experience and issues and jointly promote product quality and safety management.

In 2018, the Company continued to improve its full quality control process from supplier review, product review, product inspection, sampling and disposing of defects. Moreover, the product inspection mechanism was strengthened with 13 management systems being established and improved for product inspection in the stores, including quick food inspection system in the stores, so as to avoid the sale of unqualified goods and further guarantee the quality of the goods provided.

Supplier review	Product review	Product acceptance control	Inspection of on-shelf products	Unqualified goods disposal
• Supplier qualification and credit review • Supplier production site visit: aiming at suppliers of sensitive goods, low-technology, non-famous brands and private brands	• Product qualification review • Physical verification: sampling package review, intuitive assessment of food quality, products' weight, product lot conformity certificate • Certificate and invoice: certificate of qualification, inspection and quarantine certificate for fresh goods, etc.	• Conduct quality acceptance control in delivery centers and the stores • Establishing rapid test unit management system, inspect procedures and records	• Carrying out spot check at two stores three times a month in order to check product quality, and results recorded on Spot Check of Product Quality Record • Conducting spot checks on private brands products and other products, and engaging national authorized agency for inspection	• Unqualified goods spot-checked by municipal quality and technical supervision bureau and the health bureau shall be prohibited from sale, removed from the shelves, returned to the suppliers and requests for remediation • Remedied products can be returned to shelves after being approved by provincial or municipal quality and technical supervision bureau and the health bureau
Checking more than 11,000 electronic identification certificates on the platform, with the uploading rate of over 94.7% On-site inspection of 99 private brand manufacturers	Inspecting 2,956 new products with an initiative qualification rate of 95.3% and a remedied qualification rate of 99.9%	6,447 tests for pesticide residues in fruits and 1,356 tests for clenbuterol in pork in the rapid test units and engaged third-party institutions to test 51 products	Carrying out third party inspections for 41 private brands and 81 food of high risks (such as sweet green rice balls, mooncakes, oatmeal and seasoned meat products) with the qualification rate of 100%	44 off-the-shelf notices on unqualified products, involving 104 products

Full-process product quality control

Supplier management

As a retail enterprise, Lianhua Supermarket sells products provided by its suppliers. Therefore, the responsible operation of its suppliers is particularly important to the Company's sustainable development. Lianhua Supermarket regards supplier management as an important part of ensuring the quality of goods. For suppliers that provide goods and corresponding services directly to the Company, the Company continuously strengthens the license management to ensure that suppliers' licenses meet the relevant laws and regulations. In respect of new suppliers and new products, the Company not only verifies their valid licenses, but also further rigorously reviews the product logos and advertisements. The Company's Safety and Quality Department has the veto right on non-compliant products in such aspects.

In 2018, the Company further improved the OEM supplier reviewing system and incorporated the production records and factory inspection reports into the on-site review procedures in order to improve the integrity and effectiveness of the product quality control system.

Licenses Examination – the suppliers shall submit the following valid licenses based on the types and categories of their products, including but not limited to:

- Business license, food circulation permit, national industrial production permit, sanitary permit (cosmetics), designated slaughter certificate, organization code certificate, alcoholic products wholesale license, sanitary permit (disinfection products), 3C certification, tax registration certificate

While conducting quality control of suppliers' products, the Company had established the Lianhua Supermarket bribery-crime inquiry platform with the Putuo Procuratorate, focusing on suppliers bribery activities and added binding clauses in all sales agreement stipulating that suppliers who are found to have records of bribery shall be listed on the "banned list", disqualified for bidding and being a supplier and prohibited from taking engineering business. In 2018, the Company inquired 363 suppliers on the bribery-crime inquiry platform and one supplier failed and hence was disqualified.

In addition, for food suppliers, the Company implements the full-process monitoring and management process by strengthening the management of vegetable self-management bases, establishing a food circulation traceability system and food safety and public opinion detection mechanism to ensure food quality and safety.

Discovery and treatment of quality-related issues

The Company guarantees the quality of goods through the processes of supplier management, product review, product acceptance and control and sampling tests of goods on the shelves, and monitors the quality and safety of the products sold through third-party inspection, spot checks and feedback. Any unqualified products identified shall be removed, recalled or returned immediately according to the methods and procedures for the unqualified products specified in the "Procedures for Control of Unqualified Goods". In 2018, the Company was penalized by the regulatory authorities for selling products with non-standardized ingredients list, and the Company actively cooperated with the regulatory authorities in the investigation to ensure effective communication between the regulatory authorities and the manufacturing companies, and continued to strengthen the review of suppliers and goods provided.

2.2 Safe and Healthy Food

Food safety is an important issue concerning people's livelihood. Lianhua Supermarket commenced its fresh produce business in 2002 and devoted itself to allowing customers' to purchase safe and healthy fresh food more conveniently. The Company continued to improve the self-production vegetable bases and construct food traceability systems, and established a food safety and public opinion management mechanism to strengthen food safety management from planting to circulation. In addition, the Company paid special attention to manufacturers of seasonal sensitive food by increasing the frequency of sudden on-spot inspection and the number of third-party inspections with a view to ensuring food safety.

In 2018, the Company added 40 self-management bases, and regularly inspected the testing laboratories in the bases to ensure the health and freshness of vegetables supplied. Sales of self-managed bases accounted for 30.3% of total fresh produce sales. The Company declared 1,018 stores (including franchise stores) to participate in the creation of "Honest Supermarket" activity. A total of 18 stores of Lianhua Huashang won the honour of "Quality Food Demonstration Supermarket"（品質食品示範超市）awarded by the Steering Group for the Building of Food Demonstration Supermarket in Hangzhou（杭州市食品示範超市創建工作領導小組）, and Lianhua Huashang was awarded the "Exemplary Enterprise for Reassuring Consumption Construction in the Province"（全省放心消費建設示範樣版單位）.

Food safety and public opinion management and inspection

Food safety and public opinion management are beneficial for the Company to immediately grasp food safety news, timely investigate food safety hazards and reduce the occurrence of food safety accidents. Lianhua Supermarket has established a food safety and public opinion monitoring and notification mechanism. The designated staff will actively collect quality information of the Company's member companies through various channels such as the media and related websites, and will also actively maintain good communication with the government and relevant departments. For any social food safety incidents identified, they will be discussed internally in the monthly food safety communication meeting and special inspections were organized to prevent similar incidents.

While carrying out safety and public opinion management and supervision, the Company regularly conducts food safety inspections of stores to timely discover and eliminate various food safety hazards and further guarantee the provision of safe and healthy food to consumers. In 2018, the Company conducted a total of 1,284 store-inspections in Shanghai, and carried out special safety inspections of festive (Chinese New Year, Mid-Autumn Festival, National Day, etc.) food and seasonal food with a focus on key foods such as meat products, dairy products, seafood products, edible oils, cooked and seasoned foods, moon cakes, roasted seeds and nuts. If major food safety hazards are found, the Company actively urges the stores involved to rectify or stop such sales in order to reduce various safety hazards.

In addition, the Company established a product recall mechanism to deal with food safety incidents identified in food safety and public opinion management and inspection. In 2018, the Company revised and improved the Food Recall Management Procedures in accordance with the new state policies and the organizational restructuring of the Company. At the same time, the Company carried out emergency drills for food safety emergencies in the stores to improve the emergency response capability of food safety incidents to reduce the risks of food safety accidents.

Food Safety Accident Emergency Drill of the Century Lianhua Songnan Store

In order to prevent and control sudden food safety accidents in a timely and effective manner as well as to protect the health and safety of consumers, Century Lianhua Songnan Store conducted a food safety accident emergency drill. Such drill included training on the emergency response plan for food safety accidents, on-site handling works (such as inventory confirmation and publishing recall information, etc.), the off-shelf and sealing of goods in question and stimulation of follow-up handling works of different levels of seriousness designed to improve the emergency response capability of the stores to handle food safety accidents.

Food flow and traceability mechanism

The food flow and traceability mechanism is conducive to establishing a full-process of monitoring, query and traceability from production to sales, promoting the openness and transparency of information and providing convenience for customers to understand information about the food. According to the requirements of Shanghai Municipal Food Safety Information Traceability Management Measures（上海市食品安全信息追溯管理辦法）, the Company has completed the traceability coverage of 9 categories of foods such as meat, vegetables, beef and mutton, grains and aquatic products and 20 varieties of edible agricultural products such as glutinous rice and edible oil. The consumers can check online[1] for the origins of the produce, the processing plant, production date, information about quarantine and inspection and dealers by way of the code on product labels. At the same time, the Company also pays attention to the daily communication with the traceability platform operators and the government supervision departments, with a view to continuously developing and improving relevant work systems and processes, timely discovering and solving various problems identified in the traceability work and hence ensuring the normal operation of food traceability. The amount and accuracy of traceability data uploaded on the traceability platform by the Company is among the top in the city.

1 Shanghai Edible Agricultural Products Circulation Safety Information Network (http://shian.scofcom.gov.cn/web/index.aspx)

In 2018, the Company carried out upgrading work of retrospective query QR code for 10 outlets of New Supermarket, 5 outlets of Century Lianhua and 2 franchise stores of New Supermarket, and improved the operation efficiency of the food traceability system through such new technical means. The Company also publicizes the Wechat official account of food safety traceability in hypermarkets and outlets of New Supermarket, and publicizes the methods and procedures for tracking information inquiry in some stores to facilitate customers' inquiry and supervision, so that food safety traceability work can better meet customers' expectations of food safety.

2.3 Consumer Rights and Interests Protection

Safe shopping environment

As supermarkets are consumer-populated place, a safe shopping environment is the basis for protecting consumers' personal safety. Through the well-established system for safety performance appraisal and safety accident accountability, the Company signed "Safety Production Work Responsibility Letter", "Safe Production Commitment", "Comprehensive Work Responsibility Letter" and "Responsibility Letter of Targets for Complaint Work" with all departments and member companies to manage the security of its outlets and shopping places in a systematic manner.

At the same time, through the establishment of a secured contact network and emergency response tracking mechanism, the Company regularly holds meetings about safety production work and conducts special safety training and safety inspections in the stores, so as to promote the safety management of stores and shopping places. In 2018, a consumer safety incident happened in the store, which has now entered the litigation stage and judgment has not been made yet. We will continue to pay attention to the dynamics and timely disclosure of relevant information.

Consumer complaint handling

The Company offers consumers with multiple enquiry and complaint channels such as telephone hotlines, 12315 website platform transfers and 12345 citizen hotlines, and adheres to the service attitude of "warm reception, serious handling, timely feedback" and handle consumer's complaints in a systematic manner. Among them, for complaints involving product quality, the Company communicates with relevant suppliers in a timely manner to protect the legal rights and interests of consumers.

In addition, the Company's business companies carried out the "3.15 Consumer Rights Protection Day" activities, including organizing training, customer satisfaction survey and special inspection of stores, in order to enhance consumers' awareness of protecting their rights and interests, promote the communication between stores and consumers and hence better carry out consumer rights and interests protection work.

3 Employee Responsibility · Establishing Harmonious Enterprise

As a labor-intensive enterprise, the Company actively protects employees' basic rights and physical and mental health and conducts a variety of employee activities and comprehensive staff training according to the national laws and regulations and the policies of places of operation, devoting itself to creating a good working environment and creating a harmonious and friendly working atmosphere for employees, which is beneficial to their good development. In 2018, the Company did not violate any laws and regulations on employment, occupational health and safety, child labor and forced labor, nor did it involve in any concluded corruption cases brought against the Company or its employees.

Area of responsibility	Major Stakeholder	Primary responsibility practice	Primary responsibility result
• Employee Responsibility • Corresponding United Nations Sustainable Development Goals (SDGs): Item 8: Decent work and economic growth Item 16: Peace Justice and Strong Institutions  	• Employee	• Safeguarding employees' equal opportunities and democratic communication, and carrying out employee caring activities • Guaranteeing employees' occupational health and safety • Conducting employee training	• Help more than 150 employees in need • The number of lost working days per capita due to work injury being 13,808 days,representing a decrease of 33.9% compared with that of 2017 • The average training time of employees being 13.56 hours

3.1 Interests of and Solicitude towards Employees

Employment of staff and protection of their rights and interests

The Company has a large number of staff with diverse knowledge structures, and thus faces complex employee management. In 2018, the Company further standardized employee recruitment and management, and formulated and piloted the "Employee Recruitment Management Measures" to strengthen the management of the recruitment and selection process. At the same time, the Company actively expands the channels for talent recruitment by implementing the online-and-offline recruitment of the whole city and the whole network and carrying out the recruitment and training programs for fresh graduates to strengthen the talent pool.

Complying with the Labour Law of the People's Republic of China, Labour Contract Law of the People's Republic of China, Special Provisions on Labour Protection for Female Employees, Law of the People's Republic of China on Prevention and Control of Occupational Diseases, Law of the People's Republic of China on Social Insurance, Work Injury Insurance Ordinance of the People's Republic of China, Individual Income Tax Law of the People's Republic of China and other laws and regulations, the Company opposes racial, gender and ethnic discrimination and provides equal employment opportunities. The Company has developed standardized, legal and humanized human resources system covering recruitment and dismissal, working hours and leaves, compensation and benefits etc. In addition, the Company complied with relevant laws and regulations on prohibiting child and forced labour and prohibited the recruitment of persons under the age of 16. The Company signed employment contracts with employees according to the relevant laws and regulations, and pays social insurance for its employees. In 2018, the Company signed employment contracts with all the employees and paid social insurance for all of them.

Staff Employment and Rights and Interests System Overview of Lianhua Supermarket

Employment, Dismissal & Promotion	Working Hours & Vacation	Salary & Welfare
✓ **Employment principles:** openness, equality, competitiveness, versatility, suitability and abstention ✓ **Dismissal:** dismissing employees in strict accordance with the Labour Contract Law ✓ **Promotion Process:** announcement of information, resume submission, interview, recruitment, archiving and keeping confidential of information, evaluation for key internal employment, announcement and publication of results ✓ **Promotion channels:** recommendation by seniors, appointment and removal by party committee's discussion and inspection, competition for posts, promotion of staff with outstanding performance through an annual evaluation and spontaneous promotion proposal by the seniors	✓ **Working hours:** the staff following standard working hours shall work no more than 40 hours per week; staff following comprehensive working hours shall work for no more than standard working hours per month or quarter ✓ **Overtime:** 3 times of salary shall be given to those who work on statutory festivals and holidays; those who work overtime on ordinary days shall have priority in taking leaves, otherwise, 1.5 to 2 times of salary shall be given ✓ **Vacations:** annual leave with pay, marital leave, bereavement leave, parental leave and sick leave shall follow national regulations ✓ Staff who have made blood donation voluntarily shall be given 10days leave with pay (including weekend)	✓ **Salary:** salary shall be adjusted based on the minimum salary and guideline of salary increase of various localities ✓ **Incentive:** CNY (Chinese New Year) assessment incentive program, Mid-Autumn and National Day incentive program, store partnership incentive program ✓ **Medical health:** occupational medical healthcare, mutual assistance insurance for accidents, annual physical examination ✓ **Welfare and allowance:** mutual aid insurance for trade union employees, subsidy for meals, transportation, working in high temperature and the birthday gift

Employee democratic communication

In 2018, the Company set up a special internal "Labour Dispute Mediation Committee" consisting of the administrative department, trade union, and employee representatives to explain policies and regulations and deal with employees' complaints.

Moreover, the Company timely understands the work and life of employees through close interviews, general manager's mailbox, annual meeting of staff representatives and other diversified internal communication channels and deals with complaints, suggestions and opinions from employees, in the hope of enhancing the mutual trust between employees and the Company. In 2018, the Company's annual meeting of staff representatives organized by the employees to discuss the general manager's annual report and the financial usage of the insurances and housing provident funds contributions and actively listened to the opinions of employees, so that employees could truly participate in the Company's decision-making and management.

Employee solicitude

The Company is committed to creating a harmonious and warm atmosphere, eagers to help families of employees in difficulty, caring for female employees and actively carries out activities that benefit employees' physical and mental health.

For years, the Company has been paying attention to the actual needs of employees and the difficulties encountered in their lives, and has provided assistance to employees in need. The Company has formulated the "Administrative Measures for Helping Employees in Difficulty of Lianhua Supermarket Co., Ltd.", and actively carried out caring and assistance activities for employees such as employee medical care, life support and education support for employees' children. In 2018, the Company helped more than 150 employees with difficulties.

Education sponsorship to help students in difficulty

The Guangxi Company carried out the "Golden Autumn Education Sponsorship" activity and investigation, trying to help families with difficulties to alleviate their economic burden from their children's education. It was found that there were two families of employees had difficulties in meeting the conditions for education sponsorship. On the eve of school day, the Company's trade union delivered education sponsorship to the students by hand and expressed its ardent expectations on the students.

The proportion of female employees in the Company is 68.8%. The Company signed special contracts with female employees to protect their rights. Female employees would not be arranged to engage in prohibited tasks during menstruation, pregnancy and lactation, and they would be allowed to have breastfeeding breaks. On Women's Day, which is 8 March, the Company allowed a half-day leave for female employees, and carried out health lectures, caring books and communication activities for female employees to give female employees spiritual and physical solicitude.

The Company organized various activities such as festival activities, sports games, birthday parties, photography competitions, legal knowledge contests, and set up employee interest activities and clubs and provided financial support, in order to enrich employees' spare time, create a better working experience for employees and enhance our corporate cohesion.

3.2 Occupational Health and Safety Management

Following the national and regional requirements for employee physical and mental health protection measures, the Company organized employees to conduct health checks, carried out inspections of safety hazards in the workplace, updated fire-fighting equipment, organized fire drills, and organized employees to take part in safety education and training activities, aiming to protect employees' physical and mental health and improve employees' safety awareness.

In addition, the Company also carried out special safety work for the limited space[2] operation staff and logistics delivery drivers. The Company has set up Lianhua Logistics, a business segment company, and has also set up Jiangqiao Logistics in Shanghai. It will continue to carry out logistics projects in Zhejiang, Jiangsu and Anhui business segment companies. The Company hopes to strengthen the safety education and management of logistics drivers, regularly organizes logistics drivers to participate in vehicle safety education and publicly criticizes any vehicle violation of rules and regulations, with an aim to eliminate dangerous driving behaviors such as drunk driving and speeding, to enhance the safety awareness of logistics drivers and prevent and reduce traffic accidents.

Special management measures for limited space operation staff

The refrigerators, storerooms, granaries, refrigeration houses in the Company are limited space working areas[2]. In order to reduce the risk of safety accidents in the Company's limited space operations and curb the occurrence of safety accidents, the Company has improved the safety responsibility system for limited space workplaces according to the requirements of the "Shanghai Municipal Safety Supervision Bureau's Notice on Further Strengthening the Safety Supervision of Limited Space Operations of Industrial and Trade Enterprises"(上海市安全監管局關於進一步加強工貿企業有限空間作業安全監管的通知), further clarified the duties of safety responsible persons, operations leaders, on-site supervisors and operators and gradually identified the dangerous and harmful factors in limited space.

For those stores, logistics and warehouses which need to carry out limited space operations, the Company strictly implements the review of relevant parties' qualifications and safe production conditions, and also signs a special safety production management agreement to provide operators with protective equipment that meets national requirements and urge them to use them properly. Before entering the limited space, the Company conducts special safety education and training for relevant personnel to ensure the safety of the operators in the limited space.

2 The limited space refers to space which is closed or partially closed with a narrow entrance and exit and poor natural ventilation, and is not designed as a fixed workplace and prone the accumulation of toxic, harmful, flammable and explosive substances or cause insufficiency of oxygen.

3.3 Training & Professional Development

The Company always adheres to the simultaneous development of itself and its employees. Aiming at improving employees' professional skills and management capabilities, the Company provides comprehensive and multi-level training programs to different employees such as the management, store managers, store management staff, management trainees and new employees in order to strengthen working skills of the Company's employees and its talent pool.

Comprehensive training programs	Multi-level training programs
Professional skills improvement training programs • 21 store managers and security supervisors to take part in safety training • Holding 2 special trainings on "Positive Interactions with the Media" • Holding special training on interpreting new tax laws • Holding special training on intermediate computer literacy	Training for new employees • Training for new employees: the headquarter held 5 sessions of training with 89 participants, and New Supermarket held 11 sessions with 405 participants (including 42 franchise store staffs) Management trainees • Young Eagle Class-Management trainees program: formulating "Mentoring Scheme for Management Trainees of Lianhua"
Professional skills OJT training programs for front-line employees • Organizing 13 session of store staff to take part in the special training on product sales • Holding 11 special training on the storage of fresh commodities • Holding 1 training on the product quality monitor • Holding 1 training on prevention on product loss	Training for cadre team • Strong Eagle Class-Training program for high-potential talents: the first session of training was held with a total of 43 participants Training for store managers of operation center • Empowerment Program for store managers: the training covers three parts, namely management capability, operational thinking and core ability; the operation centers of shopping places provided training to 34 store managers, 84 division chiefs, and the operation centers of New Supermarket have trained 406 store managers
Operation and management training programs • Participating a class for the Group's senior management and the Bailian Auditorium • Opening training courses on product procurement	Training for reserve management staff of New Supermarket' outlets • Training class for reserve management staff of New Supermarket' outlets: providing theoretical and practical training, and the first session had a total of 19 participants

While carrying out a variety of training programs, the Company adopted an internal trainer system to enhance the practical effectiveness of training, and upgraded to online learning platform to improve the efficiency of employees' training and learning. The Company strengthened the recommendation and selection of internal trainers through a number of training programs such as the "Empowerment Program for Store Managers" and "New Retail Training". Up to now, there are 210 lecturers in Lianhua Supermarket, including 88 headquarter-level lecturers and 122 store-level lecturers.

UMU online platform of Lianhua Supermarket

The Company has a large number of employees and a wide distribution of outlets. Standardization is the key to employees training. The Company adopts the online training model, which is conducive to the standardization of training programs and facilitates employees' learning. In 2018, a total of 12,587 employees studied on the UMU online training platform.

The Company's UMU online learning platform has undergone three upgrades. The third generation of the mobile learning platform has greatly improved the flexibility of employees to participate in training and learning. At the same time, the Company continues to optimize contents focusing on "how to attract students", "how to make learners have a good learning experience", "how to optimize online education operations" and "how to integrate resources in all aspects". Now it can offer customized courses and empowerment and coaching trainings to its employees.

3.4 Anti-corruption

The Company advocates honest, upright and incorrupt commercial behaviors in the business process of product and asset purchase, attracting investments and business contacts. The Company has prepared the Management Practices on Group-purchase Products in the Supermarket (賣場商品團購管理規範) and the Regulations on Leaders' Performance Wage and Business Expenses by Lianhua Supermarket Holdings, Co., Ltd. (聯華股份關於規範各級領導人員履職待遇與業務支出的管理辦法), to expressly regulate management behaviors in relation to key positions and departments related to purchasing, attracting investment and engineering by means of signing responsibility agreements or letters of commitment. In 2018, the Company has signed the Responsibility Agreement on Clean and Honest Construction of Party Style with its member companies.

The Company actively builds a clean and honest workforce, and through its promotional and educational activities such as anti-corruption education and special trainings, it enhances employees' ability to resist corruption and to make judgments. In addition, the Company has also established channels for employees to report misconducts via letters. After receiving letters and complaints about violations by party members and core members of the Company, the Disciplinary Committee would conduct research, assessment and investigations to ensure a healthy corporate culture. The Company has not been penalized by the regulatory authorities for corruption, extortion, fraud and money laundering violations.

Major promotional and educational activities on integrity

- **"Red Starting Point, Stay True to the Mission" – celebrating the 97th anniversary of the founding of the Party:** The Company's party committee organized more than 100 party workers from the Lianhua system to carry out the "Red Training Camp" team building activity
- **Integrity Education Special Training:** The Company launched the Integrity Education Special Training with 135 core employees involved
- **Special training on internal control:** The Company invited relevant internal control experts to offer internal control special education and training with a view to raising awareness of risk control in all aspects among employees. A total of 101 people participated in the training

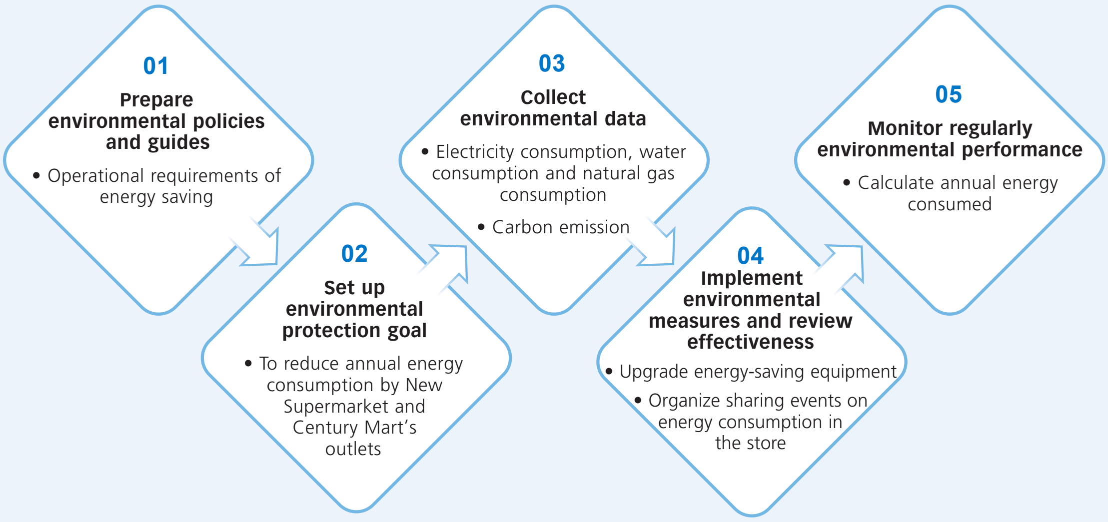
4 Responsibility to Environment · Promoting Sustainable Development

The Company regards environmental protection as one of the core projects of sustainable development and is committed to integrating it into every aspect of its operations. Complying with the Environmental Protection Law of the People's Republic of China, the Environmental Impact Assessment Law of the People's Republic of China and other environmental laws and regulations applicable to its business, the Company adheres to green management and strives to reduce energy consumption in retail operations and adverse impact on the environment, and promoting sustainable development of the retail industry. The Company also uses its vast network of outlets to introduce innovative green products and low-carbon lifestyles to consumers and encourages the public to practice green living together.

Area of responsibility	Major Stakeholder	Primary responsibility practice	Primary responsibility result
• Environmental responsibility • Corresponding United Nations Sustainable Development Goals (SDGs): Item 7: Affordable and Clean Energy Item 12: Responsible Consumption and Production	• Environment • Consumers	• Improving the environmental management system • Building green stores • Developing green logistics and warehousing • Conducting sustainable consumption promotional activities	• Preparing the Operations Standards Manual and the Operational Requirements of Energy Saving • Power consumption per unit business area decreasing by 6.9% year-on-year • GHG emissions per unit business area decreasing by 9.9% year-on-year

4.1 Environment Management

As a retail enterprise, the Company's environmental impact is mainly concentrated in the store and office operations and logistics and warehousing. The Company does not directly discharge pollutants during the production process and therefore mainly focuses on energy and water conservation and reducing greenhouse gas emissions.



Environmental management flow chart

Environmental impact arising from operations

The Company fully considers the resources and energy consumption data (including electricity, water, natural gas, gasoline and diesel, packaging materials, etc.) and the environmental impacts (greenhouse gas emissions, extra waste generation, etc.) of the stores, office operations, logistics and warehousing process and the overall impact which are the main impact of the Company on the environment and natural resources. As a retail company, other aspects have little impact on the environment and natural resources.

In addition, when selecting suppliers, the Company prefers those having obtained certificates with respect to technological innovation, energy saving and environmental protection.

SUPPLIER SELECTION

Preferring those having obtained certificates with respect to technological innovation, energy saving and environmental protection

Consider the resources consumption and environment impacts of the **stores, office operations, logistics and warehousing** process

Stores

Office Operations

Logistics and Warehousing

INPUT

Key performance indicators	2018
Total water consumption (in terms of stores) (m^3)	3,122,933.31
Total consumption of power (in terms of stores) (MWh)	370,622.55
Total water consumption (in terms of office operations) (m^3)	91,096.05
Total consumption of power (in terms of office operations) (MWh)	13,309.54
Total water consumption (in terms of warehousing) (m^3)	152,489.50
Total consumption of power (in terms of warehousing) (MWh)	15,196.18
Total water consumption (others)[1] (m^3)	8,912.04
Total consumption of power (others)[2] (MWh)	3,481.72
Water consumption per unit business area (m^3/m^2)	1.38
Power consumption per unit business area (kWh/m^2)	165.21
Total gas consumption(m^3)	150,763.05
Total quantity of purchased packages (tons)	2,952.53

OUTPUT

Key performance indicators	2018
Greenhouse gas (in terms of stores) (tCO_2e)	239,938.29
Greenhouse gas (in terms of office operations) (tCO_2e)	8,616.50
Greenhouse gas (in terms of warehousing) (tCO_2e)	9,837.89
GHG emissions per unit business area (kg CO_2e/m^2)	109
Hazardous wastes output per unit business area (ton/10,000m^2)	0.17
Non-hazardous wastes output per unit business area (ton/10,000m^2)	56.97

Notes:

1. Total water consumption (others): commercial water
2. Total consumption of power (others): commercial power

4.2 Green Stores

Saving energy and resources

Energies such as electricity and natural gas used by the Company's outlets are mainly for outlets' lighting, air-conditioning and condensation systems to create good conditions for consumer's shopping experience, food preservation and refrigeration. Water for the Company's outlets is mainly tap water supplied by municipal pipe network, and is used in office and for cleaning of outlets. Package materials used by the Company's outlets mainly include trays, cling film and roll bags, etc.

The Company formulated the Operation Standards Manual（運營標準手冊）and Operation Requirements for Energy Saving and Consumption Reduction（節能降耗相關的操作要求）to regulate the energy consumption management of store resources and continued to carry out energy conservation and resources conservation work. The Company is committed to improving water efficiency in operation by taking water saving measures such as water conservation promotion, maintenance of water-consumption equipment, repair and renewal of damaged equipment in time and upgrading of induction faucet. Lianhua Logistics has strengthened water resource management by dealing with water leakage, water dripping of the park in time to reduce unnecessary wastage.

In 2018, the Company upgraded some frozen and refrigerated equipment in stores, used energy-saving products, and carried out store energy-saving and emission-reduction sharing meetings to promote effective energy-saving and emission-reduction measures. In 2018, the Company's power consumption per unit business area decreased by 6.9% compared with 2017.

Resource-saving measures	**Contents and results**
Reducing the use of cashier paper	The size of the thermal cash register paper used in all POS systems of the Century Lianhua Central Store had been adjusted from 78*80mm to 58*80mm in order to reduce unnecessary waste of paper and costs associated with cash register paper. It would save approximately 240m^2 of cash register paper every year as estimated by 150,000 volumes of paper used in the store every year.
New equipment application	For the first time, Caojiadu Store adopted the electronic price tag to realize the informationization of the product price system, and reduced usage and the expenses of the printing consumables and the price tag in the store.

Emission reduction

Global warming is becoming more and more serious. The large amount of greenhouse gas emissions is an important cause of global climate change. The Company recognizes that mitigation of climate changes is of great significance to itself and the world, and hence actively promotes reduction of greenhouse gas emission. The emissions generated during the operation of the Company's stores are mainly indirect greenhouse gas emissions caused by purchased electricity. Greenhouse gas emissions have been reduced through actions to save energy and reduce consumption.

Water will not be regarded as raw material for production in the Company's outlets and during the office and operation process. Waste water produced by the Company is mainly domestic sewage, and the amount of water discharge can be deemed to be equal to intake amount.

In 2018, Lianhua Quik Wuyi Store was subject to rectification by the regulatory authorities with a fine of RMB20,000 due to the noise produced by the air conditioner. The company has completed the rectification.

Management of wastes

Waste generated by the Company during the store operation process is mainly non-hazardous waste such as paper used for printing of shopping receipts and expired fresh produce. Following the principle of "Reduction" in waste management, the Company actively collects and manages waste data, and monitors the usage amount of various materials such as paper, paper products and plastic bags in order to continuously improve waste management.

Waste LED lights, waste air cabinets and guide cabinets (including electronic thermometers, etc.) will be generated during the operation of the Company and will be recycled by product suppliers or waste disposal suppliers.

In addition, the Company launched a replacement program for obsolete and old refrigerators in 2018, and dismantled obsolete and old refrigerators and recovered the refrigerant, compressors, condensers, distribution boxes and other items with a recorded recovery amount of RMB83,000.

4.3 Green Logistics and Warehousing

Green logistics and warehousing are important parts of the Company's green operations. In 2018, the Company took measures in terms of vehicle procurement and configuration, route arrangement and other aspects to achieve the goal of energy saving and emission reduction.

Green logistics measure	Main content
Vehicle management	The Company purchased 20 new China-V-Standards-compliant freight vehicles, including vans, cold-chain transportation vehicles, and multi-temperature vehicles. 14 new electric forklifts were purchased to replace diesel forklifts.
Route management	The Company applied the information system to rationally plan the delivery route, and reduced fuel consumption and vehicle exhaust emissions by shortening the overall transportation route and arranging night-time transportation.
Transportation equipment management	The Company used containers such as recycle boxes and cage trolleys to improve recyclability and reduce the use of packaging materials and waste generated.

For the staff domestic wastewater generated during the logistics operation process and oily sewage generated by vehicle maintenance, Lianhua Logistics has secondary sewage treatment tank to treat such non-domestic sewage generated before discharge.

4.4 Sustainable Consumption Promotion

As a state-owned large-scale chain retail enterprise, the Company actively increases the participation in the sustainable development of the community and society, and gathers strength to produce greater environmental protection results. Through community activities, store posters and the setting up of organic green products counters, the Company actively promotes low-carbon and green products to consumers, advocates green consumption, guides consumers' environmental protection concepts.

The Company continued to participate in the "Earth Hour" initiative in 2018. At the same time, the Company advocates consumers to reduce the use of plastics such as plastic bags, plastic straws, plastic tableware, polyethylene daily chemicals through paid use of plastics and logo publicity. In line with the government's garbage-sorting measures, the Jiading Outlet of the Company carried out garbage-sorting points exchange activities for residents in the community to promote environmental awareness of the public.

2018 "Earth Hour" Initiative

The theme of "Earth Hour" in 2018 was "60+ Lifestyle", which refers to any environmentally-friendly behavior that is friendly to the natural environment, beneficial to energy conservation and emission reduction and helps promote environmental and social sustainable development. As a large-scale chain retail enterprise in China, the Company called on its chain brand hypermarkets including Century Mart, Lianhua Supermarket and Hualian Supermarket to actively respond, i.e., turning off the non-essential lighting in the stores and the non-main signboard lighting inside and outside the stores without affecting consumers' shopping in a safe environment on the evening of 24 March 2018, from 20:30 to 21:30.

5 Responsibility to Community · Lianhua is always with you

Lianhua Supermarket now operates a total of 3,371 outlets covering 21 provinces and municipalities. The notion of "Lianhua is always with you" not only displays the Company's operation philosophy, but also shows the concept of community service. In the process of expanding its market position, the Company always remembers to pay back to the society. The Company gives full play to the advantages of the retail industry to promote poverty alleviation and rural revitalization, actively carries out community service public welfare activities through its large and extensive network of outlets and pursue common development with the community.

Area of responsibility	Major Stakeholder	Primary responsibility practice	Primary responsibility result
• Community responsibility • Corresponding United Nations Sustainable Development Goals (SDGs): Item 1: No Poverty Item 10: Reduced Inequalities 	• Community	• Purchasing goods from farmers • Pairing and helping poor areas • Community public welfare activities	• Purchasing more than a total of 780 tons of vegetables and fruits from farmers in 6 provinces • Pairing and helping 7 poor areas in total • Over 350 outlets of Lianhua Supermarket in Shanghai participating in caring activities for cleaners and outdoor staff

5.1 Poverty Alleviation and Agricultural Assistance

Targeted poverty alleviation

The Company regards targeted poverty alleviation as an important task to fulfil its social responsibilities. By combining the characteristics of retail enterprises, on the one hand, the Company actively participates in the government's production-and-marketing matchmaking initiative for agricultural products to help the poor areas to get rid of poverty; on the other hand, it directly cooperates with the poverty-stricken areas to conduct poverty alleviation work.

In 2018, the Guangxi Company participated in the 2018 National Agricultural Products Production and Marketing Matchmaking Forum (Guangxi) and the National Promotion Activity for Guangxi Specialties in Celebration of the 60th Anniversary of Guangxi Zhuang Autonomous Region, and signed a production-and-sales matchmaking contract of RMB500 million with the Liuzhou Municipal Commission of Commerce in order to help establish long-term and stable cooperative relations between Guangxi agricultural products with major agricultural product distributors across the country. Subsequently, the Guangxi Company held a large-scale promotional campaign for Sanjiang and Rongshui agricultural products in the 2018 "Agricultural Products-Docking-Supermarkets and Targeted Poverty Alleviation Forum" which had helped increase the sales of Sanjiang and Rongshui agricultural products as well as the income for poverty-stricken areas.

The Company actively responded to government policies and carried out pairing and helping works in Guangxi, Zhejiang, western Guizhou and Tibet. Such works mainly focused on agricultural support and assistance, and donated funds to poor areas to help get rid of poverty.

Lists of major pairing and helping work conducted

Guangxi Company	• Directly providing assistance to Dangjiu Village, Gandong Township, Rongshui County by donating rice and edible oil worth RMB3,000 • Directly providing assistance to Tangchao Village, Dudong Town, Sanjiang County, such as guiding the poor villagers towards developing their industries, purchasing their agricultural products, with a view to increasing the income of the poor villagers • Carrying out the public welfare projects in Dongfeng Village and visiting and inspecting the broadleaf holly leaf plantation base, the nut plantation base and the broadleaf holly leaf processing plant
Lianhua Huashang	• Helping the Qiandongnan Prefecture to sell 50,000 kilograms of tomatoes and 25,000 kilograms of cucumbers • In-depth investigating and understanding the development advantages and actual needs of Linqi Village, Linqi Town, Chun'an County, and using the Company's platforms to help Linqi Village revitalize and develop • Carrying out industrial poverty alleviation for Nagqu in Tibet by taking Nagqu yak meat as an entry point • Directly providing assistance to Zitong Town, Chun'an County by securing sales orders for more than 5,000 kilograms of sweet potatoes from Doufan Village, Zitong Town each year for 12 years in a row

Targeted Poverty Alleviation in Tibet and Education Fund

Since 2017, in response to the call of the Zhejiang Province to aid Tibet, Lianhua Huashang has been carrying out industrial poverty alleviation in Nagqu through the Nagqu yak meat. Throughout the poverty alleviation process, Lianhua Huashang and the Tibetan-aiding cadres set up a yak industrial base at Nagqu at an altitude of 5,000 meters, breaking the altitude record of Lianhua Huashang's self direct purchase base of fresh produce. The local farmers' income had been increased because of the yak meat sales, and hence the Company made its own contribution to the Tibetan-aiding program of Zhengjiang Province. At present, we have successfully developed high-quality products such as fresh yak meat and yak meat balls.

In addition to industrial poverty alleviation, Lianhua Huashang also participated in the activity of helping students and e-commerce poverty alleviation activity. The "Zhijiang Education Fund" of the Company made donations to Zhejiang Middle School in Nagqu City and Mayuexiang Primary School in Shenzha County, encouraging students to study hard, use knowledge to change their destinies and use technology to build a beautiful home.

In-depth research and assistance to promote rural revitalization
– Lianhua Huashang Party Committee Paired with Party Organization of Linqi Village of Chun'an County in the Poverty Alleviation

Lianhua Huashang participated in the investigation and research work in Linqi Village, and signed a Party-building pairing agreement with Party Organization of Linqi Village, Linqi County, Chun'an County.

The Company conducted research on the planting and operation situation and sales demand of local enterprises, and communicated and discussed the issue of increasing sales assistance and speeding up the introduction work, and it also provided assistance to the local students in difficulty by means of cash donation as well as provision of school supplies and living goods.

In addition, the Company showed solicitude for the left-behind children in Linqi Village, and provided them with left-behind children's growth courses and organized interesting activities such as eating watermelon game, whispering game and singing and cat-walking. In addition to inviting doctors from Health 100 to give lectures such as the "Disease Prevention and Health Care" and the "Interpretation of Common Problems in Physical Examination" to the villagers, the Company's medical team also offered blood tests, blood sugar tests, health consultation and other clinic services for the villagers, and enhanced the villagers' awareness of regular physical examination and healthy living habits.

Assisting farmers by purchasing goods

Upholding the concept of "caring for agricultural products, countryside and farmers" and in order to help with unusual unmarketable agricultural products, the Company had fully utilized the sales network advantage of covering the whole country and opened a green procurement channel to provide assistance to farmers. In 2018, the Company launched the purchasing goods from farmers activities in Sichuan, Guizhou, Yunnan, Guangxi, Guangdong and Zhejiang provinces, and purchased more than 780 tons of vegetables and fruits from the above-mentioned provinces.

Purchasing Onions from Daliang Mountain

In 2018, a large number of onions in Daliang Mountain were unsalable. The Company arranged its staff to rush to Xichang immediately to learn about the facts, cooperated with the local government to cope with the slow sales of onions, and called on the whole society to help the farmers. The Company cooperated with Yuantong Logistics to directly source 100 tons of onions to help farmers, while creating a single product sales of RMB98,000.

5.2 Community Public Welfare

As a supermarket retail enterprise, the Company actively plays the role of guaranteeing people's livelihood in response to emergent disasters. In January 2018, Lianhua Huashang launched an emergency warning due to the blizzard weather forecast, and carried out emergency relief by actively guaranteeing the supply of emergency goods and strengthening stocking management, price management and other safety management measures.

The Company gives full play to its extensive network of outlets to actively carry out community public welfare activities. 354 outlets took part in the caring activities for sanitation workers jointly launched by the Company and the Shanghai Greening Industry Trade Union（上海市綠化市容行業工會）, and 48 outlets participated in the Care Station for Outdoor Staff set up by the Company. At the same time, in order to better serve the community, Lianhua Supermarket has established a team of employee volunteers. In 2018, the number of volunteer services and service duration of the Company had increased significantly.

Major community public welfare activities	
Lianhua Supermarket	• Setting up "Care Station for Sanitation Workers" and "Care Station for Outdoor Staff" • In January 2018, Yushan Store of New Supermarket won the " Care Station for Outdoor Staff " stop sign, and the Xianghua Store's caring activities of preventing heatstroke, cooling and caring was broadcasted on the Shanghai Traffic Radio (FM 105.7)
Guangxi Company	• Participating in the Mid-Autumn Festival caring campaign and visiting families in need and the disabled in Jitian Village
Anhui Company	• Holding the "Children's Day Painting Exhibition" to enrich the extracurricular life of the children in the surrounding communities • Offering preventing heatstroke and cooling caring products to fire-fighters and traffic policemen
Jiangsu Company	• Carrying out the "Free Laba Porridge " activity with a total of more than 200 bowls of porridge distributed • Visiting elderly people in welfare homes • Organizing employees to donate blood • Visiting the People's Liberation Army of the fire department

Shelter for outdoor staff

In 2018, additional 130 stores of Lianhua were included in the "Care Station for Outdoor Staff" to provide drinking water supply, preventing heat stroke or heating, meal reheating, battery charging, mobile phone charging, emergency medicine kits, and washing and rest for outdoor workers such as food delivery workers, logistics workers and sanitation workers.

Such stations have strict and defined execution standards in terms of location, signs, personnel, services, facilities and funds. Lianhua Supermarket had selected the New Supermarket and Lianhua Quick outlets (both of which have wide coverages), and strictly followed the above standards to strive to do well in providing shelter for outdoor staff.

In addition, the Company actively participated in social welfare activities. 85 employees of Lianhua Huashang participated in the program of "Gathering around the River for Development · Happy and Charitable Life", i.e. 2018 "Welcome Asian Games" Hangzhou Youth Yixing Conference of the "New Era·New Youth" campaign, and donated books to the "Hope Book House" of Xinjiang Aksu High School, passing on knowledge and happiness to the children in the borders of the motherland.

6 Data

In 2018, we used the online ESG performance information platform to collect and collate ESG data from headquarters and various business segments as well as regional companies so as to improve the standardization management of ESG data.

Environment[1]

Performance indicator	Unit	2016	2017	2018
Emissions				
GHG emissions[2]	t CO_2e	55,635.20	292,925.40	**265,589.80**
GHG emissions per unit business area	kg CO_2e/m^2	289	121	**109**
Total quantity of hazardous wastes	t	/	21.80	**9.42**
Hazardous wastes output per unit business area	t/10,000m^2	/	0.20	**0.17**
Total quantity of non-hazardous wastes	t	/	7,017.30	**5,223.35**
Non-hazardous wastes output per unit business area	t/10,000m^2	/	62.30	**56.97**
Use of Resources				
Total consumption of power	MWh	68,583.90	429,438.20	**402,609.99**
Power consumption per unit business area	kWh/m^2	355.30	177.40	**165.21**
Total gas consumption	m^3	/	90,378.20	**150,763.05**
Gas consumption per unit business area[3]	m^3/m^2	/	0.04	**0.06**
Total water consumption	10,000m^3	22.70	315.70	**337.54**
Water consumption per unit business area	t/m^2	1.20	1.30	**1.38**
Total quantity of purchased packages[4]	t	/	2,754.70	**2,953.53**

Notes:

1. Environmental data in 2016 covered Lianhua Supermarket and its directly-operated outlets. Data in relation to hazardous and non-hazardous wastes in 2017 excluded Lianhua Quik, Lianhua Huashang, Lianhua Henan Company, Lianhua Jiangsu Company and Lianhua Guangxi Company; and packages data in 2017 excluded Lianhua Quik and Lianhua Guangxi Company. Data in relation to non-hazardous wastes in 2018 excluded the hypermarkets of Shanghai region, Lianhua Quik, Lianhua Huashang, Lianhua Henan Company; data in relation to hazardous wastes in 2018 excluded the hypermarkets and supermarkets of Shanghai region, Lianhua Quik, Lianhua Huashang, Lianhua Henan Company.

2. GHG emissions mainly result from indirect emission produced by outsourcing electricity, and they can be estimated by referring to average carbon dioxide emission factors for regional power grids in China.

3. Gas consumption per unit business area of 2017 was recalculated and updated according to data collection range.

4. Package types include trays, cling film and roll bags, etc.

Employment and labor practice

Performance indicator	Unit	2016	2017	2018
Employment				
Total staff	Person	44,033	40,766	**37,579**
Males	Person	13,540	12,583	**11,728**
Females	Person	30,493	28,183	**25,851**
Labour contract staff	Person	35,413	33,291	**29,616**
Labour dispatch staff	Person	3,372	3,342	**4,245**
Staff in other ways of employment[1]	Person	5,248	4,133	**3,718**
Under 30 years old	Person	7,269	7,050	**3,241**
30-50 years old	Person	30,055	27,952	**28,991**
Over 50 years old	Person	6,709	5,764	**5,347**
Number of staff from mainland	Person	44,032	40,765	**37,578**
Number of staff from Hong Kong, Macao and Taiwan & overseas	Person	1	1	**1**
Employee turnover rate	%	16.48	27.26	**22.17**
Male employees turnover rate	%	14.18	26.88	**21.01**
Female employees turnover rate	%	17.64	27.44	**22.68**
Under 30 years old employees turnover rate	%	26.48	35.67	**41.51**
30-50 years old employees turnover rate	%	15.24	23.92	**18.04**
Over 50 years old employees turnover rate	%	8.10	35.46	**27.47**
Turnover rate of staff from mainland	%	16.48	27.26	**22.17**
Turnover rate of staff from Hong Kong, Macao and Taiwan & overseas	%	0	0	**0**
Health and safety				
Number of work-related fatalities[2]	Person	1	0	**1**
Lost days due to work injury	Day	20,995	20,889	**13,808**
Number of participants attending safety trainings	Person time	58,168	56,122	**97,311**
Development and training				
Percentage of employees trained	%	71.63	71.46	**91.21**
Percentage of male trained	%	74.90	79.00	**100**
Percentage of female trained	%	66.56	68.00	**87.23**
Percentage of junior management trained	%	78.76	70.00	**100**
Percentage of middle management trained	%	62.29	92.80	**44.41**
Percentage of senior management trained	%	51.90	98.60	**100**
Average training hours completed per employee	h	13.98	12.05	**13.56**
Average training hours completed by male employees	h	16.78	10.30	**13.56**
Average training hours completed by female employees	h	12.92	12.97	**13.56**
Average training hours completed by junior management	h	16.58	11.21	**14.36**
Average training hours completed by middle management	h	11.23	21.63	**10.23**
Average training hours completed by senior management	h	11.80	42.10	**51.82**

Notes:

1. Staff in other forms of employment includes hourly workers, people re-employed after retirement, outsourcing staff, borrowed staff, people who agree to retain the social insurance relations, apprentices and laid-off workers.

2. The work-related death accident represents a traffic accident resulting in the death of one employee on the way from work.

Product responsibility

Performance indicator	Unit	2016	2017	2018
Percentage of total products sold or shipped subject to recalls for safety and health reasons	%	0.007	0.002	**0.005**
Number of products and services related complaints received	Piece	1,169	3,445	**2,035**
Complaint treatment rate with respect to products and services	%	100	100	**100**

Note:

1. Data with respect to product responsibility in 2016 covered Lianhua Supermarket and its directly-operated outlets.

Supply chain management

Performance indicator	Unit	2016	2017	2018
Number of suppliers	/	2,578	2,176	**2,180**
Number of suppliers from mainland	/	2,576	2,174	**2,178**
Number of suppliers from Hong Kong, Macao and Taiwan & overseas	/	2	2	**2**

Anti-corruption

Performance indicator	Unit	2016	2017	2018
Number of anti-corruption trainings	Time	5	36	**29**
Participants in anti-corruption trainings	Person time	1,050	2,510	**1,590**
Number of legal cases regarding corrupt practices brought against the Company or its employees	Piece	/	0	**0**

Community investment

Performance indicator	Unit	2016	2017	2018
Number of volunteers	Person time	556	807	**1,195**
Number of volunteer services hours	h	1,797	10,241	**1,260**
Public welfare and community investment amount	RMB10,000	16.99	41.46	**29.74**

7 Index of ESG Reporting Guide by HKEX

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
	Major Area A. Environmental **Aspect A1. Emissions**	
General Disclosure A1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	Environment Management
KPI A1.1	The types of emissions and respective emissions data	Environment Management Green Stores Data
KPI A1.2	Greenhouse gas emissions in total (in tons) and, where appropriate, intensity (e.g. Per unit of production volume, per facility)	Environment Management Data
KPI A1.3	Total hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Environment Management Data
KPI A1.4	Total non-hazardous waste produced (in tons) and, where appropriate, intensity (e.g. Per unit of production volume, per facility)	Environment Management Data
KPI A1.5	Description of measures to mitigate emissions and results achieved	Green Stores Green logistics and warehousing
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Green Stores

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
	Aspect A2. Use of Resources	
General Disclosure A2	Policies on the efficient use of resources, including energy, water and other raw materials	Environment Management Green Stores
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume, per facility)	Environment Management Data
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	Environment Management Data
KPI A2.3	Description of energy use efficiency initiatives and results achieved	Green Stores Green logistics and warehousing
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Green Stores
KPI A2.5	Total packaging material used for finished products (in tons) and, if applicable, with reference to per unit produced	Environment Management Data
	Aspect A3. The Environment and Natural Resources	
General Disclosure A3	Policies on minimizing the issuer's significant impact on the environment and natural resources	Environment Management Green Stores
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Environment Management Green Stores Green logistics and warehousing Sustainable Consumption Promotion

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
Major Area B. Social Employment and Labour Practices		
Aspect B1. Employment		
General Disclosure B1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Interests of and Solicitude towards Employees
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Data
KPI B1.2	Employee turnover rate by gender, age group and geographical region	Data
Aspect B2. Health and Safety		
General Disclosure B2	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	Occupational Health and Safety Management
KPI B2.1	Number and rate of work-related fatalities	Data
KPI B2.2	Lost days due to work injury	Data
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Occupational Health and Safety Management

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
	Aspect B3. Development and Training	
General Disclosure B3	Policies on improving employees' knowledge and skills for discharging duties at work Description of training activities	Training & Professional Development
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. Senior management and middle management)	Data
KPI B3.2	The average training hours completed per employee by gender and employee category	Data
	Aspect B4. Labour Standards	
General Disclosure B4	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	Interests of and Solicitude towards Employees
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Interests of and Solicitude towards Employees
KPI B4.2	Description of steps taken to eliminate such practices when discovered	No violations

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
	Major Area B. Social Operating Practices	
	Aspect B5. Supply Chain Management	
General Disclosure B5	Policies on managing environmental and social risks of the supply chain	Full-process Control of Product Quality
KPI B5.1	Number of suppliers by geographical region	Data
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Full-process Control of Product Quality
	Aspect B6. Product Responsibility	
General Disclosure B6	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	Full-process Control of Product Quality Safe and Healthy Food Consumer Rights Protection
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Data
KPI B6.2	Number of products and service related complaints received and how they are dealt with	Consumer Rights Protection Data
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Full-process Control of Product Quality
KPI B6.4	Description of quality assurance process and recall procedures	Full-process Control of Product Quality Safe and Healthy Food
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Consumer Rights Protection

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
	Aspect B7. Anti-corruption	
General Disclosure B7	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Data
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Anti-corruption
	Aspect B8. Community Investment	
General Disclosure B8	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	Responsibility to Community
KPI B8.1	Focus areas of contribution (e.g. Education, environmental concerns, labour needs, health, culture, sport)	Poverty Alleviation and Agricultural Assistance
KPI B8.2	Resources contributed (e.g. money or time) to the focus areas	Data

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