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

ANNUAL REPORT 2019

STOCK CODE:0980

Lianhua Supermarket Holdings Co., Ltd. ("Lianhua Supermarket" or the "Company") commenced its business in Shanghai in 1991. In the past 28 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 2019, Lianhua Supermarket and its subsidiaries (the "Group") operated a total of 3,352 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, catering for the diverse needs of consumers. These three 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.

	Hebei	Inner Mongolia	Beijing	Shanghai	Qinghai	Shandong	Zhejiang	Heilongjiang
●	0	0	1	34	0	0	65	1
■	1	5	1	1,242	1	91	278	0
▲	1	0	88	668	1	0	183	0

Lianhua Supermarket operated a total of **3,352** outlets

	Hypermarket	Supermarket	Convenience Store
Henan	8	3	0
Liaoning	0	0	251
Guangdong	0	2	0
Guangxi	3	197	0
Hunan	0	12	0
Jiangxi	0	2	0
Hainan	0	3	0
Sichuan	0	1	0
Fujian	1	0	0
Jiangsu	18	134	1
Yunnan	0	4	0
Gansu	0	1	0
Anhui	10	40	0

● Hypermarket
■ Supermarket
▲ Convenience Store

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. Qian Jian-qiang
Ms. Zheng Xiao-yun
Mr. Wong Tak Hung

Independent Non-executive Directors

Mr. Xia Da-wei
Mr. Lee Kwok Ming, Don
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
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. Xu Tao
Mr. Qian Jian-qiang

Nomination Committee

Mr. Ye Yong-ming *(Chairman)*
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 (Resigned on 11 December 2019)
Ms. Tang Hao

Company Secretary

Ms. Hu Li-ping

Authorised Representatives

Mr. Xu Tao
Ms. Hu Li-ping

International Auditor

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

Legal Advisers to the Company

As to Hong Kong laws
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

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Room 713, 7th Floor
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Place of Business in the PRC

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Shanghai, PRC

Principal Place of Business in Hong Kong

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Shareholder's Enquiries

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Hong Kong Share Registrar and Transfer Office

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Shops 1712-1716
17th Floor, Hopewell Centre
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Wanchai
Hong Kong

Share Information

Listing Place

The Stock Exchange of Hong Kong Limited

Listing Date

27 June 2003

SEHK Stock Code

980

Number of H shares Issued

372,600,000 H shares

Year-end Date

31 December

Results Announcements

Interim Results for 2019 were published on
29 August 2019
Annual Results for 2019 were published on
31 March 2020

Dividends

Interim Dividends: Nil
Proposed Final Dividends: Nil

Major Achievements

January

1. The Chaohu Changjiang Road store operated by Anhui Century Mart Development Co., Ltd. ("Lianhua Anhui Company") was awarded the title of "Integrity Operation Demonstration Unit" ("誠信經營示範企業") for 2018 in the sector of commerce circulation field of Chaohu by the Bureau of Commerce and the Bureau of Market Supervision and Administration of Chaohu, Anhui.

2. Guangxi Lianhua Supermarket Joint Stock Co., Ltd. ("Lianhua Guangxi Company") was awarded the "Outstanding Contribution Award" ("突出貢獻獎") by the Industrial Association of Food Safety of Liunan district, Liuzhou, Guangxi Zhuang Autonomous Region.

February

1. The Tianhe store operated by Lianhua Guangxi Company was awarded the title of "Workers' Pioneer" ("工人先鋒號") of Liuzhou for 2018 by the Liuzhou Federation of Trade Union of Guangxi Zhuang Autonomous Region.

2. The trade union team of the Jushang store operated by Lianhua Guangxi Company was awarded as the "Demonstrated Home for Staff" ("模範職工小家") of Liuzhou for 2018 by the Liuzhou Federation of Trade Union of Guangxi Zhuang Autonomous Region.

March

1. Lianhua Guangxi Company was awarded the honoring plaque of "A Unit Committed to Establishing Integrity Operation and Assured Consumption"("誠信經營 放心消費—創建承諾單位") by the Bureau of Market Supervision and Administration of Liuzhou, Guangxi Zhuang Autonomous Region.

2. Lianhua Guangxi Company was awarded as the "Trial Unit in Establishing the Meat and Vegetables Circulation Traceability System" ("肉菜流通追溯體系建設試點單位") of Liuzhou by the Bureau of Commerce of Liuzhou, Guangxi Zhuang Autonomous Region.

3. The "Lianhua Huashang Supply Chain Project"(聯華華商供應鏈項目) of Hangzhou Lianhua Huashang Group Co., Ltd. ("Lianhua Huashang") was selected as one of the first batch of trail units of Hangzhou, Zhejiang for 2018 in establishment of the modern supply chain system in the field of circulation.

4. The cashier group of Xianxia Store of Shanghai Century Lianhua Supermarket Development Co., Ltd. ("Century Lianhua") was honored as the "March 8th Red-banner Pacesetter of Shanghai for 2017-2018" ("2017-2018年度上海市三八紅旗集體") by the Shanghai Women Federation and Shanghai Municipal Human Resources and Social Security Bureau.

May

1. The "New Smart Logistics"(智慧新物流) project of Lianhua Huashang was awarded the title of "Benchmark Enterprise in Smart Logistics Operation" ("智慧物流標杆企業獎") at the 2019 China (International) Smart Logistics Creative Development Summit (2019中國(國際)智慧物流創新發展峰會) hosted by China Association of Warehousing and Distribution.

June

1. The Company held the first Lianhua Culture Festival and Brand Refreshment Internal Promotion Campaign.

2. The Beiyuan store, a sample community fresh produce supermarket, operated by Shanghai Lianhua Supermarket Development Co., Ltd ("Lianhua Supermarket Development") commenced business after transformation, where better service is provided to target customers through further utilization of digital technology and effective application of cloud data.

3. At the 2019 Annual Meeting of China Retail Business Supply Chain hosted by the Supply Chain Professional Committee under China Chain Store & Franchise Association (CCFA), the "Improvement and Upgrade Project in Relation to Logistics Supply Chain for Fast-moving Consumer Goods"（快消品物流供應鏈優化升級項目）of Lianhua Huashang was awarded the prize of "the Best Practice Case in Retail Business Supply Chain for 2019" ("2019年零售業供應鏈最佳實踐案例獎").

4. Lianhua Huashang was honored as the "Advanced Entity of Hangzhou in Protection of Economic Culture for 2018" ("2018年度杭州市經濟文化保衛工作先進集體") by the Bureau of Public Security of Hangzhou, Zhejiang.

5. Lianhua Huashang was honored as the "12th Session of Consumer Assurance Entities of Hangzhou" ("杭州市第十二屆消費者信得過單位") by the Consumers Interest Protection Committee of Hangzhou, Zhejiang.

July

1. The Wuhu Nanrui store operated by Lianhua Anhui Company was awarded the title of "Level A Rating for Labor Security Integrity" ("勞動保障誠信等級評價A級") by the Bureau of Human Resources and Social Security of Yijiang district, Wuhu, Anhui.

August

1. The Chaohu store operated by Lianhua Anhui Company was awarded the title of "Level A Rating for Labor Security Integrity" ("勞動保障誠信等級評價A級") by the Bureau of Human Resources and Social Security of Chaohu, Anhui.

2. The first discount concept store of Lianhua Huashang – Hangzhou Wenhui Store commenced business.

September

1. Lianhua Anhui Company was rated as the "Assured Consumption Demonstration Unit" ("放心消費示範") for 2019 by the Consumers Interest Protection Committee of Jinan district, Luan, Anhui, and was recognized via newspapers in Luan.

2. The Anqing store operated by Lianhua Anhui Company was awarded the title of "Level A Rating for Labor Security Integrity of Anqing Municipal for 2019" ("2019年度安慶市勞動保障誠信評價A級企業") by the Bureau of Human Resources and Social Security of Anqing, Anhui.

3. "Lianhua Whale-Choice • Banbuduo" ("聯華鯨選•半步多") of Lianhua Huashang commenced business, which stood for the implementation of the first scenic-spot-based new retail business model across the country and a pilot practice of digitalized Hangzhou in new retail business.

4. At the second session of Intelligent Chain and Brand Development Innovation Summit of Zhejiang hosted by the Zhejiang Chain Management Association, Lianhua Huashang was honored as the "Private-label Brand Innovative Enterprise" ("自有品牌創新企業") of the chain business of Zhejiang, and the in-house brand "Quality Life" （優品生活） operated by Lianhua Huashang was awarded the title of "Excellent Private-label Brand" ("優秀自有品牌") of the chain business of Zhejiang.

October

1. The Xianghua store operated by Lianhua Supermarket Development was rated by Shanghai Landscaping and City Appearance Industrial Trade Union as the "Top Ten Caring Relay Stations for the Special Programme of Caring for Sanitary Workers and Establishing Green Homeland for 2019" ("2019年度關愛環衛工人共建潔淨家園專項行動十佳愛心接力站").

2. Lianhua Guangxi Company was awarded the prize of "Honor of Liuzhou, Brand of Pioneering" ("柳州榮光 先鋒品牌") by Guangxi Daily Media Group and Nanguo News（南國今報）.

3. The Dantu store operated by Lianhua Supermarket (Jiangsu) Co., Ltd. ("Lianhua Jiangsu Company") was awarded the title of "2019 Vegetable, Grain and Oil Discounter Supermarket" ("2019年度蔬菜糧油平價超市") by the Pricing Bureau of Zhenjiang, Jiangsu.

4. At the 11th session of China Urban Logistics Development Conference hosted by China Association of Warehousing and Distribution, the "Supermarket Logistics Sorting Technology"（商超物流分揀技術）possessed by Lianhua Huashang was honored as the "2018 Excellent Case in China Urban Logistics Technology Innovation".

5. Zhang Hui-qin, the Secretary of the Party Committee and the chairman of the board of directors of Lianhua Huashang, was honored as the "Business Entrepreneur with Significant Contribution" ("功勳商業企業家") by Zhejiang General Trade Association.

November

1. Zhu Yan (the store manager of the Liucheng Golden Times store of Lianhua Guangxi Company), Qin Zheng (the store manager of the Hefei Xinghua store of Lianhua Anhui Company), Jin De-gui (the store manager of the Yancheng Hong Kong Road store of Lianhua Jiangsu Company), Wang Xing (the store manager of the Taopu store of Lianhua Supermarket Development), Chen Lan (the store manager of the Pingyang store of Lianhua Supermarket Development), Yu Ling (the store manager of the Fuyang Yucai Road store of Lianhua Huashang), Yang Han-ying (the store manager of the Yuhang Jiangnan Times Square store of Lianhua Huashang), Lu Lai-jun (the store manager of Xiaoshan Nanhuan Road store of Lianhua Huashang), Yin Rong-sheng (the store manager of the Pudian store of Century Lianhua) and Li Jian (the store manager of the Waigaoqiao store of Century Lianhua) were honored as the "2019 CCFA Gold Medal Store Managers" ("2019年度CCFA金牌店長") by China Chain Store & Franchise Association.

2. The "Stay True to the Mission and 100 Stores in 10 Cities Support Xinjiang of Lianhua Huashang" ("聯華華商不忘初心 十城百店援疆工程") was awarded the prize of "Red Practice of Enterprise • Model of Social Value and Spirit of the Times" ("企業紅色實踐•社會價值共創—時代精神案例獎") in the Fourth αi Social Value Creation event ("αi社會價值共創", an programme selecting the excellent demonstration enterprise in performing social responsibility) jointly hosted by School of Management of Fudan University, the CCM CSR Promotion Center, Zhongzhi Guanaitong (Shanghai) Technology Co., Ltd. and Shanghai Channel of People's Daily Online on 12 November 2019.

3. "Joy & Safety Food Market" ("吾安食集"), the first experience store combining supermarket, restaurant processing and raw materials in the supermarket business segment of the Company commenced business in Shanghai.

4. Among the 2019 Transform Awards revealed in Shanghai on 27 November 2019, the Company was awarded two brand prizes, namely the "Best Brand Visual Expression – Golden Prize in Retail Business" ("最佳品牌視覺表現-零售行業金獎") and the "Best Brand Establishment Internal Communication Silver Prize" ("最佳品牌建設內部溝通銀獎"), which further complemented Lianhua Supermarket – an enterprise with 28 years of history, and set new benchmark for brand construction of retail business in China.

5. Lianhua Fresh Living – Caojiadu store of Lianhua Supermarket Development was rated as the "Demonstrated Standardized Food Market" ("示範性標準化菜市場") by the commerce committee of Jing'an District, Shanghai.

6. Lianhua Huashang and Australia Treasury Wine Estates entered into strategic cooperation, pursuant to which, Lianhua Huashang became the selling agent of the brand in Zhejiang.

7. Lianhua Huashang was awarded the title of "National Harmony Commercial Enterprise" ("全國和諧商業企業") at the 2019 National Commercial Entrepreneurs Activity Day hosted by the Association of China Commercial Enterprise Management.

December

1. Lianhua Guangxi Company was awarded the title of "Level A Rating for Labor Security, Compliance and Integrity" ("勞動保障守法誠信A級單位") of Liucheng county of Guangxi Zhuang Autonomous Region for 2019.

2. The Jiefang store operated by Lianhua Guangxi Company was honored as the "Workers' Pioneer" ("工人先鋒號") of Liuzhou for 2019 by the General Trade Union of Liuzhou, Guangxi Zhuang Autonomous Region.

3. Lianhua Huashang Yinyueli – Hangzhou Canal Shopping Mall (印悦裡–杭州運河購物廣場), the first community-oriented commercial center in Hangzhou, Zhejiang, commenced operation. This upgrade represented a practice of Lianhua Huashang to seize the market of community commercial center under the new retail and its intensive efforts to build new model of concept stores in community commercial centers.

4. "Century Lianhua" and "Lianhua" were recognized as the "2019 Outstanding Franchise Brands in Chain Business of Zhejiang" ("2019浙江省連鎖業優秀特許品牌") by Zhejiang Chain Management Association.

5. Lianhua Huashang was awarded by Hangzhou Agriculture and Rural Affairs Bureau of Zhejiang as the "Urban Leading Enterprise in Agriculture" ("市級農業龍頭企業").


联华 Lianhua
Delicious

CONNECTION

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 2019.

In 2019, the increasingly challenging and complicated international environment along with mounting downward pressure on China's economy posed more significant risks and challenges on both international and domestic environment with a stable albeit decreasing consumption demand. China's overall economy is shifting from the era of monetization driven by industrialization to the era of competition of the existing market driven by innovation. Due to rapid changes in the competitive landscape of the retail sector, together with continuous merger, acquisition, integration and shuffling, industry opportunities kept emerging one after another. The pilot projects for new business models sprang up continuously, and the category of fresh produce demonstrated its value. Community group buying, live streaming e-commerce, front-end warehouses, first-store economy, rise of domestic brands and sinking markets became top keywords in the industry. On the other hand, established foreign players in the retail sector continued to exit the market, while other international retail giants entered into the Chinese market as new players. The innovation and reform of the local traditional physical retail enterprises remained active but became more rational. Such enterprises put more efforts on details, enhanced operational experience by adopting a customer-oriented approach, strengthened the innovation of the operation model, extended the application of smart retail, and persistently fostered their comprehensive service capabilities.

Facing such a turbulent environment, the Group emphasized on "pursuing self-improvement and enhancing the foundation", kept abreast with the major economic and consumption upgrade trends in an active manner, embraced challenges with cohesive efforts, steadily facilitated business transformation and upgrade, established scientific and sound category planning, proactively created a differentiated supply chain system, refined private-label brands, and enhanced the interconnection among different business segments to meet the demands of consumers in different shopping scenarios. In 2019, the Group recorded a revenue of approximately RMB25.9 billion, marking the second consecutive year of growth and representing an increase of approximately 1.9% compared with last year. The operating loss was approximately RMB32 million. The annual loss attributable to the shareholders of the Company was approximately RMB378 million. The loss per share amounted to approximately RMB0.34. After deducting the effects of initial application of HKFRS 16 Leases, the loss attributable to the shareholders of the Company amounted to approximately RMB152 million, representing a decrease in loss of approximately RMB67 million.

Although facing an array of interwoven difficulties over the last year, Lianhua Supermarket restored its morale, further developed in a more steady and practical manner, and consistently promoted the implementation of five major tasks and double driving system. As an established and state-owned retail chain enterprise, Lianhua Supermarket has gone through a long history of operation and has embraced new business trends as well as brought back distinct memories for customers of all generations. However, our consumer groups with high loyalty were still limited despite the widespread popularity of our brand. In this regard, it is imperative for us to carry out brand reform in order to rebuild our connection with consumers. As such, based on the launch of "Lianhua Brand Refreshment"(聯華品牌煥新) project in 2018,

we adhered to the corporate vision of "increase our consumers' loyalty to us"(讓消費者更喜愛我們) in 2019, established a consumer insight analysis system, proactively promoted full implementation of brand positioning and embarked on the journey of heritage and innovation. We restored to the nature of retailing and adhered to the core principle of people-oriented development, seeking to imbue this competitive retail environment with hospitality. A brand new Lianhua Supermarket aims to reshape a more meaningful and warm connection between people, people and products as well as people and their lives. At present, Lianhua's brand visual identity system built through brand positioning has been launched nationwide. A refreshed logo, signage together with nationwide marketing and promotion campaigns has also been brought to the market. Lianhua Supermarket also won the honour of two important international brand awards, namely "Best Brand Visual Performance – Retail Industry Golden Award"(最佳品牌視覺表現－零售行業金獎) and "Best Brand Building and Internal Communication Silver Award"(最佳品牌建設內部溝通銀獎) granted by Transform Awards organized by Transform Magazine, the only brand development and rebuilding magazine in the world.

"Living Wholeheartedly"(用心過好生活) is the brand slogan after our brand refreshment. "Wholeheartedly" is a word that best depicts the work attitude of Lianhua Supermarket from beginning to the end. Our mission is to help consumers enjoy every moment in their lives, which is also the driving force of our intention to restore to the nature of retailing. In this smart new retail era, terminal model innovation brought about by rapid technology advancement along with constantly evolving consumption habits and lifestyles of our customers stimulated concept innovations in the retail industry. In response to such changes, we remained calm and conducted self-reflection during the process of learning. We kept speeding up segments innovation, products management, supply chain construction, while establishing store operation system and strengthening employee base from the perspective of consumers.

In 2019, our segment innovation and transformation focused more on innovation and performance enhancement. The pilot programme of Century Mart 3.0 PLUS Store launched in Qingpu, Shanghai kept exploring the model of "light catering + department store + lifestyle service + leisure, fitness and entertainment + preschool", which significantly optimised age groups of our customers. The Group continued to develop hypermarket 3.0 Whale-Choice Future Store(鯨選未來店) model in Zhejiang, promoting the model of "retail + scenes/culture/entertainment/technology", in an attempt to fit in the environment through new retail scene approach. Meanwhile, the Group proactively facilitated delivery-to-home services and innovated marketing approach, thereby providing an all-round service featuring effectiveness, lower costs and high-quality experience. In addition, the launch of Lianhua Whale-Choice Store located at Hubin Pedestrian Street became a "golden name card" in Hangzhou's new retail business.

Themed on “community life centre & fireworks for life”(社區生活中心與生活煙火之地), hypermarket 2.0 store introduced its first store in Yinyueli– Hangzhou Canal Shopping Plaza(印悦里–杭州運河購物廣場) catering to local members, aiming to establish a new consumption + new lifestyle service + new commercial platform, thereby successfully transforming itself from a “traditional hypermarket” to a “community commercial centre”. As for the supermarket segment, we are committed to developing fresh produce supermarkets for the community. Over the past two years, the number of community fresh produce supermarkets increased by nearly 200, which was the main driving force of the growth of Lianhua Supermarket for two consecutive years. Meanwhile, more than 100 community fresh produce supermarkets completed transformation and upgrade over the past two years. These transformed stores achieved a double-digit growth for two consecutive years through the implementation of the brand refreshment project, increase in proportion of fresh produce that raised the number of customers, category optimisation, solidification of category portfolio, as well as optimisation of the store layout. Meanwhile, we continued to construct and develop the idea of “selected retailing + diversified catering experience”, including the community whole food supermarket integrating dining experience and supermarket, as well as community selected supermarket of “selected supermarket in the neighborhood”. In 2019, Lianhua’s delivery-to-home service once again recorded 100% growth in sales. We reinforced the organization of core products, enhanced fresh produce operation capabilities, facilitated the cooperation with core suppliers regarding delivery-to-home business, and kept promoting online and offline membership recruitment. The proportion of sales to members in total revenue increased by 7% over the past year. The enhancement in front-line operation capabilities facilitated order fulfilment, shortening the time for delivery-to-home service to as fast as half an hour.

In 2019, we built an efficient supply chain system by focusing on core product categories, offering differentiated products, taking measures to advance the construction of fresh produce bases, improving the proportion of fresh produce, and developing new channels. We steadily promoted the cooperation with strategic suppliers through promotion activities of “Manufacturers Week”, strengthened the nationwide joint procurement capacity, improved the contract terms and thereby empowered all business segments across the country. We offered a full range of imported products with higher cost performance through marketing and procurement coordination and seized the opportunities brought by CIIE to further develop the cross-border direct procurement pattern and expand the cooperation in brand direct supply, thus satisfying consumers' demands for high-quality imported products. Based on the categories of GBB, namely Good, Better, Best, we built a private-label brand hierarchy comprising "Lianhua Quality"(聯華質造) and "Lianhua Excellence"(優系列) that targeted at different consumer groups. Through new product development, supply chain construction, nationwide joint action and brand marketing for improving private-label brands, we witnessed an improvement of 1% in the proportion of private-label brands, which promoted the differentiated development of product categories of Lianhua Supermarket. We enhanced stores' overall operation capability by restoring to the essence of retail, sticking to excellent implementation and greatly improving services. We advanced the whole-course visualization of logistics to continuously improve efficiency and enhance its service support to stores. With innovation and productivity expansion, we satisfied consumers' shopping demands through online-offline and omni-channel offerings and built a retailing architecture in the whole region.

Undertaking the arduous tasks of corporate development and reform, staffs of Lianhua Supermarket were the powerful force and fundamental pillar for our future success. "Increase employees' loyalty"(讓員工更喜歡我們) is undoubtedly the internal driving force of "Increase our consumers' loyalty to us"(讓消費者更喜愛我們). In 2019, we deepened the contract mechanism reform and the incentive mechanism innovation, continuously developed innovative teambuilding activities for staff, pushed forward the front-line staff caring practice, therefore made the staffs feel valued and improved their sense of self-worth in the Company. We launched the partnership program and recorded smooth progress, promoted samples to lead the reform, and emphasized the operation capability improvement through the transition from management mindset to leader mindset, therefore creating a favorable workplace full of initiative and eagerness for growth and encouraging staffs to serve consumers more devotedly.

In 2019, we unswervingly promoted our "Love and Care Charity" and diligently fulfilled social responsibilities. Our stores were the best neighbors of communities and the warm rest stops for outdoor workers. We continued to promote the "Help Farmers with Love" project, and the "Stay True to the Mission and 100 Stores in 10 Cities Support Xinjiang"(不忘初心 十城百店援疆工程) program was honored as the "Red Practice of Enterprise • Model of Social Value and Spirit of the Times"(企業紅色實踐•社會價值共創—時代精神案例獎) in the Fourth αi Value Creation event.

Our efforts in the construction of fresh produce supply chain and omni-channel delivery-to-home ecosystem in the past two years began to deliver results. Entering the year of 2020, people are faced with an unexpected COVID-19 outbreak which has caused disorders in their lives. Our 26,000 front-line employees nationwide remained committed to their duties and devoted every effort to guarantee the supply when the whole country is fighting against the outbreak. Offering 24-hour services and fulfilling the social responsibility of "Fighting against the Outbreak, Ensuring People's Life and Guaranteeing Supply", we are rewarded by consumers' greater confidence in Lianhua's fresh produce supply and delivery-to-home services. We are proud of our performance of online-offline and omni-channel retail in the battle against the outbreak.

The year of 2020 will undoubtedly be a challenging year. The outbreak will add more downward pressure to China's economy, which will be faced with a more complicated and severe situation, and the market competition will become fiercer. In the retail industry, the general market trends of intelligent new retail and digital new retail have emerged. While the industry is enduring greater pressure in terms of consumer demand upgrading, rapid iteration of technology development and update, structural adjustment, transformation and upgrading, horizontal competition and costs increase, enterprises in the retail industry will embrace greater development potential and more opportunities.

"Reform, Innovation, Perseverance, Growth" will be the key words of the Group in 2020. We will focus on the refreshed brand positioning and hold firmly to the business strategy of "basing on the Yangtze River Delta, expanding to the whole country, integrating the supply chain effectively to offer a full range of high-quality products, and becoming an omni-channel lifestyle retailer with local spirit"（立足長三角，發展全中國，通過高效整合供應鏈，提供全品類優質商品，是具有當地精神的全渠道生活零售商）. Guided by the brand vision of "To offer better products, better experiences, and better living every day to build the brand image of Lianhua", we will actively promote the store transformation and upgrading, improve the retail operation efficiency and create an all-scenario new retail pattern through the arrangement of "multiple segments, all scenarios, digitalization, new retail"（多業態、全場景、數字化、新零售）. While exploring new segments to cultivate new sources of growth, we will adhere to the brand connotation of "integrity and reliability, warm sharing, life inspiration, family happiness"（誠信可靠、人情分享、生活靈感、闔家歡享）and do our utmost to win greater recognition and confidence from consumers.

In 2020, we will continuously promote the organizational reform, comprehensively advance the market-oriented recruitment procedure, deepen the contract mechanism reform, enhance the organizational productivity, motivate the team, further strengthen the fresh produce operation and improve core abilities including product category planning, delivery-to-home operation in whole region and segment innovation. Centering on the five key major tasks and the double driving system, we will accelerate the construction of supply chain, continuously promote the transformation and upgrading of hypermarkets and the sustainable development of supermarkets, launch the store digitalization project and improve our online-offline integrated operation capacity based on our network advantage.

The winter of retail industry has not yet ended. However, we firmly believe that the sun will shine again after the storm and if we remain committed to our mission, work hard, cultivate carefully and unswervingly promote transformation and upgrading, the Group, our consumers, suppliers and Shareholders will embrace the warm spring in the near future.

Finally, on behalf of 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

31 March 2020
Shanghai, the PRC

INTEGRATE

Five Years Financial Highlights

Unit: RMB'000 For the year ended 31 December	**2019**	2018	2017	2016	2015
Revenue	**25,859,198**	25,389,082	25,225,388	26,666,069	27,222,699
Hypermarkets	**14,976,770**	14,838,130	15,263,388	16,291,815	16,612,065
– Percentage to turnover (%)	**57.92**	58.44	60.51	61.10	61.02
Supermarkets	**8,958,752**	8,571,730	8,001,927	8,323,560	8,623,925
– Percentage to turnover (%)	**34.64**	33.76	31.72	31.21	31.68
Convenience stores	**1,829,787**	1,896,690	1,874,299	1,982,848	1,968,663
– Percentage to turnover (%)	**7.08**	7.47	7.43	7.44	7.23
Other businesses	**93,889**	82,532	85,774	67,846	18,046
– Percentage to turnover (%)	**0.36**	0.33	0.34	0.25	0.07
Gross profit	**3,518,840**	3,587,399	3,757,839	3,937,505	4,021,565
Gross profit margin (%)	**13.61**	14.13	14.90	14.77	14.77
Consolidated income margin (%) (Note 1)	**24.97**	24.98	26.54	24.51	24.50
Operating (loss) profit (Note 1)	**(32,163)**	68,532	110,807	(220,251)	(148,831)
Operating (loss) profit margin (%) (Note 1)	**(0.12)**	0.27	0.44	(0.83)	(0.55)
(Loss) profit attribute to shareholders of the Company	**(378,301)**	(218,724)	(282,760)	(449,955)	(496,991)
Comprehensive (expenses) profit attributable to shareholders of the Company	**(378,301)**	(218,724)	(269,685)	(451,284)	(487,190)
Net (loss) profit margin (%) (Note 1)	**(1.46)**	(0.86)	(1.12)	(1.69)	(1.83)
(Losses) earnings per share (RMB)	**(0.34)**	(0.20)	(0.25)	(0.40)	(0.44)
Interim dividend per share (RMB) (Note 2)	**–**	–	–	–	–
Final dividend per share (RMB) (Note 2)	**–**	–	–	–	–

Unit: RMB'000 As at 31 December	**2019**	2018	2017	2016	2015
Net assets	**2,046,506**	2,459,926	2,488,833	2,753,879	3,199,086
Total assets	**23,552,460**	17,190,110	16,954,480	17,458,012	17,604,856
Total liabilities	**21,505,954**	14,730,184	14,465,647	14,704,133	14,405,770
Net cash flow	**(462,561)**	(916,407)	401,607	(1,271,465)	(697,905)
Average (loss) return on total assets (%)	**(1.86)**	(1.28)	(1.64)	(2.57)	(2.76)
Average (loss) return on net assets (%)	**(19.26)**	(10.06)	(12.15)	(16.73)	(15.73)
Gearing ratio (%) (Note 3)	**0.0**	0.00	0.01	0.01	0.01
Liquidity ratio (times)	**0.65**	0.78	0.73	0.79	0.70
Turnover of trade payables (days)	**60**	62	62	61	59
Turnover of inventories (days)	**38**	37	41	43	41

Notes:

1. Consolidated income margin (%) = (Gross profit + Other revenues + Other income and other gains (losses)/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 attribute to shareholders 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 2019 at the Board meeting held on 26 April 2020.

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

Management Discussion and Analysis

Operating Environment

In 2019, facing a more complicated environment with greater domestic and external risks and challenges, the Chinese government upheld the general working principle of pursuing progress while maintaining stability as the guideline of its work, adhered to the new development philosophy, remained devoted to the major task of supply-side structural reform, actively promoted the high-quality development and stabilized employment, finance, foreign trade, foreign and domestic investments, and expectations. As a result, the national economy maintained its overall stability, and the quality of development steadily improved. China's economy demonstrated great resilience and potential in the course of addressing downturn pressure and maintained the momentum of steady growth amid overall stability. The economic growth remained in a reasonable range. However, the economy still faced many challenges and risks and there were still considerable development uncertainties and great downturn pressure on China's economy.

Based on the data from the National Bureau of Statistics of the PRC, in 2019, China's gross domestic product (GDP) achieved a year-on-year growth of 6.1%, representing a decrease of 0.5 percentage point in growth rate over last year. Total retail sales of consumer goods nationwide had a nominal year-on-year growth of 8.0%, representing a decrease of 1.0 percentage point in growth rate over last year. In particular, total retail sales of consumer goods of units over a designated size had a year-on-year growth of 3.9%, representing a decrease of 1.8 percentage points in growth rate over last year. The contribution rate of consumption to economic growth was 57.8% in 2019, boosting the economy growth by 3.5 percentage points and becoming the major engine of economic growth for six consecutive years.

In 2019, as the Chinese government issued policies to promote a large scale of tax and fee reductions and local governments in various regions adjusted the minimum wage standards, the urban-rural income gap continued to narrow and people's sense of gain improved correspondingly with an increase in wage income. Generally speaking, the growth of people's income was in line with the growth of GDP. Based on the data from the National Bureau of Statistics of the PRC, the national disposable income per capita of 2019 grew by 5.8% in real terms, which was basically in line with the economic growth and almost the same as the growth of GDP per capita. The national consumption expenditure per capita grew by 5.5% in real terms, representing a decrease of 0.7 percentage point in growth rate over the last year. Due to the

rising food price caused by the price increase of pork and fruit, the consumer price index (CPI) grew by 2.9% year on year in 2019, and the growth expanded by 0.8 percentage point as compared with the same period of last year. As shown by the Research Findings on China Quality Consumption Experience 2019 (2019年中國質量消費體驗研究成果), which was released by Customer Committee of China Association for Quality (中國質量協會用戶委員會), the disposable income and expenditure of Chinese residents grew steadily, and consumers' purchasing power strengthened continuously, accompanied with a higher consumer confidence index and a robust consumer confidence of Chinese consumers. McKinsey's China Consumer Report 2020 indicated that China's consumer confidence index hit a ten-year high in early 2019.

Based on the data from the National Bureau of Statistics of the PRC, in 2019, the retail sales of supermarkets, department stores, specialty stores and exclusive shops in retail units above designated size increased by 6.5%, 1.4%, 3.2% and 1.5% respectively compared with the same period of last year, and the growth rates fell by 0.3 percentage point, 1.8 percentage points, 3.0 percentage points and 0.3 percentage point, respectively. In 2019, national online retail sales accounted for approximately 25.8% of the total retail sales of social consumer goods, representing a year-on-year increase of approximately 2.2 percentage points.

In 2019, Chinese retail enterprises, including the Group, accelerated the transformation and upgrading, continuously enhanced the quality and intelligence level of retail business and further improved the quality of product and service offered. In the meantime, they vigorously promoted the technology-driven development, deepened online and offline integration and re-constructed the consumption interaction scenario to better satisfy people's demands for consumption upgrade.

Financial Review

Revenue

During the period under review, the Group's revenue was approximately RMB25,859 million, representing a year-on-year increase of approximately RMB470 million, or approximately 1.9%. This was mainly attributable to the Group's newly-opened stores and the effects of reform and transformation of existing stores. The revenue of the supermarket segment increased by approximately RMB387 million, or approximately 4.5%, compared to that of last year.

Gross profit

During the period under review, the Group's gross profit was approximately RMB3,519 million, representing a year-on-year decrease of approximately RMB68 million, or approximately 1.9%. This was mainly due to the effects of the adjustments in product portfolio by 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 RMB71 million compared to that of last year. During the period under review, the Group increased sales by strengthening the integration of online and offline business and implementing various marketing activities. As a result, gross profit margin was approximately 13.61%, representing a decrease of approximately 0.52 percentage point from approximately 14.13% for the corresponding period of last year.

Other revenue

During the period under review, the Group's other revenue was approximately RMB2,285 million, representing a year-on-year increase of approximately RMB131 million, or approximately 6.1%. This was mainly due to the fact that the income from suppliers increased by approximately RMB101 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 and losses amounted to approximately RMB652 million, representing a year-on-year increase of approximately RMB50 million, or approximately 8.3%, primarily due to the effect of the disposal of self-owned land and buildings by Lianhua Huashang, a subsidiary of the Group during the period under review.

Distribution and selling expenses

During the period under review, the Group's distribution and selling expenses amounted to approximately RMB5,162 million, representing a year-on-year decrease of approximately RMB215 million, or approximately 4.0%. Distribution and selling expenses accounted for approximately 19.96% of the revenue, representing a year-on-year decrease of approximately 1.22 percentage points. 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 RMB133 million in the labour costs as well as a year-on-year decrease of approximately RMB200 million in the rental expenses and depreciation expenses of stores. After deducting the effects of initial application of HKFRS16 "Leases", the rental expenses and depreciation expenses of stores increased by approximately RMB12 million compared to the same period of last year.

Administrative expenses

During the period under review, the Group's administrative expenses amounted to approximately RMB880 million, representing a year-on-year increase of approximately RMB66 million, or approximately 8.1%, and accounting for approximately 3.40% of the revenue, representing a year-on-year increase of approximately 0.19 percentage point. This was mainly due to a year-on-year increase of approximately RMB62 million in labour costs as a result of the Group's adjustment to management structure as well as the increased bonus of certain segments for completion of performance targets.

Other expenses

During the period under review, the Group's other expenses amounted to approximately RMB139 million, representing a year-on-year increase of approximately RMB57 million, or approximately 69.4%, which mainly due to the effect of initial application of HKFRS 16 "Lease" and provision of RMB122 million in impairment on right-of-use assets.

Share of profits of associates

During the period under review, the Group's share of losses of associates amounted to approximately RMB14 million, representing a year-on-year decrease of approximately RMB56 million in profits, or approximately 132.8%, including a year-on-year decrease of approximately RMB32 million in the return on investment of Shanghai Carhua Supermarket Co.,Ltd.(上海聯家超市有限公司)("Shanghai Carhua"). After deducting the effects of initial application of HKFRS 16 "Lease", the Group's return on investment of Shanghai Carhua decreased by approximately RMB12 million compared to the same period of last year.

The Company holds 20% equity interest of Tianjin Yishang Friendship Co., Ltd.(天津一商友誼股份有限公司)("Yishang Friendship"). Tianjin Yishang Group Co., Ltd., the holding company of Yishang friendship, has completed the reform of the mixed ownership system by the end of 2019, and relevant major issues involving Yishang Friendship have not yet fulfilled the approval procedures of its internal shareholders meetings. The Group will continue to follow up. It is expected that the mixed reform plan will have an impact on the investment rights of the Company in Yishang Friendship. For details of the relevant matter of Yishang Friendship, please refer to note 21 to the consolidated financial statements on page 193 of the annual report for details.

Profit before taxation

During the period under review, the Group's loss before taxation amounted to approximately RMB46 million, representing a year-on-year decrease in profit of approximately RMB157 million, or approximately 141.5%. After deducting the effects of the initial application of HKFRS 16 "Leases", profit before taxation amounted to approximately RMB192 million, representing an increase of approximately RMB81 million as compared to the same period of last year.

Income tax expense

During the period under review, the Group's income tax expense was approximately RMB196 million, representing a year-on-year increase of approximately RMB8 million, or approximately 4.1%. After deducting the effects of initial application of HKFRS 16 "Lease", the Group's income tax expense increased by approximately RMB3 million compared to the same 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 shareholders of the Company amounted to approximately RMB378 million, representing a year-on-year increase of approximately RMB159 million in losses, or approximately 73.0%. After deducting the effects of initial application of HKFRS 16 "Leases", the loss attributable to shareholders of the Company amounted to approximately RMB152 million, representing a year-on-year decrease of approximately RMB67 million in losses. During the period under review, the net loss margin was approximately 1.46%, representing a year-on-year increase of 0.60 percentage point. Based on the 1,119.6 million shares issued by the Group, the basic loss per share were approximately RMB0.34.

Liquidity and financial resources

During the period under review, the net cash out flow of the Group was approximately RMB462,561 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 2019, cash and various balance at bank amounted to approximately RMB6,134,839 thousand.

For the year ended 31 December 2019, the accounts payable turnover period of the Group was 60 days and the inventory turnover period was approximately 38 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 31 December 2019, there were no arbitrage financial instruments in issue by the Group.

Growth of each retail business

Hypermarkets

During the period under review, for the hypermarkets segment, the Group focused on the determination and iteration of the segment 3.0 model, creating customer experience with diversified market and catering scenarios, strengthening operations and accelerating the brand refreshment. During the period under review, the hypermarket segment of the Group recorded a revenue of approximately RMB14,976,770 thousand, accounting for approximately 57.9% of the Group's revenue, representing an increase of approximately 0.9% compared to the same period of last year. In particular, same store sales had a year-on-year decrease of approximately 0.3%. During the period under review, the hypermarket segment recorded a gross profit of approximately RMB1,988,039 thousand, representing a decrease of approximately RMB71,085 thousand compared to the same period of last year. The consolidated income was approximately RMB3,959,814 thousand, representing an increase of approximately RMB105,782 thousand compared to the same period of last year. The distribution and selling expenses and administrative expenses were approximately RMB3,337,468 thousand representing a decrease of approximately RMB241,456 thousand compared to the same period of last year. Depreciation expenses and rental expenses of stores recorded a year-on-year decrease of approximately RMB260,596 thousand and finance costs recorded a year-on-year increase of approximately RMB240,521 thousand mainly due to the effects of initial application of HKFRS16 "Leases". The segment operating profit was approximately RMB372,759 thousand, representing a year-on-year increase in profit of approximately RMB167,969 thousand. Operating profit margin increased by 1.11 percentage points compared to the same period of last year to approximately 2.49%. After deducting the effects of initial application of HKFRS 16 "Leases", the segment operating profit was approximately RMB386,066 thousand and the operating profit margin was 2.58%.

	As at 31 December	
	2019	2018
Gross Profit Margin (%)	**13.27**	13.88
Consolidated Income Margin (%)	**26.44**	25.97
Operating Profit Margin (%)	**2.49**	1.38

Supermarkets

During the period under review, the Group carried out comprehensive transformation and upgrades on existing supermarkets and actively adjusted its product portfolio. 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 RMB8,958,752 thousand, accounting for approximately 34.6% of the Group's revenue, representing a year-on-year increase of approximately RMB387,022 thousand, or approximately 4.5%. In particular, same store sales had a year-on-year increase of approximately 1.8%. During the period under review, the supermarket segment recorded a gross profit of approximately RMB1,209,270 thousand. The gross profit margin decreased by 0.43 percentage point compared to that of last year to 13.50%. The consolidated income was approximately RMB1,946,554 thousand, representing a year-on-year increase of approximately RMB77,801 thousand. The consolidated income margin decreased by 0.07 percentage point compared to that of last year to 21.73%. The segment operating loss was approximately RMB36,963 thousand, representing a year-on-year decrease of approximately RMB133,690 thousand in profits. Operating profit margin decreased by 1.54 percentage points to approximately –0.41%. After deducting the effects of initial application of HKFRS 16 "Leases", the segment operating profit was approximately RMB45,524 thousand and the operating profit margin was 0.51%.

	As at 31 December	
	2019	2018
Gross Profit Margin (%)	**13.50**	13.93
Consolidated Income Margin (%)	**21.73**	21.80
Operating Profit Margin (%)	**–0.41**	1.13

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 functions 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 RMB1,829,787 thousand, accounting for approximately 7.1% of the Group's revenue, representing a year-on-year decrease of approximately 3.5%. In particular, same store sales decreased by approximately 1.4% compared to that of last year. The convenience store segment recorded a gross profit of approximately RMB305,550 thousand. The gross profit margin decreased by 0.19 percentage point compared to that of last year to approximately 16.70%. The consolidated income was approximately RMB403,805 thousand. The consolidated income margin decreased by 0.26 percentage point compared to that of last year to approximately 22.07%. The distribution costs and administrative expenses amounted to approximately RMB558,577 thousand, representing a year-on-year decrease of approximately RMB38,232 thousand. During the period under review, the convenience store segment incurred an operating loss of approximately RMB282,420 thousand with a year-on-year increase in losses of approximately RMB104,947 thousand. The operating profit margin decreased by 6.07 percentage points to approximately –15.43%. After deducting the effects of initial application of HKFRS 16 "Leases", the segment operating loss was approximately RMB160,378 thousand.

	As at 31 December	
	2019	2018
Gross Profit Margin (%)	**16.70**	16.89
Consolidated Income Margin (%)	**22.07**	22.33
Operating Profit Margin (%)	**–15.43**	–9.36

Capital Structure

As at 31 December 2019, 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 equity attributable to owners of the Group decreased from approximately RMB2,156,997 thousand to approximately RMB1,771,953 thousand, mainly due to the loss in the period of approximately RMB378,301 thousand and the decrease in opening balance by approximately RMB6,743 thousand adjusted for the initial application of HKFRS 16 "Leases".

Details of the Group's Pledged Assets

As at 31 December 2019, 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 2019, 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 2019, the Group did not have any material contingent liabilities.

Development of Sales Network: Determination and Expansion of the Segments and End Model

During the period under review, the Group enhanced its presence in the Yangtze River Delta by focusing on core regions and core segments and steadily advanced the opening and renewal of outlets. The Group opened a total of 316 new stores, including 106 new directly-operated stores and 210 new franchised stores. Among these new stores, 211 stores were located in the Yangtze River Delta and accounted for 66.8%. On the other hand, the Group adapted to changes in market environment, prudently reviewed the stores and improved the overall quality of the physical stores. As a result, 335 stores were closed, including 139 directly-operated stores and 196 franchised stores.

Region	Segment	Newly opened stores during the period under review		Closed stores during the period under review	
		Count	Operating Areas *(m^2)*	Count	Operating Areas *(m^2)*
Greater East China	Hypermarkets	7	30,711.00	7	52,823.00
	Supermarkets	202	82,764.10	118	46,638.33
	Convenience Stores	50	3,245.02	135	7,933.30
North China	Convenience Stores	3	177.59	18	929.12
Northeast China	Convenience Stores	6	256.50	35	1,749.89
Central China	Supermarkets	12	22,950.00	3	9,000.00
South China	Hypermarkets	–	–	1	9,628.00
	Supermarkets	34	18,925.00	18	8,888.00
Southwest China	Supermarkets	2	3,920.00	–	–
Total		316	162,949.21	335	137,589.64

Note: Data as at 31 December 2019.

During the period under review, seven new hypermarkets were opened, with six located in Zhejiang Province and one located in Anhui Province. The number of stores recorded a net decrease of one. The hypermarket segment focused on consolidation and improvement, combined with the Group's initiatives of brand refreshment. The Century Mart 3.0 PLUS model was piloted in Qingpu Store, Shanghai. The "light catering + department store + lifestyle services + leisure, fitness and entertainment + preschool education" model has been explored. Upon the transformation, the proportion of sales to members improved, and the number of younger members gradually expanded. The hypermarket 3.0 Whale-Choice Future Store（鯨選未來店）model was piloted in four stores including the West Lake Cultural Plaza Store in Zhejiang Province, featuring retail + scenario/culture/entertainment/technology and integrating products into the environment through attraction-based retails. The hypermarket segment also built online flagship stores to operate specifically and improved quality of delivery-to-home services by offering a superior experience of highly efficient but cost-effective online services. Based on the localization of members, the hypermarket 2.0 model promoted the "Cozy Home and Selected Lifestyle Exhibit"（「愛家淘生活」）concept and developed the community business center of open lifestyle proposals, which was piloted by the first store in Yinyueli-Hangzhou Canal Shopping Plaza（印悦裡－杭州運河購物廣場首店）in Zhejiang Province.

During the period under review, supermarket segment, the core development segment of the Group, continued to promote sales network expansion, store transformation and productivity improvement. A total of 250 new supermarkets were opened, including 88 directly-operated stores and 162 franchised stores. 139 supermarkets were closed down, including 25 directly-operated stores and 114 franchised stores. The number of stores recorded a net increase of 111. The sales network of the supermarket segment recorded positive net increase at a rapid speed in two consecutive years with a high level of lease renewal rate. During the period under review, the directly-operated business under the supermarket segment focused on transformation and upgrading by following consumption trends and centering on the determination of three models, namely community fresh produce stores（社區生鮮超市）, whole food supermarkets（料理超市）and selected stores（精品超市）. Based on the determined store positioning and the selected transformation direction, the Group focused on the transformation of community fresh produce store by presenting the brand refreshment in all aspects including in-store signboards, interior decoration and product display, and optimized the product categories for improvement and positioning. While strengthening efforts to attract customers by fresh produce and enlarging the display area of fresh produce, the Group focused on the dynamic distribution rate of room-temperature product and carefully designed the customer movement and the interior layout. By continuous improvement of model store and replication and promotion of successful experience, the Group recorded improvement in both customer attraction and revenue generation. Since 2018, transformation of about 100 stores have been completed, and sales revenue realized double-digit growth for two consecutive years. Meanwhile, the Group actively explored the whole food supermarket model, deepened the catering-supermarket coordination, developed private-label brands and enhanced cooperation with existing suppliers. At the end of 2019, the Group opened the first whole food supermarket, "Joy & Safety Food Market" (「吾安食集」) in Shanghai. Based on the completion of model planning, the Group also planned to build new-type selected supermarkets in community business that targeted at mid–to-high-end communities. For the franchise operation under the supermarket segment, the Group vigorously reshaped the franchise system, actively developed close-relationship franchised models and advanced the pattern setting of new franchise system. Adopting the successful transformation experience of directly-operated stores and the standards of directly-operated "five-star stores" to improve the operation level of franchised stores, the franchised stores provided customers with the same level of services as those offered in directly-operated stores, unified information system and got access to store sales data. In the meantime, the segment made new progress in mechanism innovation by preparing for establishment of a trading company that particularly served franchisees, reshaped the franchisee supply chain, improved the proportion of franchisee purchases, accelerated the development of new franchise system and promoted the win-win cooperation with franchisees.

During the period under review, 59 new convenience stores were opened, including 11 directly-operated stores and 48 franchised stores. 188 stores were closed down. The number of stores recorded a net decrease of 129. The convenience store segment continued to optimize its product portfolio, enrich its product categories and expand the sales proportion of fresh produce, imported goods and private-label products, while paying attention to consumers' experience, creating new consumption scenarios for young consumers, enhancing catering models and providing more service functions. The current objective of the Group's convenience store segment is to reorganize and transform stores and to reduce losses.

During the period under review, the Group actively expanded the sales of delivery-to-home business. The omni-channel business experienced orderly and sound development. The rapid development of delivery-to-home business was contributed to the sales network advantage and improvement in the frontline operation capability, coupled with synchronized offline promotion efforts and marketing resource consolidation. The calculation of product power indicator on a quarterly basis and the optimization of product pool was based on the data-driven and consumer-oriented approach. The Group adopted more social elements and comprehensively utilized new media resources to expand customer base and enhanced its operation. The Group effectively controlled the order-picking time and the proportion of wrong and missed delivery, therefore witnessing a significant improvement in delivery capability and a greater contribution from delivery-to-home services and sales to members.

As at 31 December 2019, the Group had 3,352 stores in total, representing a net decrease of 19 stores compared with the end of 2018, which was primarily attributable to the adjustment in convenience store segment. Approximately 82.5% of the Group's store were located in East China.

	Hypermarkets	Supermarkets	Convenience Store	Total
Direction operation	141	675	662	1,478
Franchise operation	–	1,343	531	1,874
Total	141	2,018	1,193	3,352

Note: Data as at 31 December 2019.

Brand Revamp

During the period under review, guided by its brand strategies, the Group built an inside-out and seamless brand experience based on brand design. Committed to the corporate vision of "making our customers become more loyal to us" (「讓消費者更喜愛我們」), the Group adopted a top-down approach to build the Lianhua brand model that included three major segments, i.e. corporate culture, business depiction and major brands. With the brand values of "customer first, pursuing excellence, leading by innovation, upholding integrity, devoting to retail industry" (「顧客第一、追求卓越、創新引領、堅持誠信、執著零售」), the Group relentlessly strove for the corporate mission of "To offer better products, better experiences, and better living every day to build the brand image of Lianhua".

During the period under review, the Group adhered to the implementation principle that brand strategies should support business strategies and propelled two major sections, namely the brand strategy development and the brand design. By promoting brand development, devising brand slogans based on brand vision, mission, positioning, connotation and values, designing the brand visual presentation and enhancing brand management and promotion efforts, the Group delivered the brand connotation of "integrity and reliability, warm sharing, life inspiration, family happiness" (「誠信可靠、人情分享、生活靈感、闔家歡享」) through the value and benefit creation for different targeted customer groups, and built a trustworthy and deep relationship between the Lianhua brand and targeted customer groups. While strengthening the existing customer base, the Group focused on developing middle-to-high income family customers, attracted more members from targeted customer groups, and made great progress in expanding the younger consumer base. The Group consolidated the nationwide marketing resources through brand refreshment, improved the nationwide promotion planning, strengthened the combination of store display and categories/products, improved the product power indicator of marketing and expanded external brand promotion and therefore boosted promotion effectiveness and effects.

During the period under review, the Group reshaped Lianhua membership system and improved sales to members. It strengthened cross-industry cooperation and attracted more customers through resource exchange. With the third-party payment model, it launched nationwide Lianhua Member Promotion Days. Meanwhile, the Group sought cooperation in digitalized customer attraction. Leveraging on activities launched in WeChat and Alipay, the two major payment platforms, it advanced the cooperation with third-party digital platforms, developed new digitalized cross-industry customer attraction platforms, and built internal support systems, segment financial accounting procedures and omni-channel allocation procedures. Through such moves, the Group improved member experience and therefore boosted membership growth and expansion of sales to members.

Product Portfolio Planning and Supply Chain Construction

During the period under review, the Group actively promoted the construction of fresh produce bases through various measures and improved the proportion of fresh produce. It vigorously promoted joint procurement of fresh produce, constructed the nationwide joint procurement information communication platform, completed a clear catalog of superior bases in engaged regions for product selection, and established dedicated procurement teams with clear responsibilities to promote the procurement of vegetables and fruits categories and to explore aquatic products, meat and eggs as well as dried foods in the near future. Meanwhile, the Group enhanced the construction of fresh produce in Zhejiang region through development and construction of high-quality bases, great-value order execution and direct procurement, "Chief Commander Project" for fresh produce, targeted marketing and "Amoeba" assessment mechanism.

During the period under review, the Group established strategic synergy with partners, further adjusted and improved the scale of nationwide joint procurement from suppliers under the Joint Business Plan (JBP), improved the trading terms and thereby energized the development of all segment in the whole country through supply chain. While enhancing and consolidating the cooperative relationship with suppliers, the Group established the nationwide working mechanism for strategic suppliers. The Group and the suppliers enhanced the effectiveness of communication and exchanges, improved the "Manufacturer Week" promotion activities focusing on customers and offered more attractive products and innovative services. Through the synergy of online and offline marketing activities, the Group accelerated cooperation and output in whole-area sales, and therefore stimulated consumption upgrade and results improvement.

During the period under review, the Group actively made concerted efforts to provide a full range of imported products with higher cost performance based on the active improvement in the data management and target tracking in respect of imported products, procuring products directly and relying on the output from products that were directly supplied by their brands. It prudently determined the positioning of imported products in each category, enhanced the capacity of direct procurement and brand direct supply, improved the proportion of direct procurement, joint procurement and agency procurement and strengthened the overall competitiveness, so that it could satisfy consumers' demands for consumption upgrade.

Private-label Brands

During the period under review, the Group proactively promoted the construction of its private-label brands and focused on setting their development plans and positioning. Through reviewing existing private-label brands and strengthening their promotion plans, the Group built a strategic visualization system for key brands and increased their sales amount and proportion. The Group settled the brand positioning and planning and established a brand positioning which is closely connected to consumers and highly active in the minds of consumers. The Group built a private-label brand hierarchy comprising "Lianhua Quality"(聯華質造) and "Lianhua Excellence"(優系列) based on GBB (Good, Better, Best) category to satisfy consumption demand of different levels of consumption needs and expand its target customers groups.

In terms of building the supply chain for its private-label branded products, the Group focused on major products for people's livelihood and put more efforts in developing high-margin, high-growth and high-potential categories. During the period under review, the Group successfully developed more than 200 new products and strengthened supplemental categories including snacks, dried food, daily necessities, textile, and gift boxes for festivals and holidays, etc. Through reasonable planning, the Group introduced differentiated quality categories and added new areas for high-quality products in hypermarket segments. The Group met market demands by strengthening the direct procurement at source and of quality products.

The Group has deepened the coordination of various segments and integration of regional resources for the development of private-label brands for two consecutive years. It promoted resources sharing for products from different regions, formulated intensified negotiation mode for condensed product resources, prepared management manual for private-label brands, and standardized the process for management in multiple regions, to maintain the sustainable development in regional operation. Meanwhile, the Group's marketing of private-label brands became more diversified by creating scenario-based layouts, emphasizing brand quality and sharing stories of brand origins, to enhance shopping experience of and recognition from the consumers of the private-label brands. The private-label brands enjoyed healthy growth and expansion of sales proportion for two consecutive years, which supported the improvement in the comprehensive income of the Group and consolidated the differentiated development of products under Lianhua brand.

Excellent Implementation to Improve Operational Capability

During the period under review, the Group made efforts to promote the implementation of operational standards and sample stores system. Through on-site training and promotion of exemplary stores and sample stores, the Group developed a customer satisfaction-oriented service enhancement plan and established an integrated management and service system. The Group proactively improved the in-store services by paying attention to customers' experience with a combination of its standard service, to build high-standard and high-quality five-star stores, to enhance brand reputation, and to establish an image of quality retail service. The Group strengthened standardization of national operating standards and deepened the promotion of operating standards. Upholding the corporate vision of "making our customers become more loyal to us", the Group has designed, established and implemented upgraded operation manual, and continuously refined the manual during implementation to finalize and promote it.

During the period under review, the Group continued to promote the partnership projects and carried out pilot projects in stores. The Group guided employees to learn operation skills and techniques actively and encouraged them to involve in the management of stores through experience sharing and cooperation. As a result, the operating capability and service of stores were strengthened with improved KPI. Starting from this store partnership system, the Group transformed from supervision to empowerment in terms of organization mode, and encouraged staff to participate in partnership project through standardizing training during the period under review. Through sharing experience and giving feedbacks, the Group explored room of improvement with follow-up implementation, optimized operating process, leveraged the flexibility of operation, and enhanced the capability of organization.

During the period under review, the Group kept improving its logistic efficiency and strengthening its service support system. By establishing an effective communication mechanism for operation, procurement and delivery, the Group tracked core products regularly, improved its inventory management, made reasonable procurement, reviewed products and continuously promoted the progress in systematic management of inventory. Therefore, the Group managed to further leverage logistics to support stores, improve the fulfillment of orders from the stores, and increase the turnover rate of inventory.

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 tax expenditures and management costs. The labour cost was strictly controlled through budget tracking, central management and allocation and scientific allocation by region and stores. The Group proactively enhanced its negotiation efforts regarding rent deduction, and established a special team for costs reduction to reduce procurement cost by collective bidding for asset purchase.

During the period under review, the Group actively implemented safe production, introduced innovative working system, and optimized its system and procedure. The Group established a management network and consolidated its safety management system by enhancing the management of commodity access, quality supervision and strengthening food safety control. The Group built sample stores and further developed "Trustworthy Supermarkets"（守信超市）.

Incentive Mechanism, Corporate Culture and Digital Drive

During the period under review, the Group promoted the contract-based performance targets of core positions, established the incentive model of sharing incremental income with all staff, adopted pilot store partnership model, and developed an incentive mechanism in favor of sales and front-line operation. Meanwhile, the Group continued to deepen contractual mechanism reform and made innovations on incentive mechanism through boosting contract-based performance bonuses for the management of companies in respective segments. The Group has selected its annual star teams and valued employees, carried out brand co-building in line with its brand refreshment program, established communication channels to optimize organization spirit, improved the salaries and medical benefits of front-line staff, and carried out caring activities for basic level employees. It focused on core business and empowered the development of new business through enhancing and revitalizing basic level employees. A digital new retail training system has been developed to support the implementation of new business model. The Group has cultivated its study-oriented internal trainers to form a multi-level trainer team, with a view to cultivating a consumer-oriented corporate culture.

During the period under review, the Group proactively optimized its organization. It continued to optimize organizational functions to improve its operating efficiency, made innovations in setting up new departments and strengthened core departments to build a flat organizational structure and enhance the organizational strength of core departments. In line with organization development, the Group put more efforts on core talent introduction and back-up management selection in youth to strengthen core operation team. It carried out "the Eagle Growth Program"(雛鷹成長計劃) to boost the rapid growth of its talent team. Cadre management were strictly implemented with enhanced cadre team construction. The Group continuously enhanced the construction of innovative talent and back-up talent pool.

During the period under review, the Group emphasized digital driven work. It completed the preliminary survey on the digitalized store system of supermarket segment and boosted the supply chain planning under new retail systems. The Group also promoted the optimization and upgrade of the big data platform of Lianhua, completed the comprehensive promotion of franchise contract platform and the function enhancement and development of new franchise model system. The Group also put efforts on the establishment of information security system.

Employment, Training and Development

As at 31 December 2019, the Group had a total of 35,238 employees, representing a decrease of 2,341 employees during the period under review. Total employment expenses amounted to approximately RMB2,742,878 thousand.

During the period under review, the Group continued to optimize organizational framework and promote the flattening of the organization structure, according to the need of business development. The Group further reduced the level of management in its headquarter and improved the efficiency of information communication and response. The Group attempted to accelerate the implementation of key business and incubation of innovation and transformation by adopting the project-based system. It has also accelerated the decision, maturity and implementation of new business by encouraging internal entrepreneur team to innovate, leveraging the advantage of flexible organizations. The introduction of core talent and professionals, as well as the internal training for leaders and management trainees have been enhanced continuously.

During the period under review, the Group promoted the contract-based performance targets of core positions, continued to establish the incentive model of sharing incremental income with all staff, and focused on advancing the front-line store partnership mechanism. The store partnership mechanism advocated the sense of belonging among all staff as operators, which can motivate them and increase their incomes, thus establishing an incentive model where the Company and its staff can jointly create values and share benefits. The Company implemented the store partnership mechanism step by step following successful pilots throughout the year. Meanwhile, efforts were put on further improving key business processes and enhancing the service awareness of the headquarters from the perspective of resolving the problems in front-line work.

During the period under review, the training of the Group focused on its core business, empowering the development of new business and supported the implementation of new business model. Several rounds of courses relating to operation empowerment and procurement power were introduced throughout the year. The Group built a digitalised training system under new retail to encourage fragmented learning among employees, and to achieve more effective inspection and better learning result. The Group insisted on carrying out "the Eagle Growth Program" (雛鷹成長計劃), through which forthcoming college graduates were selectively recruited and trained with various cultivating measures such as "reverse classroom", competitions, post rotation, etc., to promote the growth of management trainee of Lianhua and the integration of corporate spirit. The Group also insisted on the development of internal training teams, constructing multi-level internal training teams of in Lianhua and accelerating the development and provision of courses relating to core business and front-line basic skills.

Principal Risks

The Group's business, financial condition, operating results and prospects may be subject to risks and uncertainties related 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 as followed:

Risks related to the development of network

As for development of network in new residential areas, the Group expects to experience a relatively long period for the market incubation, which is subject to potential risks in new business expansion and recording operating profit from the stores at initial stages. Besides, the overall impacts, from the changing market conditions, diversified channels and competition as well as increasing cost in operating physical stores, are increasingly material, which subjects the Group to the risk of having difficulties in selecting new sites and to delayed development of network.

For the existing stores, the Group encountered increasing rental cost for its stores located alongside the street, and the rising proportion of rental cost in total costs leads to the risk of further compression of profit margin. Besides, the risk of failure to renew the relevant tenancy agreements when due is rising due to a series of factors, such as competition, rental price and government policies, etc.

Mitigating measures

By adoption of refined business development strategy, the Group mainly focuses on the regions where it enjoys advantages or with market gap, targeting to benefit the overall business from particular well-performing stores. Meanwhile, prudence is exercised by the Group in addition to the combination of potential exploration in future development regions and preliminary communication on the supporting policies for development of new stores.

In respect of renewal of tenancy agreements for the existing stores, the Group would make relevant arrangement in advance and complete the renewal case by case for certain stores where the Group considers important or encounters difficulties in renewal, managing to accomplish the renewal targets though various channels and methods.

Risk related to the investment attraction

As online shopping becomes increasingly popular with consumers, a majority of our tenants (especially those engaged in restaurants and education) of physical stores may need smaller operation areas, which would lead to a decrease in occupancy rate and thus subject the Group to the challenges in rental collection. Besides, the continuous upgrade of "delivery-to-home" business results in continuous decrease of customer flow in physical stores. For part of tenants whose operation relies on customer flow shared with the stores, they are going to experience obvious decline in operating results, which would continuously increase the pressure in rental collection.

In addition, the space left for the Group to adjust business strategy for investment attraction is decreasing due to the adjustment and more strict requirements in relevant government policies, particularly in respect of firefighting and supervision of food and drug.

Mitigating measures

The Group will enhanced its efforts in market research, fasten the accumulation of effective tenant resources by proactively searching for tenants instead of waiting for them to join us. The Group will also pay more attention to monthly rental collection to timely identify any relevant issue and assist the stores to do the relevant works. Day-to-day communication with the department of engineering shall be strengthened. Especially at the preliminary preparation stage of the investment attraction plans involving large areas, intervene and promotion from the perspective of engineering technology shall be proactively coordinated to improve the efficiency of investment attraction.

Risk related to the logistic system and return of goods

The level of smart working for logistics service of the Group is relatively low, and the information system development may not satisfy the internal requirements. Improper management of authorization may lead to the failure of effectively control over review and approval procedure in relation to return of goods by information technology. In case that the application for return of goods is not reviewed and approved properly, the Group may experience random return of goods by stores with increasing returns recorded. Besides, an increase in return of goods may also increase the costs of coordination between the procurement departments and suppliers, and even affect the long-term cooperation with the suppliers since the goods returned and stocked as imperfections have to be returned to the suppliers. Also, random return of goods will increase the labor cost and logistic cost of central warehouses, which may affect the normal development and operation of the Company.

Mitigating measures

The Group will optimize the review and approval procedure in relation to return of goods by general categorization on types of return. It also considers uploading the list of goods returned into the review and approval system and labeling the type of return under the second level. Review and approval may be canceled for return of certain general types of products, and only part of return of special types and imperfections requires review and approval, so as to reduce the time spent in review and approval procedure and cut down the transportation costs and labor cost of logistics centers.

Risk related to employees

The rapid business expansion and transformation of business model of the Group result in new change in its demand for talents, and the sustainable development of the Group needs strong support from cultivation of a batch of backup talents reserve. At the current stage, the Group needs to make further efforts in talents reserve, especially in cultivation of talents in professional core posts. Imbalance exists in match between talents and remuneration, performance-related bonus and position value, which to a certain extent affects the enthusiasm of the employees. The control of employee related risks plays an important role in overall risk control.

Mitigating measures

The Group manages to build the corporate culture focused on consumers' needs through enhancing and revitalizing basic level employees. The Group promoted the contract-based performance targets of core positions, continued to establish the incentive model of sharing incremental income with all staff, and focused on advancing the front-line store partnership mechanism. The performance evaluation system has been gradually established oriented by operating performance with unified process management and target management. The Group continues to supplement the core business talents through external recruitment while selecting the youth backup elites. Meanwhile, its core operating team is getting consolidated through diversified means, such as concurrent serve in another position, work by rotation and incubation of innovative projects. The Group focuses on its core business and posts, promotes development of new business under the new retail concept, and propels training and development of the leading and backup talents.

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

2020 is the final year for China to build a well-off society in all respects as well as the final year of the 13th Five-Year plan. The basic trend of the Chinese economy maintaining steady growth with long-term sound development remains unchanged. Amid the complicated and volatile economic landscape at home and abroad, it is anticipated that the Chinese government will uphold the underlying principle of pursuing progress while maintaining stability, adhere to the new development philosophy, focus on the main task of supply-side structural reform and turn the advantages of reform and opening up into a powerful driving force. China will keep its economic growth within a reasonable range under "new normal" environment in 2020 with generally stable employment and price, continuous optimization of industrial structure and constant enhancement in the quality of economic growth.

In 2020, it is expected that household consumption will maintain a stable growth with a strong momentum in consumption upgrade, which will in turn speed up the upgrade in the industry. The consumption will continue to serve as the main driving force of the economic development, and will become a strong engine for China's overall stable economic growth in 2020.

In this regard, in 2020, the Group will adhere to its philosophy of "reform, innovation, persistence, growth", persistently pursue the goal of "determination and expansion of the segments and end model, product portfolio planning and supply chain construction, private-label brands, excellent implementation and brand revamp" for the year along with the incentive mechanism, organisational system, capital structure and the double driving system covering both corporate culture-driven and digital-driven approach. The Group will base on its brand mission of "To offer better products, better experiences, and better living every day to build the brand image of Lianhua" to strengthen its base in Yangtze River Delta and expand throughout the country. The Group provides full range of quality products through effective and integrated supply chain, thereby becoming an omni-channel lifestyle retailer with local spirit.

In 2020, the Group plans to open 226 new stores, including four hypermarkets.

In 2020, the Group will continue to promote the determination and expansion of the segments and end model. The hypermarket segment will focus on loss reduction and profit increase, enhance product operation efficiency, boost the product comprehensive income, facilitate store transformation and determination and continuously foster 3.0 PLUS model determination and 2.0 model upgrade. It will continue to determine marketing positioning and strengthen community-based service so as to increase the revenue. It will also refine duties of each position, formulate evaluation standards and reshape operational procedures of the hypermarket segment. The supermarket segment will concentrate on the determination, iteration and upgrade of the existing new store models as well as the development of new business segment. Community fresh produce supermarket will pay attention to the implementation of product category planning and the refinement and reproduction of light assets model. Whole food supermarket will further emphasize on the interconnection between dining experience and supermarket, develop private-label brands and empower the Company's existing supply chain and vice versa. Selected supermarket will focus on the mid-to-high end community, keep optimising product category planning and supply chain construction and create new form of community business. The convenience stores segment will put efforts in raising single store performance and conduct loss reduction. The Group will ensure sustainable growth of the sales of franchised stores through assuring the increase in the number of the franchised stores, promoting new franchised models, empowering franchisee supply chain and facilitating the enhancement in store operation. The Group will adopt a light asset model to expand its outlets and strictly control the investment payback period so as to realise sustainable expansion of the number of stores. Centering on the store layout of each segment, the Group will focus on promoting the integration of online and offline products, as well as marketing and sales integration and speed up omni-channel development. Taking the advantages of the stores located in the Yangtze River Delta region, the Group will raise the proportion of delivery-to-home sales and stimulate performance growth of the stores.

Regarding the product portfolio planning and supply chain construction in 2020, the Group will accentuate the enhancement in single product efficiency through solidification of the number of categories. Category allocation and planning will also be implemented in each type of store of respective segment so as to strengthen core products. In addition, the Group will also carry out smart promotion, increase the effectiveness of the promotion, thereby boosting the comprehensive income of each segment. The Group will continue to optimize fresh produce supply chain, establish fresh produce value chain, reinforce fresh produce marketing, significantly improve the construction of dining scenes, proactively expand delivery-to-home channels and facilitate sustainable development of product category. The Group will also implement category management and continuous enhancement in order to create a supply chain for full range of products. The framework on internal and external cooperation and communication of JBP strategic suppliers will be improved to employ a consumer-oriented cooperation strategy with suppliers. Through category enhancement, supply chain optimization, segment channels expansion and other measures, the Group will be able to create the image as a vendor of imported products with higher cost performance.

As to the development of private-label brand in 2020, the Group will persistently improve the quality and appearance design of its private-label brands, promote the launch of "Lianhua Quality" brand, deepen the development of the "Lianhua Excellence" series and further improve the penetration of the private-label brands in the core categories. The Group will strictly control the source of the products at bases, accelerate the development of private-label brand of fresh produce, create more single fresh produce product, formulate a nationwide private-label brand work group, trace the supply chain and enhance quality management control and procedural control. The Group will promote multi-segment synergies and regional resources integration, stimulate marketing and promotion, and continue to raise the proportion of the private-label brands. The Group will identify brand positioning, characteristics, visual presentation standards to construct private-label brand development framework and speed up the establishment of private-label brands strategic system of Lianhua.

Regarding the excellent execution in 2020, the Group will adopt a two-pronged approach, promoting the same store growth of each segment through the improvement in customer traffic and customer order. The Group will also conduct the second opening of stores, reinforce the marketing during the evening rush hour, and guide the dining table of consumers with an easy and convenient products portfolio so as to bolster sales in the evening rush hour. The Group will strengthen the operational execution, fresh produce operational and marketing capabilities and provide quality fresh produce in an all aspects. The Group will streamline standardized business operation procedures, reshape standardized business operation procedures based on online and offline sales development as well as strengthen the overall operational capabilities. The Group will also reinforce the execution of service standards, build an employee care system, improve employees' service skills internally and enhance value-added service of the business externally to establish an on-line and off-line integrated service system. The Group will continue to iterate and promote partnership model based on the operation performance. It will also bolster internal supply chain synergies, persistently stimulate logistics operational efficiency and operation benefits as well as boost the satisfaction level of stores.

In 2020, the Group will continuously stimulate brand revamp. Through insight and creation of different scenes, the Group will enhance the efforts on external communication, promote cross-sector cooperation, facilitate membership recruitment, increase the number of members and reinforce the connection with young consumer groups so as to improve the number of customers and build a younger consumer structure. The Group will continue to optimise the promotion levels and improve promotion efficiencies and results. The Group will continuously speed up the integration of consumer-oriented brand integrated marketing (S level marketing) across the country. The Group will also implement brand positioning, optimise brand management system, constantly raise consumers' awareness of the mission of "To offer better products, better experiences and better living every day to build the brand image of Lianhua".

In 2020, the Group will continue to conduct organisational reform, carry out market-oriented recruitment in all respects and undertake a fundamental reform of contract-based management. In addition, the Group will also improve organisational efficiency, motivate the team, further strengthen fresh produce operation, implement category planning, carry out delivery-to-home operation in the entire region and develop segment innovation and other core organisational capabilities. The Group will conduct orderly adjustment on remuneration system, continuously optimise incentive model and start to build the corporate culture of Lianhua consisting of organisational culture, system culture, behaviour culture and performance culture. Such corporate culture will be implemented throughout the process of organisational structure adjustment, system review and values discussion, etc.

In 2020, the Group will continue to accelerate the digitalized construction of stores, facilitate the enhancement in execution efficiency of store operation, consumer satisfaction level and products sales efficiency through digital empowerment. The Group will carry out quantitative analysis of promotion efficiency, develop product tools based on big data, provide guidance on scientific decisions of promotion, integrate tools into workflow and promote such approach as well as maximize the overall promotional effectiveness based on big data. The Group will integrate business supporting platform, optimize big data platform, strengthen information security and develop capabilities that support the Group's new retail digital management and operation.

Environmental Policy, and Performance and Compliance of Laws and Regulations

Details of the environmental policy and performance of the Group in 2019 are set out in the Environmental, Social and Governance Report on page 226 to page 272 of this 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 2020 to the date of the annual report, there was no non-financial event that may cause material effects on the results of the Company required to be disclosed.

COMMUNICATION

Profiles of Directors, Supervisors and Senior Management

Executive Directors

Mr. Xu Tao, aged 46, 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, 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 55, is a member of the Communist Party of China and holds a master's degree in EMBA from 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 Stock 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 51, graduated from the Department of Management Engineering of Shanghai Jiaotong University with a master's degree in Industry Management 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. Xu Hong, aged 46, graduated from the Department of Physics of Fudan University with a Bachelor of Science and is a member of the Chinese Institute of Certified Public Accountants (CICPA). He is now working at Alibaba Group as vice president of Finance. Before joining Alibaba Group, Mr. Xu Hong worked in PricewaterhouseCoopers (PwC) and became a partner of PwC in July 2007. Mr. Xu is also director of DSM Grup Danismanlik Iletisim ve Satis Ticaret Anonim Sirketi, C2 Capital Partners GP Limited and Shanghai Ego New Retail Network Technology Co., Ltd., non-independent director of Suning Holdings Group Co. Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 002024), non-executive director of Alibaba Health Information Technology Limited (a company listed on the Stock Exchange with stock code HK.0241) and Red Star Macalline Group Corporation Ltd.(a company listed on both the Shanghai Stock Exchange and the Stock Exchange with stock code 601828 and HK.1528 respectively), non-independent director of Meinian Onehealth Healthcare Holdings Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 002044) and non-executive director of Alibaba Pictures Group Limited (a company listed on the Stock Exchange with stock code HK.1060). Mr. Xu Hong was appointed as a non-executive Director on 28 August 2018.

Mr. Qian Jian-qiang, aged 58, is a postgraduate in Economic Management of Graduate School of Party School of the Central Committee of C.P.C. Mr. Qian has been the general manager, 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 Bailian Group, 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 57, is a senior accountant and holds a master's degree in accounting of 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 Group Co., Ltd(上海百聯集團有限公司), 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 68, 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 67, is a master of economics, professor and PhD tutor. From July 1985 to September 2000, Mr. Xia served as a teacher, the assistant principal and the vice president of Shanghai University of Finance and Economics. From September 2000 to August 2012, he served as the dean of Shanghai National Accounting Institute. Mr. Xia served as professor, PhD tutor and director of the academic committee of Shanghai National Accounting Institute since August 2012. Mr. Xia has also served as the vice president of China Industrial Economics Association, the consultant expert of Accounting Standards Committee of the Ministry of Finance, the vice president of Chinese Accounting Association, the vice president of China General Accounting Association, the president of Shanghai Accounting Association, the honorary professor of Chinese University of Hong Kong, adjunct professor of School of Management of Fudan University, and member of the expert committee of listed companies of the Shanghai Stock Exchange, and he enjoys government subsidies from the State Council. Mr. Xia has served as an independent director of Guotai Junan Co., Ltd. (國泰君安股份有限公司) (a company listed on the Shanghai Stock Exchange and the Stock Exchange, stock code: 601211, HK.2611) since May 2016. Mr. Xia has served as an independent director of Juneyao Airlines Co., Ltd. (上海吉祥航空股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 603885) since July 2017. Mr. Xia has been an external supervisor of Industrial Bank Co., Ltd. (興業銀行股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 601166) since May 2016. Mr. Xia has served as an independent director of Baoshan Iron and Steel Co., Ltd. (寶山鋼鐵股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600019) from April 2013 to September 2019. Mr. Xia was appointed as an independent non-executive Director in September 2004.

Mr. Lee Kwok Ming, Don, aged 62, 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.

Mr. Chen Wei, aged 58, 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 Chief Human Resource Officer (CHRO) at Vanke Enterprises Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000002). Mr. Chen Wei 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 Wei also worked for Coca Cola and Nike in marketing and general management earlier in his business career. Mr. Chen Wei 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 44. 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 as well as operation and management. Mr. Zhang Jun is currently vice president of Lazas Technology (Shanghai) Co., Ltd., responsible for the new catering business department (catering supply chain, merchant marketing agency operation and service market business). 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 PriceWaterhouseCoopers (PRC)(普華永道中天會計師事務所有限公司). From August 2005 to October 2006, Mr. Zhang Jun was a financial manager and 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: HK.3666, 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. From September 2018 to June 2019, Mr. Zhang Jun served as the vice president of Shanghai Yunxiang Supply Chain Management Co., Ltd., responsible for the catering supply chain business. 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 46, 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 55, in-service postgraduate degree, senior accountant and a member of democratic 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 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 chairman 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 55, graduated from the Party School of Central Committee of C.P.C. (中央黨校) with a 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 chairman of the supervisory committee of First Pharmaceutical and a supervisor of Shanghai Bailian since June 2017. Ms Tao has been appointed as a Supervisor since June 2014.

Mr. Shi Hao-gang, aged 61, 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, 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 Lianhua Supermarket Development. From March 2012 to March 2014, Mr. Shi has served as the general manager and deputy party secretary of Lianhua Supermarket Development. 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 and resigned on 11 December 2019.

Ms. Tang Hao, aged 49, is a member of the Communist Party of China, with a master's degree majoring in the world economy from 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 the 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 the 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 Chemical Development Co., Ltd., serving as the director of general office from December 2006 to February 2008, the assistant to general manager and director of general office from February 2008 to August 2009, the deputy general manager from August 2009 to May 2010, the deputy general manager, the deputy secretary of the Party branch and the secretary of Discipline Commission from June 2010 to April 2012, the secretary of the Party branch, the deputy general manager and the secretary of Discipline Commission from April 2012 to September 2014. From September 2014 to October 2017, she served as the member of the Party Committee 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 president of labour union of the Company, and secretary of the Party Committee of Shanghai Lianhua Quik Convenience Stores Co., Ltd. ("Lianhua Quik"). Since October 2019, Ms Tang has been appointed as the presiding deputy secretary of the Party Committee of the Company. Ms. Tang was appointed as a Supervisor on 11 December 2019.

Company Secretary

Ms. Hu Li-ping. aged 55, 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 on 22 December 2017.

Senior Management

Mr. Chong Xiao-bing, aged 55, graduated from Beijing Union University with a college degree majoring in Mechanical Design and Manufacturing. Mr. Chong started his career in 1985. Mr. Chong has been a technician of Far East Instrument Co., Ltd., deputy director of the Electric Instrument Research Office of China Coal Research Institute, and consultant of ICC Business Consulting Company. Mr. Chong has worked at Wumart Group since 1997, and has been the store manager, regional manager and development director, operation director, marketing director, deputy general manager of Beijing Wumei Supermarket Co., Ltd., vice president of Wumart Group, general manager of East China Region, etc. Mr. Chong has been working in Wumart Group for 22 years. He has been in charge of purchasing, operation, marketing, investment promotion, planning and other fields. He has rich experience in operation and management of retail chain enterprises. Mr. Chong has strong task management ability, self-confidence and is hardworking with strong execution ability, which can ensure the powerful advancement of target tasks. Mr. Chong was appointed as the executive deputy general manager of the Company in August 2019.

Mr. Liang Bao-long, aged 55, 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.

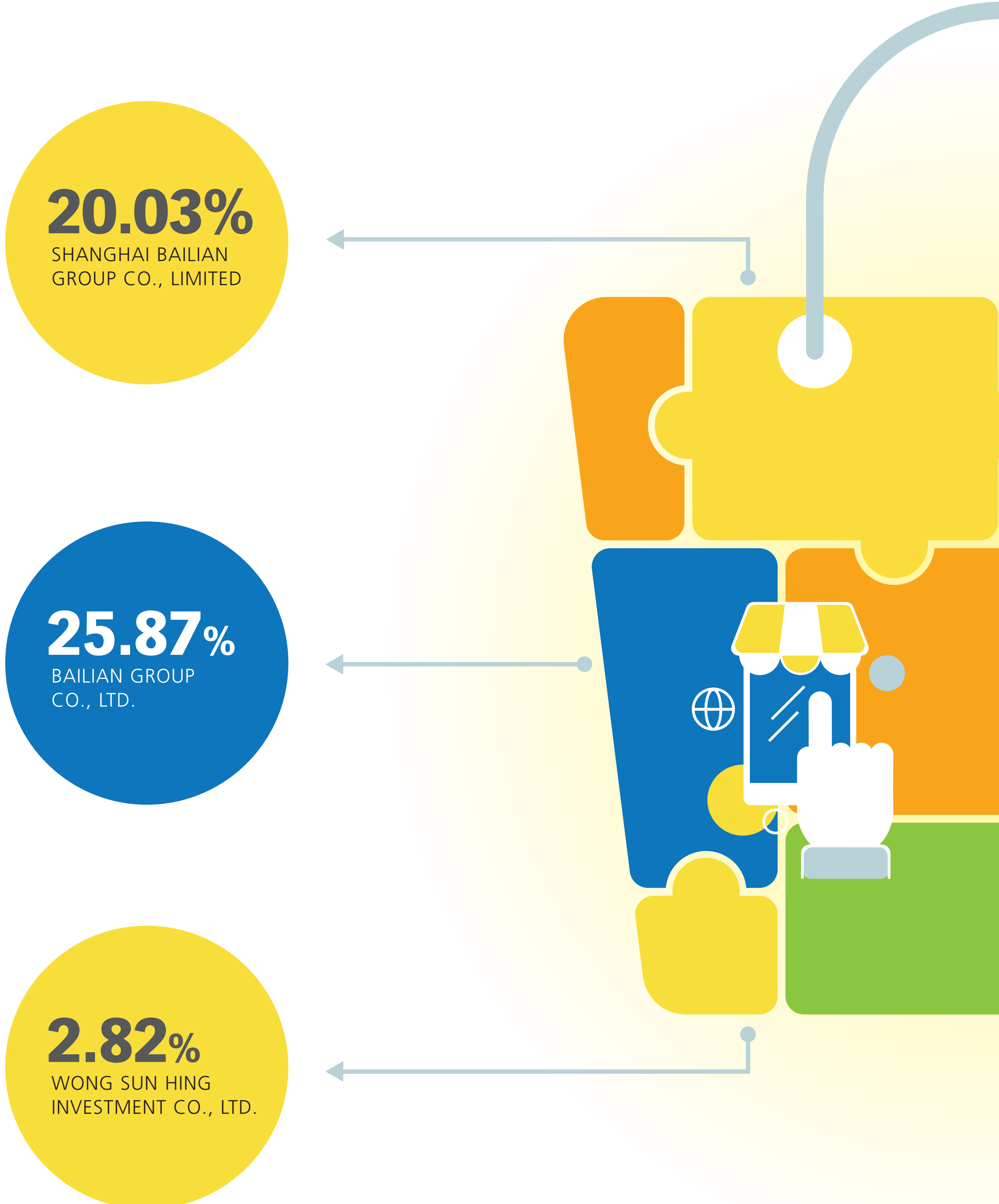
Ms. Zhang Hui-qin, aged 46, held a master's degree in Quality Management of the Hong Kong Polytechnic University. Since July 2015, she has been vice-chairman, Party secretary and general manager of Hangzhou Lianhua Huashang Group Co., Ltd. From August 1996 to June 2003, Ms. Zhang worked with Jiayou Supermarkets 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 41, 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 52, 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 and ceased to be deputy general manager of the Company in August 2019.

Mr. Dong Gang, aged 41, 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.

Shareholding Structure



33.28%
H SHARES

18.00%
ALIBABA (CHINA) TECHNOLOGY CO., LTD.

RESPONSE

Report of the Directors

The Board is pleased to present to the Shareholders the report of the Company for the year ended 31 December 2019.

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 21 and note 49 to the consolidated financial statements of the annual report.

Further discussion and analysis of these activities mentioned above, 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 section headed "Management Discussion and Analysis" as set out on pages 20 to 43 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:

	2019 percentage	2018 percentage
Purchases		
Largest supplier	**2.12**	2.19
Five largest suppliers	**7.06**	7.72
Sales		
Largest customer	**0.09**	0.09
Five largest customers	**0.38**	0.36

During the year ended 31 December 2019, to the best knowledge of the Directors, neither 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 share capital 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 226 to 272 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 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 131 of the annual report.

The financial condition of the Group as at 31 December 2019 is set out in the consolidated statement of financial position on pages 132 to 133 of the annual report.

The cash flow of the Group for the year ended 31 December 2019 is set out in the consolidated statement of cash flow on pages 136 to 137 of the annual report.

Dividend Distribution

The Company has adopted a policy on dividend payment in accordance with code provision E.1.5 of the Corporate Governance Code. The decision to pay dividends will depend on, among other things, the Company's financial results, current and future business operations, liquidity and capital requirements, financial position and other factors deemed relevant by the Board. The Company will regularly review the dividend policy.

The Board recommends not to distribute final dividend for the year ended 31 December 2019.

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 134 to 135 of the annual report.

Fixed Assets

Movements of fixed assets during the period under review are set out in note 15 to the consolidated financial statements of the annual report.

Charitable Donations

Charitable donations made by the Group during the financial year amounted to RMB476,014.

Bank Loans, Overdrafts and Other Borrowings

As at 31 December 2019, 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 members 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 2019:

Highest trading price per H share during the year	HK$1.91
Lowest trading price per H share during the year	HK$1.08
Total turnover volume of H shares during the year	230 million shares
Closing price per H share as at 31 December 2019	HK$1.34

Public Float

The Company confirms that the Company's public float during the period under review complied with the applicable requirements of the Listing Rules.

Share Capital

As at 31 December 2019, the classes and number of shares of the Company are as follows:

	Number of issued shares	
Class of 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 2019, details of Shareholders as recorded in the register of members 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 (the "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 the 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 (the "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 2019, other than Mr. Xia Da-wei (an independent non-executive Director) who held 8,694 ordinary shares of Shanghai Bailian (representing approximately 0.0005% of the total issued shares of 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 2019, 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
Taobao Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Taobao 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)	domestic shares	513,869,400	45.90%	68.79%	–	Beneficial owner/Interest of corporation controlled
Xu Zi-zuo	H shares	41,037,000(L)	3.67%	–	11.01%	Beneficial owner
Coronation Global Fund Managers (Ireland) Ltd	H shares	37,130,454(L)	3.32%	–	9.97%(L)	Investment manager
China Galaxy International Asset Management (Hong Kong) Co., Limited (Note 3)	H shares	34,647,000(L)	3.09%	–	9.30%(L)	Investment manager
China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP) (Note 3)	H shares	33,914,000(L)	3.03%	–	9.10%(L)	Interest of corporation controlled
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 2019, Bailian Group directly and indirectly holds approximately 52.86% of the shares in Shanghai Bailian. As at 31 December 2019, 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 2019, (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, 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"）; (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, a supervisor of Shanghai Bailian and the head of the supervisory committee of First Pharmaceutical.

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 50.66% of the shares in Alibaba (China) Technology Co., Ltd., Alibaba (China) Technology Co., Ltd. holds 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 interested in the shares held by or deemed to be interested by Alibaba (China) Technology Co., Ltd.

3. China Galaxy International Asset Management (Hong Kong) Co., Limited holds 100% of the shares in China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP). China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP) held 33,914,000 shares of the Company. Thus, China Galaxy International Asset Management (Hong Kong) Co., Limited directly and indirectly holds approximately 34,647,000 shares of the Company, or approximately 3.09% in proportion.

4. As the Company issued 8 additional shares to the Shareholders whose names appeared on the register of member 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 2019 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 2019.

Competing Interests

As at 31 December 2019, according to the Listing Rules, none of the Directors had any interest in any businesses which are considered to compete or are likely to compete, either directly or indirectly with the business of the Group.

Ultimate Holding Company

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

Pre-emptive Rights

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

Management Contracts

No contracts for the management and administration of the whole or any substantial part of any business of the Company existed or was entered into during the year ended 31 December 2019.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares of the Company for the year ended 31 December 2019.

Material Acquisitions and Disposals of Subsidiaries and Related Companies

The Group had no material acquisitions and disposals of subsidiaries and related 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. Xu Hong
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
Mr. Chen Wei
Mr. Zhang Jun (Note 1)
Mr. Zhao Xin-sheng (Note 2)

Supervisors

Mr. Yang A-guo *(Chairman)*
Ms. Tao Qing
Mr. Shi Hao-gang (Note 3)
Ms. Tang Hao (Note 4)

Notes:

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

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

3 Mr. Shi Hao-gang resigned from the office of a Supervisor on 11 December 2019.

4 Ms. Tang Hao was appointed as a Supervisor on 11 December 2019.

Details of the profiles of the Directors, Supervisors and senior management of the Company are set out on pages 46 to 55 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 a person connected to 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 12 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 13 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 41 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 period under review, the Group had significant transactions with related parties (as detailed in note 48 to the consolidated financial statements), certain of which fall into connected or continuing connected transactions within the meaning of Chapter 14A of the Listing Rules, the details of which are set out below.

(a) Connected and related party transactions

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Sales to fellow subsidiaries	456,197	243,690
Purchases from fellow subsidiaries	81,160	88,318
Purchases from other related parties	4,498	2,626
Rental income from fellow subsidiaries	41,586	32,230
Commission income earned from fellow subsidiaries	234	662
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	5,752	5,966
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	8,325	9,127
Property management fee charged by fellow subsidiaries	14,205	–
Expenses relating to short-term leases shared by fellow subsidiaries	1,023	–
Interest expenses on lease liabilities charged by fellow subsidiaries	4	–
Rental expenses and property management fee paid to fellow subsidiaries	–	66,352
Interest income earned from a fellow subsidiary	32,122	24,585
Platform usage fee charged by fellow subsidiaries	19,887	11,095
Logistics material rental fee charged by fellow subsidiaries	2,350	2,696
Logistics distribution service fee charged by fellow subsidiaries	1,379	2,054
Logistics distribution fee charged by the other related parties	1,557	1,450
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account	19,058	11,736
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account upon redemption of membership points by the customers	14,161	7,748

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

	2019 RMB'000	2018 RMB'000
Purchases from associates —Shanghai Gude Business Cooperation Company and Shanghai Sanming Taige Information Technology Co., Ltd.	**4,855**	4,569

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 – Increase of Capital Contribution of Bailian Financial Services

On 30 December 2019, the Company entered into the capital increase agreement (the "Capital Increase Agreement") with Bailian Group, Shanghai Bailian, Bailian Omni-channel Electronic Commerce Co., Ltd. (百聯全渠道電子商務有限公司) ("Bailian Omni-channel") and Bailian Financial Services Co., Ltd. (百聯金融服務有限公司) ("Bailian Financial Services"), pursuant to which, the Company, Bailian Group, Shanghai Bailian and Bailian Omni-channel, as the shareholders of Bailian Financial Services, agreed to make a capital contribution in the total amount of RMB440.0 million to Bailian Financial Services in proportion to their current shareholding percentages to increase the registered capital of Bailian Financial Services from RMB240.25 million to RMB680.25 million, among which:

1) The Company agreed to make a capital contribution in the amount of RMB51.77 million in cash to Bailian Financial Services;

2) Bailian Group agreed to make a capital contribution in the amount of RMB318.35 million in cash to Bailian Financial Services;

3) Shanghai Bailian agreed to make a capital contribution in the amount of RMB25.88 million in cash to Bailian Financial Services; and

4) Bailian Omni-channel agreed to make a capital contribution in the amount of RMB44.00 million in cash to Bailian Financial Services.

The Company, Bailian Group, Shanghai Bailian and Bailian Omni-channel shall pay their respective capital contribution in cash to the designated account of Bailian Financial Services before 30 June 2020 after the entering into of the Capital Increase Agreement. The capital contribution of the Company will be financed by its self-raised funds.

The respective shareholding of the Company, Bailian Group, Shanghai Bailian and Bailian Omni-channel in Bailian Financial Services remains unchanged upon completion of the capital increase.

Bailian Group is a substantial Shareholder and holds 72.353% of the equity interest in Bailian Financial Services. Therefore, Bailian Financial Services is an associate of Bailian Group and is a connected person of the Company. As such, the transaction contemplated under the Capital Increase Agreement constitutes a connected transaction of the Company.

As the highest applicable percentage ratio (as defined in the Listing Rules) for the transaction contemplated under the Capital Increase Agreement exceeds 0.1% but is less than 5%, the transaction contemplated under the Capital Increase Agreement is subject to the reporting and announcement requirements, but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Please refer to the announcement of the Company dated 30 December 2019 for relevant details of the transaction.

Connected Transaction –Formation of Joint Venture

On 16 December 2019, Hangzhou Lianhua Huashang Group Co., Ltd.（杭州聯華華商集團有限公司）("Lianhua Huashang"), a subsidiary of the Company, entered into the joint venture agreement (the "Joint Venture Agreement") with Homemart Decoration and Construction Materials Co., Ltd.（好美家裝潢建材有限公司）("Homemart") and Shanghai Jinnian Jiayuan Decoration Co., Ltd.（上海進念佳園裝潢有限公司）("Jinnian Jiayuan") in relation to the proposed formation of the joint venture with a proposed name of Hangzhou Jingdian Home Decoration and Design Co., Ltd.*（杭州鯨典家裝飾設計有限公司）(the "Joint Venture"). Pursuant to the Joint Venture Agreement, the registered capital of the Joint Venture was RMB5.0 million, and Lianhua Huashang agreed to make a capital contribution of RMB3.0 million in cash, representing 60% of the total capital contribution of the Joint Venture and Homemart and Jinnian Jiayuan agreed to make a capital contribution of RMB1.5 million and RMB0.5 million in cash, respectively, representing 30% and 10% of the total capital contribution of the Joint Venture.

Lianhua Huashang, Homemart and Jinnian Jiayuan shall pay its respective capital contribution in one lump sum to the account of the Joint Venture within 30 days after the setting up of such account.

Upon the formation of the Joint Venture, Lianhua Huashang will hold 60% of the equity interests in the Joint Venture. Therefore, the Joint Venture will be a subsidiary of the Company, and its financial results will be consolidated into the financial statements of the Group.

The amount of the capital contributions under the Joint Venture Agreement was determined after arm's length negotiations among the parties, taking into account various factors, including the nature of the business, the demand for working capital and future development plans of the Joint Venture.

The Joint Venture will be principally engaged in the sale of construction and decoration materials, hardware products, arts and crafts (except for gold jewellery), chemical raw materials and products (except for hazardous products), furniture, household appliances, kitchenware, stationary and sport products, textile, general merchandise, packaging materials, ceramic products, flower and office supplies as well as indoor decoration.

The board of directors of the Joint Venture shall comprise five directors. Lianhua Huashang, Homemart and Jinnian Jiayuan are entitled to appoint three directors, one director and one director, respectively. The chairman of the board of directors shall be assumed by the director appointed by Lianhua Huashang.

Bailian Group is a substantial Shareholder and Homemart is a wholly-owned subsidiary of Bailian Group and therefore Homemart is a connected person of the Company. As such, the entering into of the Joint Venture Agreement constitutes a connected transaction of the Company.

As the highest applicable percentage ratio for the transaction contemplated under the Joint Venture Agreement exceeds 0.1% but less than 5%, the entering into of the Joint Venture Agreement is subject to the reporting and announcement requirements, but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Please refer to the announcement of the Company dated 16 December 2019 for relevant details of the transaction.

Continuing Connected Transaction – Goods Supply Framework Agreement

On 5 December 2019, the Company entered into the Goods Supply Framework Agreement (the "Goods Supply Framework Agreement") with Bailian Group, pursuant to which, the Company agreed to supply various kinds of goods to Bailian Group, including but not limited to foods and fresh produce, for a term commencing from 1 January 2020 to 31 December 2022 (both days inclusive).

The operating units of both parties may enter into individual goods supply contracts setting out specific terms of supply of goods, including the goods to be supplied, price determination method, delivery method and payment arrangement. The payment shall be made by bank transfer. Such terms shall be consistent with the principles and the terms of the Goods Supply Framework Agreement. If there is any discrepancy between the terms of an individual goods supply contract and the Goods Supply Framework Agreement, the latter shall prevail.

The prices for the goods to be supplied under the Goods Supply 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 supply contract is to be made according to the terms of the individual goods supply contract. The prices for the goods supplied by the Company to Bailian Group will not be less favourable than those available to independent third parties in similar transactions.

Bailian Group is a substantial Shareholder and therefore is a connected person of the Company. As such, the transactions contemplated under the Goods Supply Framework Agreement constitute continuing connected transactions of the Company.

The respective maximum annual transaction amounts payable by Bailian Group to the Company for the financial years ending 31 December 2020, 2021 and 2022 under the Goods Supply Framework Agreement are RMB50,000,000, RMB60,000,000 and RMB60,000,000.

As the highest applicable percentage ratio for the transactions contemplated under the Goods Supply Framework Agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the Goods Supply Framework Agreement 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.

Please refer to the announcement of the Company dated 5 December 2019 for relevant details of the transaction.

Continuing Connected Transactions – Logistics and Delivery Services Framework Agreement

On 5 December 2019, the Company entered into the Logistics and Delivery Services Framework Agreement (the "Logistics and Delivery Services Framework Agreement") with Bailian Group, pursuant to which, the Company agreed to provide logistics and delivery services as well as entrusted management services to Bailian Group, for a term commencing from 1 January 2019 to 31 December 2021 (both days inclusive)

The Company and its subsidiaries agreed to provide logistics and delivery services as well as entrusted management services to Bailian Group and its subsidiaries. The logistics and delivery services include but not limited to delivery, allocation, and return of goods within Shanghai and delivery and storage management service (i.e. delivery of goods into the warehouse, storage, sorting and retrieval of goods from the warehouse) outside Shanghai. The entrusted management services refers to entrusting the Company to manage the delivery services department and personnel of Bailian Group.

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

The prices for the services to be provided under the Logistics and Delivery Services 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 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 contract. The prices for the services provided by the Company will not be less favourable than those available to independent third parties in similar transactions.

Bailian Group is a substantial Shareholder and therefore is a connected person of the Company. As such, the transactions contemplated under the Logistics and Delivery Services Framework Agreement constitute continuing connected transactions of the Company.

The respective maximum annual transaction amounts payable by Bailian Group for the financial years ended 31 December 2019, 31 December 2020 and 31 December 2021 under the Logistics and Delivery Services Framework Agreement are RMB11,000,000, RMB30,000,000 and RMB50,000,000.

As the highest applicable percentage ratio for the transactions contemplated under the Logistics and Delivery Services Framework Agreement exceeds 0.1% but is 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 exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The actual transaction amount under the Logistics and Delivery Services Framework Agreement for the year ended 31 December 2019 is approximately RMB1,379 thousand.

Please refer to the announcement of the Company dated 5 December 2019 for relevant details of the transaction.

Continuing Connected Transactions – Termination of the Pervious Goods Procurement Framework Agreement and Entering into the Goods Procurement Framework Agreement

After careful consideration, the Company has decided to terminate the goods procurement framework agreement entered into between the Company and Zhejiang Tmall Supply Management Co., Ltd. (浙江天貓供應鏈管理有限公司) ("Zhejiang Tmall") on 25 July 2018 (the "Previous Goods Procurement Framework Agreement") due to the fact that the range of goods provided by Zhejiang Tmall Technology Co., Ltd. (浙江天貓技術有限公司) ("Tmall Technology") can better satisfy the needs of the Company than that provided by Zhejiang Tmall.

On 3 April 2019, the Company entered into the Goods Procurement Framework Agreement with Tmall Technology (the "Goods Procurement Framework Agreement"), pursuant to which, the Company agreed to purchase from Tmall Technology various kinds of goods, including but not limited to foods, fresh produce and industrial products, for a term commencing from 1 January 2019 to 31 December 2021 (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 Tmall Technology 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 each of the financial years ended 31 December 2019, 31 December 2020 and 31 December 2021 under the Goods Procurement Framework Agreement are RMB60,000,000.

Tmall Technology is an indirect subsidiary of Alibaba Group Holding Limited ("Alibaba"), which is the holding company of Alibaba (China) Technology Co., Ltd. ("Alibaba China"). Alibaba China is a substantial Shareholder and therefore is a connected person of the Company. As such, Tmall Technology, 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 for the transactions contemplated under the Goods Procurement Framework Agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the Goods Procurement Framework Agreement 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 under the Goods Procurement Framework Agreement for the year ended 31 December 2019 is approximately RMB4,498 thousand.

Please refer to the announcement of the Company dated 3 April 2019 for relevant details of the transaction.

Continuing Connected Transactions – Qianhe Logistics and Delivery Services Framework Agreement and Zhiguan Logistics and Delivery Services Framework Agreement

On 3 April 2019, the Company entered into the Qianhe Logistics and Delivery Services Framework Agreement (the "Qianhe Logistics and Delivery Services Framework Agreement") with Zhejiang Qianhe Network Technology Co., Ltd. (浙江仟和網絡科技有限公司) ("Zhejiang Qianhe"), pursuant to which, Zhejiang Qianhe and its subsidiaries agreed to provide logistics and delivery services to the Company and its subsidiaries, for a term commencing from 1 January 2019 to 31 December 2021 (both days inclusive)

Zhejiang Qianhe and its subsidiaries agreed to provide logistics and delivery services to the Company and its subsidiaries, including but not limited to the provision of delivery information, resources connection and delivery, allocation, and return of products within Shanghai and delivery and storage management services outside Shanghai.

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

The prices for the services to be provided under the Qianhe Logistics and Delivery Services 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 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 contract. However, the payment shall be made by bank transfer. The prices for the services provided by Zhejiang Qianhe 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 ended 31 December 2019, 31 December 2020 and 31 December 2021 under the Qianhe Logistics and Delivery Services Framework Agreement are RMB7,000,000, RMB15,000,000 and RMB28,000,000.

On 3 April 2019, the Company entered into the Zhiguan Logistics and Delivery Services Framework Agreement (the "Zhiguan Logistics and Delivery Services Framework Agreement") with Shanghai Zhiguan Information Technology Co., Ltd. (上海止觀信息科技有限公司) ("Shanghai Zhiguan"), pursuant to which, Shanghai Zhiguan and its subsidiaries agreed to provide logistics and delivery services to the Company and its subsidiaries, for a term commencing from 3 April 2019 to 31 December 2021 (both days inclusive). Shanghai Zhiguan and its subsidiaries agreed to provide logistics and delivery services to the Company and its subsidiaries, including but not limited to the provision of delivery information, resources connection and delivery, allocation, and return of goods within Shanghai and delivery and storage management services outside Shanghai.

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

The prices for the services to be provided under the Zhiguan Logistics and Delivery Services 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 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 contract. However, the payment shall be made by bank transfer. The prices for the services provided by Shanghai Zhiguan 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 ended 31 December 2019, 31 December 2020 and 31 December 2021 under the Zhiguan Logistics and Delivery Services Framework Agreement are RMB7,000,000, RMB15,000,000 and RMB28,000,000.

Zhejiang Qianhe and Shanghai Zhiguan are both indirect subsidiaries of Alibaba, which is the holding company of Alibaba China. Alibaba China is a substantial Shareholder and therefore is a connected person of the Company. As such, Zhejiang Qianhe and Shanghai Zhiguan are associates of Alibaba China and connected persons of the Company. Accordingly, the transactions contemplated under each of the Qianhe Logistics and Delivery Services Framework Agreement and the Zhiguan Logistics and Delivery Services Framework Agreement constitute continuing connected transactions of the Company.

Pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under the Qianhe Logistics and Delivery Services Framework Agreement and the Zhiguan Logistics and Delivery Services Framework Agreement will be aggregated. Upon such aggregation, the highest applicable percentage ratio of the transactions contemplated under the Qianhe Logistics and Delivery Services Framework Agreement and the Zhiguan Logistics and Delivery Services Framework Agreement exceeds 0.1% but is less than 5%. Accordingly, the transactions contemplated under the Qianhe Logistics and Delivery Services Framework Agreement and the Zhiguan Logistics and Delivery Services Framework Agreement (after such aggregation) are only subject to reporting, annual review and announcement requirements, but is exempt from the independent Shareholders' approval under Chapter 14A of the Listing Rules.

The actual transaction amount under the Qianhe Logistics and Delivery Services Framework Agreement for the year ended 31 December 2019 is approximately RMB545 thousand.

The actual transaction amount under the Zhiguan Logistics and Delivery Services Framework Agreement for the year ended 31 December 2019 is approximately RMB1,012 thousand.

Please refer to the announcement of the Company dated 3 April 2019 for relevant details of the transaction.

Continuing Connected Transactions – Logistics and Delivery Services Framework Agreement

On 8 October 2018, the Company entered into the logistics and delivery services framework agreement with Bailian Group (the "Logistics and Delivery Services Framework Agreement"), pursuant to which, Bailian Group agreed to provide logistics and delivery services to the Group for the 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 ended 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 under the Logistics and Delivery Services Framework Agreement for the year ended 31 December 2019 is nil.

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 with Bailian Group (the "Logistics Resources Leasing Framework Agreement"), 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 resources leasing contract and the Logistics Resources Leasing 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 each of the financial year ended 31 December 2019, 31 December 2020 and 31 December 2021 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.

The actual transaction amount under the Logistics Resources Leasing Framework Agreement for the year ended 31 December 2019 is approximately RMB2,350 thousand.

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

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 annual 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 value of the right-of-use asset recognized in 2019 under the Modified Leasing Agreement for the year ended 31 December 2019 is approximately RMB14,077 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 8 October 2018, 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 2019 to 31 December 2021.

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 2021 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 RMB1.5 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 the highest applicable percentage ratio 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 ratio 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 the loan services to be provided by Bailian Group to the Group 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.

The maximum daily deposit balance placed by the Group in Bailian Finance under the Financial Service Agreement for the year ended 31 December 2019 was approximately RMB828,366 thousand (including any interest occurred).

Please refer to the announcement of the Company dated 8 October 2018 and the circular of the Company dated 26 October 2018 respectively for relevant details of the transactions.

Continuing Connected Transactions – Framework Agreements between the Company and Bailian Group from 2019 to 2021

On 8 October 2018, the Company entered into various framework agreements with Bailian Group in respect of various transactions from 2019 to 2021, including transactions of supply of goods, smart cards arrangement, 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 fresh produce, food, and industrial products, for sale in the sales outlets of the Group.	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 than those available from 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 2021 are RMB150.00 million, RMB170.00 million and RMB200.00 million respectively.	The actual transaction amount of the transactions under the supply of good framework agreement for the year ended 31 December 2019 is RMB80,987 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. Such terms will be consistent with the principles and the terms of the Supply of Goods Framework Agreement. If there is any discrepancy between the terms of an individual supply of goods contract and the Supply of Goods Framework Agreement, the latter shall prevail.	Depending on the specific goods to be procured and the practices of Bailian Group and/or its associates, the actual payments for the sale of the goods under the Supply of Goods Framework Agreement are to be made on a monthly or agreed period basis (which 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 available from 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 discrepancy 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 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.	The fees paid by Bailian Group to the Company for the year ended 31 December 2019 is RMB5,987 thousand, whereas the fees paid by the Company to Bailian Group for the year ended 31 December 2019 is RMB8,325 thousand.

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
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 and/or its subsidiaries will enter into individual leasing contracts setting out specific terms of leasing including the details of 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 discrepancy 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 prices of similar properties in same locations from time to time. Depending on the specific conditions of transactions contemplated under the individual leasing contracts, the fee payable under the individual leasing contracts is to be made by bank transfer 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 2021 is RMB9 million.	The actual transaction amount of the transactions under the leasing framework agreement for the year ended 31 December 2019 is RMB6,506 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 Group including offices and retail stores for a term of three years commencing from 1 January 2019 to 31 December 2021.	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 2021 is RMB18 million.	The actual transaction amount of the transactions under the property management framework agreement for the year ended 31 December 2019 is RMB14,205 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 discrepancy between the terms of an individual property management contract and the Property Management Framework Agreement, the latter shall prevail.	Depending on the different sizes of the properties managed, the different amounts of the annual property management fee and the business scale of the counterparties, the fee payable under the Property Management Framework Agreement is to be made by bank transfer 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 than those available from independent third parties.		

The parties will enter into individual contracts in respect of the transactions of supply of goods, smart cards arrangement, 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 leasing framework agreement and the property management framework agreement.

Bailian Group is a substantial Shareholder. 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 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.

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 announcement of the Company dated 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 (the "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 (the "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 to independent third parties in similar transaction.

The maximum annual transaction amount payable by Hualian GMS for the financial year ended 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 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 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 2019 is approximately RMB13,820 thousand.

Please refer to the announcements 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 8 October 2018, the Company entered into the Sales Agency Framework Agreement (the "Sales Agency Framework Agreement") with Bailian Omni-channel, pursuant to which, 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 for a term of three years commencing from 1 January 2019 to 31 December 2021.

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

The Company or its subsidiaries has the sole discretion to set the selling prices of the Goods (the "Selling Prices") to be sold on the e-commerce platforms of Bailian Omni-channel and/or its subsidiaries. The prices at which the Company or its subsidiaries charges Bailian Omni-channel and/or its subsidiaries for the supply of the Goods is the same as the Selling Prices.

After Bailian Omni-channel and/or its subsidiaries receives an order from the end customer on its e-commerce platform, it will notify the Company or its subsidiaries of the order. Upon receiving such notification, the Company or its subsidiaries will deliver the Goods through a third party logistic company directly to the end-customer. Once the Goods have been delivered, Bailian Omni-channel and/or its subsidiaries will be notified. The Company will issue an invoice to Bailian Omni-channel with respect to all the orders that have been completed based on the Selling Prices every month and Bailian Omni-channel will arrange for payment accordingly.

The Selling Prices are set solely by the Company or its subsidiaries with reference to the prevailing prices of the comparable Goods sold at the outlets of the Group during the same period and as such, the Selling Prices are subject to the same pricing policies as that of the Group with respect to its outlets. This would ensure that the Selling Prices would not be less favourable than those available from independent third parties in real-time.

The Company agrees to pay Bailian Omni-channel the platform usage fee which is equivalent to 4% of the total transaction amount of Goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group through their e-commerce platforms during the term of the Sales Agency Framework Agreement. Other than the platform usage fee, Bailian Omni-channel and/or its subsidiaries do not charge the Company or its subsidiaries any additional fees or charges for the use of their e-commerce platforms and the price charged by the Company or its subsidiaries for the supply of Goods to Bailian Omni-channel and/or its subsidiaries is the same as the Selling Prices of the Goods sold on the e-commerce platforms of Bailian Omni-channel and/or its subsidiaries.

Depending on the specific conditions of transactions contemplated under the individual sales agency contracts, the platform usage fee payable by the Company or its subsidiaries to Bailian Omni-channel and/or its subsidiaries and the Selling Prices payable by Bailian Omni-channel and/or its subsidiaries to the Company or its subsidiaries 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.

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.

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 sales agency 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.

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 2019 is approximately RMB442,377 thousand. The actual platform usage fee paid by the Group under the Sales Agency Framework Agreement for the year ended 31 December 2019 is approximately RMB19,887 thousand.

Please refer to the announcement of the Company dated 8 October 2018 and the circulars of the Company dated 26 October 2018, respectively for relevant details of the transaction.

Continuing Connected Transactions –Membership Points Agency and Settlement Service Agreement

On 8 October 2018, the Company entered into the Membership Points Agency and Settlement Service Agreement (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.

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

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

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

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 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.

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 2019 is approximately RMB19,058 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 2019 is approximately RMB14,161 thousand.

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

Continuing Connected Transactions – Property Leasing Framework Agreement

On 8 October 2018, the Company entered into the Property Leasing Framework Agreement (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 parties will enter into individual property leasing agreements setting out specific terms including the transaction price determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the Property Leasing Framework Agreement. If there is any discrepancy between the terms of an individual property leasing agreements and the Property Leasing Framework Agreement, the latter shall prevail.

The rental of the properties leased by the Company to Bailian Group under the Property 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 prices of comparable properties in same locations from time to time.

Depending on the specific usages of different properties, their specific locations, amount of the annual rent and the business scale of the counterparties, the rentals payable by Bailian Group under the Property Leasing Framework Agreement 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 leasing the 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.

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.

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.

The actual transaction amount of the transactions under the Property Leasing Framework Agreement for the year ended 31 December 2019 is approximately RMB2,302 thousand.

Please refer to the announcement of the Company dated 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 (the "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 ended 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 2019 is approximately RMB12,988 thousand.

On 5 December 2019, the Company renewed the Warehouse Leasing Framework Agreement with Bailian Group, pursuant to which, the Company agreed to lease warehouses to Bailian Group for use as warehouses, offices or other purposes, for a term commencing from 1 January 2020 to 31 December 2022 (both days inclusive).

The maximum annual rental payable by Bailian Group to the Company for each of the three financial years ending 31 December 2022 under the Warehouse Leasing Framework Agreement is RMB60,000,000.

As the highest applicable percentage ratio for the transactions contemplated under the Warehouse Leasing Framework Agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the Warehouse Leasing Framework Agreement 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.

Please refer to the announcements of the Company dated 20 June 2017 and 5 December 2019 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 Bailian, 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 ending 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 paid by Century Lianhua under the lease agreement for the year ended 31 December 2019 are approximately RMB9,049 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 2019 is approximately RMB3,298 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 ended 31 December 2009	6,195,000.00
for the year ended 31 December 2010	6,166,125.00
for each of the two years ended 31 December 2012	6,394,500.00
for the year ended 31 December 2013	6,474,431.30
for each of the two years ending 31 December 2015	6,714,225.20
for the year ended 31 December 2016	6,798,153.00
for each of the two years ended 31 December 2018	7,049,936.40
for the year ended 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 2019 are approximately RMB3,864 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 paid by Century Lianhua to Bailian Central for the year ended 31 December 2019 is approximately RMB14,284 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

Period	Maximum Amount (RMB)
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 paid by Century Lianhua to Bailian Nanqiao for the year ended 31 December 2019 is approximately RMB3,582 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 2019 is approximately RMB6,495 thousand.

Continuing Connected Transactions – Lease Agreements

On 15 July 2011, Shanghai Century Lianhua Yuqiao Shopping Centre Ltd. ("Lianhua Yuqiao",上海世紀聯華御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 2019 is approximately RMB26,296 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 of the transactions;

(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

31 March 2020
Shanghai, the PRC

Report of Corporate Governance

The Group fully acknowledges its obligations to its shareholders and investors. Since its listing in 2003, the Company has been in strict compliance with the relevant requirements of the applicable laws, regulations and rules of domestic or overseas securities regulatory authorities and has been committed to improving the transparency of its corporate governance and the quality of information disclosure. The Group also attaches great importance on communication with its shareholders and investors and strives to ensure the timeliness, completeness and accuracy of its information disclosure to its shareholders and investors and to the protection of the interests of investors. The Board has strictly complied with the principles of corporate governance and is dedicated to improving the management quality of the Company and the standard of corporate governance continually in order to protect and enhance value for shareholders. 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 deviations, none of the Directors is aware of any information that would reasonably indicate that the Company is not or was not for any time of the period under review in compliance with the Code. Details of the deviations are set out as follows:

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

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

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

Ms. Xu Zi-ying, a non-executive Director, was unable to attend the tenth meeting of the sixth session of the Board convened on 12 June 2019 by the Company due to her other business commitments.

Mr. Qian Jian-qiang, a non-executive Director, was unable to attend the 11th meeting of the sixth session of the Board convened on 29 August 2019 by the Company due to his other business commitments.

Mr. Ye Yong-ming, a non-executive Director, and Mr. Qian Jian-qiang, a non-executive Director, were unable to attend the 12th meeting of the sixth session of the Board convened on 16 December 2019 by the Company due to their other business commitments.

Ms. Xu Zi-ying, a non-executive Director, was unable to attend the 2018 annual general meeting of the Company convened on 12 June 2019 (the "2018 AGM") due to her other business commitments.

Mr. Qian Jian-qiang, a non-executive Director, was unable to attend the 13th meeting of the sixth session of the Board convened on 31 March 2020 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 2018 AGM to all members of the Board before the 2018 AGM. All ordinary resolutions considered at the 2018 AGM were passed smoothly. The Company sent the related minutes of the 2018 AGM to all members of the Board after the 2018 AGM so that the Director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

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 in 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 has 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, monitoring operating and financial performance and determining 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 to ensure such arrangements are appropriate.

Board Meetings and General Meetings

The Company held four Board meetings and one 2018 AGM during the year. Attendance record of the Directors is as follows:

Directors	Meetings Attended/Held Board Meetings	 2018 AGM
Executive Director		
Mr. Xu Tao	4/4	1/1
Non-executive Directors		
Mr. Ye Yong-ming (chairman)	3/4	1/1
Ms. Xu Zi-ying (vice chairman)	3/4	0/1
Mr. Xu Hong	4/4	1/1
Mr. Qian Jian-qiang	2/4	1/1
Ms. Zheng Xiao-yun	4/4	1/1
Mr. Wong Tak Hung	4/4	1/1
Independent Non-executive Directors		
Mr. Xia Da-wei	4/4	1/1
Mr. Lee Kwok Ming, Don	3/4	1/1
Mr. Chen Wei	4/4	1/1
Mr. Zhang Jun (Note 1)	1/1	–
Mr. Zhao Xin-sheng (Note 2)	3/3	1/1

Notes:

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

2. Mr. Zhao Xin-sheng was appointed as 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 hold meetings whenever Board's decision on any specific matter was required. All Directors will receive the notice of meeting, detailed agenda of the meeting and the relevant information at least 14 days prior to the meeting.

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

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

Trainings of Directors

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

During the period under review, the Company 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 Director			
Mr. Xu Tao	✔	✔	
Non-executive Directors			
Mr. Ye Yong-ming	✔		✔
Ms. Xu Zi-ying	✔	✔	✔
Mr. Xu Hong	✔		
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	✔		
Mr. Chen Wei	✔		
Mr. Zhang Jun			
Mr. Zhao Xin-sheng	✔	✔	

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 appointments by the Board 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; 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 realized a diversified and balanced combination 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 for 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 managers and other members of senior management;

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

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

Board Committees

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

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

Board Committees			Members		
The Audit Committee	Mr. Lee Kwok Ming, Don *(Chairman)*	Mr. Xia Da-wei	Mr. Zhao Xin-sheng	Ms. Zheng Xiao-yun	–
The Remuneration and Appraisal Committee	Mr. Xia Da-wei *(Chairman)*	Ms. Xu Zi-ying	Mr. Chen Wei	Mr. Zhao Xin-sheng	–
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. Zhao Xin-sheng	–

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 on 29 March 2019. 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.

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 authorisation 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 approving 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 queries 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 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 2019, 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 18 March 2019 to review and discuss matters including the internal control of the Group, annual financial reports, remuneration and reappointment of domestic and international auditors and continuing connected transactions for 2018, 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 2018 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 2018 and suggested to re-appoint the domestic and international auditors for 2019. The Audit Committee confirmed that the continuing connected transactions of the Company in 2018 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 16 August 2019 to review and discuss with the management the matters including 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 2019 had complied with the applicable accounting standards, requirements of the Stock Exchange and relevant laws, and had made adequate disclosures. In relation to its review of the Group's internal audit function, risk management and 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 members of the Audit Committee in 2019:

Name	18 March 2019	16 August 2019
Independent Non-executive Directors		
Mr. Lee Kwok Ming, Don *(Chairman)*	Present	Present
Mr. Xia Da-wei	Present	Present
Mr. Zhang Jun (Note)	Present	–
Mr. Zhao Xin-sheng (Note)	–	Present
Non-executive Director		
Ms. Zheng Xiao-yun	Present	Present

Note: Mr. Zhang Jun resigned from the office of a member of the Audit Committee on 29 March 2019 due to his personal reasons. Mr. Zhao Xin-Sheng was appointed as a member of the Audit Committee on 29 March 2019.

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 non-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 (excluding 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 policies and goals;

(g) to determine with the delegated responsibility by the Board the remuneration packages of individual executive Directors and senior management, which 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 2019, the Remuneration and Appraisal Committee held one meeting 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 making recommendations to the Board on their remuneration packages.

The Remuneration and Appraisal Committee held the meeting on 27 March 2019. Having taken into account the factors including, but not limited to, the remuneration paid by comparable companies, time commitment of the Director and the Director's duties, hiring standards 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 2018.

Set out below is the attendance records of the members of the Remuneration and Appraisal Committee in 2019:

Name	27 March 2019
Independent Non-executive Directors	
Mr. Xia Da-wei *(Chairman)*	Present
Mr. Chen Wei	Present
Mr. Zhang Jun (Note)	Present
Mr. Zhao Xin-sheng (Note)	–
Non-executive Director	
Ms. Xu Zi-ying	Present

Note: Mr. Zhang Jun resigned from the office of a member of the Remuneration and Appraisal Committee on 29 March 2019 due to his personal reasons. Mr. Zhao Xin-sheng was appointed as a member of the Remuneration and Appraisal Committee on 29 March 2019.

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 and one non-executive Director (the chairman). 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 of 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 recommendations 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 2019, the Nomination Committee held three 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 member of 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 members of the Nomination Committee in 2019:

Name	27 March 2019	12 June 2019	27 August 2019
Independent Non-executive Directors			
Mr. Chen Wei	Present	Present	Present
Mr. Xia Da-wei	Present	Present	Present
Mr. Zhang Jun (Note)	Present	–	–
Mr. Zhao Xin-sheng (Note)	–	Present	Present
Non-executive Director			
Mr. Ye Yong-ming *(chairman)*	Present	Present	Present

Note: Mr. Zhang Jun resigned from the office of a member of the Nomination Committee on 29 March 2019 due to his personal reasons. Mr. Zhao Xin-sheng was appointed as a member of the Nomination Committee on 29 March 2019.

Corporate Governance Functions

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

(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 applicable to the employees and Directors of the Company; and

(v) to review the Company's compliance with the Corporate Governance Code 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 128 to 130 of the annual report.

Compliance with Model Code

The Company has adopted the Model Code as the 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 2019.

Remuneration of Auditors

The Audit Committee is responsible for considering the appointment of auditors and reviewing their remuneration. For the year under review, RMB5,621,000 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 2019, 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 Company'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 to maintain reliable financial and accounting records 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 risks identified by the internal audit department and other potential 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 of 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 2019, 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 assesses 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 2019, 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 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 when inside information arises. Without the approval of the disclosure committee, review and consent of the company secretary, any department and individual of the Company shall 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 legal 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 implemented a comprehensive accounting management system, so as to provide the management with indicators to evaluate the financial and operating performance and financial information for reporting and disclosure purposes. Any deviation from expected objectives will be analysed and explained, or the budget objectives will be amended correspondingly in line with the change in business.

The Group has established 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 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 different businesses and procedures of the Group, with the aims to ensure the transparency of the information disclosure of the Company, 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 established 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 2018 annual report and 2019 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 28 batches of fund managers and analysts and patiently answered their relevant inquiries. Site visits to stores were arranged for them so as to enhance their understanding of the Company's operation and also its latest business developments. The Company made disclosures in a careful, true, accurate, complete and timely manner in strict accordance with applicable laws and regulations, the Articles of Association and the Listing Rules. At the same time, the Company places great emphasis on collecting and analysing various comments and recommendations from analysts and investors on the Company's operation, which will be compiled into reports regularly and adopted selectively in its operation. The Company has set up a website, allowing investors to have access to 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

During the period under review, the Company did not make any change to the Articles of Association.

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 address, fax number 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 faced with the higher standards on governance imposed continuously by the Listing Rules, the Corporate Governance Code and the internal control policy. As such, the Supervisory Committee focused 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 three meetings. On 29 March 2019, the Supervisory Committee held a meeting, at which the Supervisory Committee objectively evaluated the Group's business operation for the year of 2018, and was fully satisfied with the work done by the Group in 2018, 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 conditions of the Group for 2018 and discussed and adopted the report of the Supervisory Committee for 2018. The Supervisory Committee reviewed and approved the Company's proposal on making provision for impairment of goodwill in the A-share consolidated statement, and agreed to the Company's provision of impairment of goodwill and to record in the current profit and loss in 2018. The Supervisory Committee reviewed and approved the resolution that the Company entered into the utility fee and post-paid bill bulk payment business cooperation framework agreement with Bailian Omni-channel E-commerce Co., Ltd. from 2019 to 2021. The Supervisory Committee reviewed and approved the resolution of the connected transactions that the Company entered into the goods procurement business cooperation framework agreement with Zhejiang Tmall Technology Co., Ltd. from 2019 to 2021, and this agreement will replace the previous goods procurement framework agreement (the "Previous Goods Procurement Framework Agreement") entered into between the Company and Zhejiang Tmall Supply Chain Management Co., Ltd. on 25 July 2018 and the Previous Goods Procurement Framework Agreement was terminated. The Supervisory Committee reviewed and approved the resolution of the connected transactions that the Company entered into the logistics and delivery services business cooperation framework agreement with Alibaba's subsidiaries Shanghai Zhiguan Information Technology Co., Ltd. and Zhejiang Qianhe Network Technology Co., Ltd. from 2019 to 2021, respectively. The Supervisory Committee confirmed that the above transactions 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 29 August 2018, the Supervisory Committee held a meeting regarding the operating conditions of the first half of the year ended 30 June 2019 and received reports from the management relating to the financial condition of the first half of 2019. The Supervisory Committee reviewed and approved the resolution of the connected transactions that the Company entered into the warehouse leasing business cooperation framework agreement with Bailian Group from 2020 to 2022, reviewed and approved the resolution of the connected transactions that the Company entered into the goods supply business cooperation framework agreement with Bailian Group from 2020 to 2022, reviewed and approved the resolution of the connected transactions that the Company entered into the logistics and delivery services business cooperation framework agreement with Bailian Group from 2019 to 2021, and confirmed that the above transactions 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 16 December 2019, the Supervisory Committee convened a meeting to consider and approve the resolution of the connected transaction that the Company's subsidiary, Hangzhou Lianhua Huashang Group Co., Ltd., entered into the joint venture agreement with Homemart Decoration and Construction Materials Co., Ltd. and Shanghai Jinnian Jiayuan Decoration Co., Ltd. in relation to the proposed formation of a joint venture, and confirmed that the above transaction was 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 reviewed and approved the Company's proposal on three capital increase matters related to the subsidiary of the Company, Shanghai Lianhua Quick Convenience Co., Ltd. ("Lianhua Quick"), to better streamline the equity relationship between Lianhua Quick and its subsidiaries and to optimize its corporate debt structure.

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 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 performance 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.

Report of the Supervisory Committee

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 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 exemptions. 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 did not exceed 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 proactive expansion and operated 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 listing in Hong Kong, international investors maintain their interests in the potential of retail businesses in the PRC. Good corporate governance and open and fair information disclosures 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.

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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 131 to 225, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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	How our audit addressed the key audit matter
Impairment assessment on property, plant and equipment and right-of-use assets	
We identified impairment assessment as a key audit matter because the amounts of property, plant and equipment and right-of-use assets were significant and impairment assessment involved significant estimations or assumptions. Notes 15 and 17 to the consolidated financial statements described respectively the reasons of impairment loss made on property, plant and equipment and right-of-use assets. Details of these value-in-use calculation for these cash-generating-units were set out in note 15 to the consolidated financial statements. During the year ended 31 December 2019, the Group has recognised impairment losses of RMB9,292,000 and RMB122,042,000 on property, plant and equipment and right-of-use assets respectively.	Our audit procedures in relation to the impairment assessment include: • Understanding the management consideration and process for the identification of property, plant and equipment and right-of-use assets that were impaired; • Understanding the methodology and the process management applied in preparing the cash flow forecast, including the key assumptions used such as market outlooks and trends, growth rate, 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)

KEY AUDIT MATTERS (Continued)

Key audit matter *Recognition of leases under the new HKFRS 16 Leases*	**How our audit addressed the key audit matter**
Refer to notes 17 and 37 to the consolidated financial statements. The Group adopted HKFRS 16 – Leases ("HKFRS 16") on 1 January, 2019 which has significant impact on the Group's consolidated financial statements because majority of the properties for the operation of chain stores are leased by the Group. HKFRS 16 introduces a new lease accounting model, where lessees are required to recognise a right-of-use (ROU) asset and a lease liability arising from a lease on its statement of financial position. Significant judgement is required in the assumptions and estimates made in order to determine ROU asset and lease liability. The assumption and estimates include assessment on lease terms, identification of lease and non-lease component and the determination of appropriate discount rates. As at December 31, 2019, the Group recognized right-of-use assets and lease liabilities of RMB7,480,238,000 and RMB7,528,356,000 respectively.	Our procedures in relation to the judgements and estimates used in the recognition of the lease include: • Obtaining an understanding of and evaluating the Group's internal controls, including processes and controls developed in identifying lease contracts, or contracts which contain leases; • Reading a sample of contracts to assess whether leases have been appropriately identified; • Obtaining a summary of leases and quantification of ROU assets and lease liabilities from management, and testing, on a sample basis, the key inputs such as lease term, lease payment and discount rate of the lease agreements, challenging the calculation of discount rate applied, and performing computation check; and • Assessing the appropriateness of management's judgement applied on the identification of non-lease components in a lease agreement.

TO THE SHAREHOLDERS OF LIANHUA SUPERMARKET HOLDINGS CO., LTD. (Continued)
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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)
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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
26 April 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	notes	**Year ended 31/12/2019 RMB'000**	Year ended 31/12/2018 RMB'000
Revenue	5	**25,859,198**	25,389,082
Cost of sales		**(22,340,358)**	(21,801,683)
Gross profit		**3,518,840**	3,587,399
Other revenue	5	**2,285,170**	2,153,816
Other income and other gains and losses	7	**651,782**	601,582
Impairment losses reversed (recognised) under expected credit loss ("ECL") model	9	**150**	(1,432)
Distribution and selling expenses		**(5,161,856)**	(5,376,741)
Administrative expenses		**(880,107)**	(814,173)
Other expenses		**(138,768)**	(81,919)
Share of (loss) profits of associates		**(13,938)**	42,435
Finance costs	8	**(307,374)**	–
(Loss) profit before taxation	10	**(46,101)**	110,967
Income tax expense	11	**(195,898)**	(188,099)
Loss and total comprehensive expense for the year		**(241,999)**	(77,132)
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(378,301)**	(218,724)
Non-controlling interests		**136,302**	141,592
		(241,999)	(77,132)
Loss per share – basic and diluted	14	**RMB0.34**	RMB0.20

Consolidated Statement of Financial Position

At 31 December 2019

	notes	31/12/2019 RMB'000	31/12/2018 RMB'000
Non-current assets			
Property, plant and equipment	15	**3,452,466**	3,503,796
Construction in progress	16	**33,345**	31,279
Right-of-use assets	17	**7,480,238**	–
Land use rights	18	**–**	838,878
Intangible assets	19	**227,903**	210,423
Interests in associates	21	**725,098**	682,370
Financial assets at fair value through profit or loss ("FVTPL")	22	**73,909**	52,901
Term deposits	23	**1,695,000**	375,000
Prepaid rental	24	**467**	49,202
Finance lease receivables	25	**305,180**	–
Deferred tax assets	26	**2,933**	79,146
Other non-current assets	27	**63,171**	12,834
		14,059,710	5,835,829
Current assets			
Inventories	28	**2,775,011**	2,509,078
Trade receivables	29	**164,431**	175,002
Deposits, prepayments and other receivables	30	**754,232**	1,118,289
Amounts due from fellow subsidiaries	31	**9,075**	29,556
Amounts due from associates	32	**39**	42
Finance lease receivables-current	25	**39,376**	–
Financial assets at FVTPL	22	**1,310,747**	3,241,214
Term deposits	23	**2,241,300**	1,620,000
Cash and cash equivalents	33	**2,198,539**	2,661,100
		9,492,750	11,354,281
Total assets		**23,552,460**	17,190,110

(Continued)

Consolidated Statement of Financial Position

At 31 December 2019

	notes	31/12/2019 RMB'000	31/12/2018 RMB'000
Capital and reserves			
Share capital	39	**1,119,600**	1,119,600
Reserves		**652,353**	1,037,397
Equity attributable to owners of the Company		**1,771,953**	2,156,997
Non-controlling interests	40	**274,553**	302,929
Total equity		**2,046,506**	2,459,926
Non-current liabilities			
Deferred tax liabilities	26	**94,388**	93,210
Lease liabilities	37	**6,774,004**	–
		6,868,392	93,210
Current liabilities			
Trade payables	34	**3,984,193**	4,129,974
Other payables and accruals	35	**1,675,869**	2,439,121
Lease liabilities-current	37	**754,352**	–
Contract liabilities	36	**8,022,516**	7,816,494
Deferred income	38	**11,779**	17,082
Amounts due to Shanghai Bailian (as defined in note d of consolidated statement of changes in equity)		**–**	28,176
Amounts due to fellow subsidiaries	31	**25,156**	59,384
Amounts due to associates	32	**1,262**	1,156
Amounts due to other related parties		**2,751**	785
Tax payable		**159,684**	144,802
		14,637,562	14,636,974
Total liabilities		**21,505,954**	14,730,184
Net current liabilities		**(5,144,812)**	(3,282,693)
Total equity and liabilities		**23,552,460**	17,190,110

The consolidated financial statements on pages 131 to 225 were approved and authorised for issue by the Board of Directors on 26 April 2020 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 2019

	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 40)	Total RMB'000
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)
Total comprehensive income (expense) for the year	–	–	–	–	(218,724)	(218,724)	141,592	(77,132)
Dividends 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
Adjustments (see note 2.1)	–	–	–	–	(6,743)	(6,743)	(19,570)	(26,313)
At 1 January 2019 (restated)	1,119,600	258,353	(235,497)	559,800	447,998	2,150,254	283,359	2,433,613
(Loss) profit for the year	**–**	**–**	**–**	**–**	**(378,301)**	**(378,301)**	**136,302**	**(241,999)**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**(378,301)**	**(378,301)**	**136,302**	**(241,999)**
Dividends to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(145,108)**	**(145,108)**
At 31 December 2019	**1,119,600**	**258,353**	**(235,497)**	**559,800**	**69,697**	**1,771,953**	**274,553**	**2,046,506**

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.

(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. No further transfer is required as the fund has reached 50% of the Company's registered capital.

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 2019

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(46,101)**	110,967
Adjustments for:		
Depreciation of property, plant and equipment	**353,360**	378,552
Depreciation of right-of-use assets	**1,038,528**	N/A
Amortisation of land use rights	**–**	26,312
Amortisation of intangible assets	**17,416**	13,415
Amortisation of other non-current assets	**–**	1,458
Gain on disposal of property, plant and equipment, right-of-use assets and intangible assets	**(153,771)**	(86,380)
Impairment loss recognised on property, plant and equipment	**9,292**	5,814
Impairment loss recognised on right-of-use assets	**122,042**	–
Impairment loss on goodwill	**–**	1,790
Reversal of allowance for write-down of inventories	**(6,750)**	(8,370)
Impairment losses (reversed) recognised under ECL model	**(150)**	1,432
Gain on change in fair value of financial assets at FVTPL	**(91,751)**	(133,025)
Dividends from financial assets at FVTPL	**(530)**	(2,090)
Share of results of associates	**13,938**	(42,435)
Gain on disposal of a subsidiary	**–**	(2,243)
Interest income on bank balances and term deposits	**(220,674)**	(150,513)
Finance lease income	**(42,173)**	–
Finance costs	**307,374**	–
Operating profit before movements in working capital	**1,300,050**	114,684
Increase in inventories	**(259,183)**	(91,129)
Decrease (increase) in trade receivables, deposits, prepayments and other receivables	**50,231**	(74,564)
Decrease in prepaid rental	**348**	1,717
Decrease in finance lease receivables	**200,799**	–
Decrease in amounts due from associates	**3**	64
Decrease (increase) in amounts due from fellow subsidiaries	**3,944**	(14,506)
(Decrease) increase in amounts due to fellow subsidiaries	**(17,805)**	3,406
Increase in amounts due to other related parties	**477**	785
Decrease in deferred income	**(5,303)**	(5,063)
Decrease in restricted term deposits	**(558,000)**	(130,000)
(Decrease) increase in trade payables, other payables and accruals	**(317,576)**	414,276
Increase (decrease) in contract liabilities	**206,022**	(33,899)
Increase (decrease) in amounts due to associates	**1,595**	(122)
Cash generated from operations	**605,602**	185,649
Income taxes paid	**(176,848)**	(288,126)
Interest received	**137,576**	237,694
Interest paid	**(307,374)**	–
Net cash from operating activities	**258,956**	135,217

(Continued)

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
INVESTING ACTIVITIES		
Payments for purchase of property, plant and equipment and construction in progress	**(342,670)**	(429,662)
Proceeds from disposal of property, plant and equipment, right-of-use assets and intangible assets	**153,690**	113,916
Acquisition of investment in associates	**(56,666)**	–
Payments for purchase of intangible assets	**(12,822)**	(13,015)
Payment for rental deposits	**(3,099)**	–
Payments for purchase financial assets at FVTPL	**(1,210,700)**	(3,100,000)
Net cash outflow on disposal of a subsidiary	**–**	(5)
Dividend from financial assets at FVTPL	**530**	2,090
Dividend received from an associate	**51,766**	–
Proceeds on disposal of financial assets at FVTPL	**3,211,910**	2,296,406
Withdrawal of unrestricted term deposits	**265,000**	480,000
Placement of unrestricted term deposits	**(1,648,300)**	(265,000)
Net cash generated from (used in) investing activities	**408,639**	(915,270)
FINANCING ACTIVITIES		
Dividends paid to non-controlling shareholders	**(159,235)**	(136,354)
Payment for acquisition of partial interest of a subsidiary	**(28,176)**	–
Repayments of leases liabilities	**(942,745)**	–
Net cash used in financing activities	**(1,130,156)**	(136,354)
Net decrease in cash and cash equivalents	**(462,561)**	(916,407)
Cash and cash equivalents at 1 January	**2,661,100**	3,577,507
Cash and cash equivalents at 31 December	**2,198,539**	2,661,100
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**2,198,539**	2,661,100

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 2019, the Group has net current liabilities of RMB5,144,812,000 (2018: RMB3,282,693,000). Taking into account of the historical settlement and addition pattern of the coupon liabilities (disclosed under contract liabilities) and the Group's ability to withdraw the non-current unrestricted term deposits of RMB1,385,000,000, 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 16	*Leases*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*

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 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

Definition of a lease

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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

iii. excluded initial direct costs from measuring right-of-use assets at the date of initial application;

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

2.1 HKFRS 16 Leases (Continued)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is within the range from 3.60% to 3.84%.

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	11,237,168
Operation lease commitments with value-added-tax excluded	10,702,065
Lease liabilities discounted at relevant incremental borrowing rates	8,547,731
Less: Recognition exemption – short-term leases	586,682
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 at 1 January 2019	7,961,049
Analysed as	
Current	609,880
Non-current	7,351,169
	7,961,049

The carrying amount of right-of-use assets for own use and those under subleases as at 1 January 2019 comprises the following:

	notes	**Right-of-use assets** RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		7,961,049
Reclassified from land use rights	(a)	865,136
Reclassified from other non-current assets	(b)	12,834
Reclassified from prepaid lease payment	(c)	285,403
Less: Accrued lease liabilities at 1 January 2019	(d)	(717,776)
		8,406,646

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

2.1 HKFRS 16 Leases (Continued)

As a lessee (Continued)

(a) Upfront payments for leasehold lands in the PRC were classified as land use rights as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of land use rights amounting to RMB26,258,000 and RMB838,878,000 respectively were reclassified to right-of-use assets.

(b) Upfront the prepayments for the leasing of certain buildings from the PRC government were classified as other non-current assets as at 31 December 2018. Upon application of HKFRS 16, other non-current assets of RMB12,834,000 was reclassified to right-of-use assets.

(c) *Prepaid lease payment*

The carrying amount of prepaid lease payment of several operating leases at 31 December 2018 was adjusted to right-of-use assets at transition.

(d) *Rent free period*

These relate to accrued lease liabilities for leases of properties in which the lessors provided rent-free period. The carrying amount of the lease incentive liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

Lease payments increase progressively over lease terms

These relate to accrued lease liabilities of several operating leases for leases of properties in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liabilities was adjusted to right-of-use assets at transition.

Effective from 1 January 2019, leasehold lands which were as land use rights are measured under HKFRS 16 at cost any accumulated depreciation and any impairment losses.

As a lessor

In accordance with the transitional provisions in HKFRS 16, except for sub-leases in which the Group acts as an intermediate lessor, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

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

2.1 HKFRS 16 Leases (Continued)

As a lessor (Continued)

(e) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied under trade and other payables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition.

(f) Effective on 1 January 2019, the Group has applied HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current year.

Sublease

(g) At the date of initial application, leased properties under subleases were assessed and classified as an operating lease or a finance lease individually based on the remaining contractual terms and conditions of the head lease and the sublease at that date The Group classified finance lease rising from sublease which was classified as operating lease under HKAS 17, resulting in the decrease in amounts due from fellow subsidiaries amounting to RMB6,776,000, increase in finance lease receivable with amount of RMB503,182,000 in total(included in finance lease receivable of RMB438,922,000 and finance lease receivable-current of RMB64,260,000 respectively) and RMB46,910,000 was adjusted to opening retained profits on transition.

The following table summarises the impact of transition to HKFRS 16 on retained profits at 1 January 2019.

	notes	**Impact of adopting HKFRS 16 at 1 January 2019** RMB'000
Net equity		
Reverse of deferred taxation for operating lease expenses	(h)	(73,223)
Classification of finance lease rising from sublease	(g)	46,910
Impact on retained profits at 1 January 2019		(6,743)
Impact on non-controlling interests at 1 January 2019		(19,570)

(h) The Group reversed deferred tax assets arising from the accrued lease liabilities under HKAS 17 upon the initial application of HKFRS 16 since the exemption of initial recognition of deferred tax applied.

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

2.1 HKFRS 16 Leases (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	RMB'000	RMB'000	RMB'000
Non-current Assets			
Prepaid rental	49,202	(48,387)	815
Land use right	838,878	(838,878)	–
Right-of-use assets	–	7,957,150	7,957,150
Deferred tax assets	79,146	(73,223)	5,923
Finance lease receivables	–	438,922	438,922
Other non-current assets	12,834	(12,834)	–
Current Assets			
Deposits, prepayments and other receivables	1,118,289	(253,513)	864,776
Amounts due from fellow subsidiaries	29,556	(16,537)	13,019
Finance lease receivables – current	–	64,260	64,260
Capital and Reserves			
Reserves	1,037,397	(6,743)	1,030,654
Non-controlling interests	302,929	(19,570)	283,359
Current Liabilities			
Other payables and accruals	2,439,121	(701,353)	1,737,768
Amounts due to fellow subsidiaries	59,384	(16,423)	42,961
Lease liabilities – current	–	609,880	609,880
Non-current Liabilities			
Lease liabilities	–	7,351,169	7,351,169

note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

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

2.1 HKFRS 16 Leases (Continued)

The following tables summarise the impacts of applying HKFRS 16 as a lessor on the Group's consolidated statement of financial position as at 31 December 2019 and its consolidated statement profit or loss and other comprehensive income and consolidated statement of cash flows for the year ended 31 December 2019 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

	note	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 16, as a lessor RMB'000
Non-current Assets				
Finance lease receivables	(g)	305,180	(305,180)	–
Current Assets				
Finance lease receivables – current	(g)	39,376	(39,376)	–
Capital and Reserves				
Reserves	(g)	652,353	(70,040)	582,313

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

	note	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 16, as a lessor RMB'000
Other revenue	(g)	2,285,170	21,542	2,306,712
Selling and distribution expenses	(g)	(5,161,856)	(44,672)	(5,206,528)
Profit before taxation	(g)	(46,101)	(23,130)	(69,231)
Loss and total comprehensive expense for the year		(241,999)	(23,130)	(265,129)
Loss per share – basic and diluted		RMB0.34		RMB0.36

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

2.1 HKFRS 16 Leases (Continued)

Impact on the consolidated statement of cash flows

	note	**As reported** RMB'000	**Adjustments** RMB'000	**Amounts without application of HKFRS 16, as a lessor** RMB'000
OPERATING ACTIVITIES				
(Loss) profit before tax	(g)	(46,101)	(23,130)	(69,231)
Amortisation of right-of-use assets	(g)	1,038,528	44,672	1,083,200
Interest income on finance lease receivables	(g)	(42,173)	42,173	–
Operating cash flows before movements in working capital	(g)	1,300,050	63,715	1,363,765
Decrease in finance lease receivables	(g)	200,799	(200,799)	–
Cash generated from operations		**605,602**	**(137,084)**	**468,518**
Net cash from operating activities		**258,956**	**(137,084)**	**121,872**

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	*Insurance Contracts*[1]
Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[4]

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

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

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

4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of all the new and amendments to HKFRSs mentioned above will have no material impact on the consolidated financial statements in the foreseeable future.

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 accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

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

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

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

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, interests in associates is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates (Continued)

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

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.

Except for granting of a licence that is distinct from other promised goods or services, 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.

For granting of a licence that is distinct from other promised goods or services, the nature of the Group's promise in granting a licence is a promise to provide a right to access the Group's intellectual property if all of the following criteria are met:

- the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the intellectual property to which the customer has rights;
- the rights granted by the licence directly expose the customer to any positive or negative effects of the Group's activities; and
- those activities do not result in the transfer of a good or a service to the customer as those activities occur.

If the criteria above are met, the Group accounts for the promise to grant a licence as a performance obligation satisfied over time. Otherwise, the Group considers the grant of licence as providing the customers the right to use the Group's intellectual property and the performance obligation is satisfied at a point in time at which the licence is granted.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

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

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

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.

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

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, for example, service contracts in which the Group bills at the rate of each service item specified in the contract, the Group recognises revenue in the amount to which the Group has the right to invoice.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

Principal versus agent

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

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

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

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transition in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transition in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Short-term leases

The Group applies the short-term lease recognition exemption to leases for Convenience stores that have the lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transition in note 2) (Continued)

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transition in note 2) (Continued)

Lease liabilities (Continued)

After commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) when:

- the lease term has changed in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as separate line items on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Lease (prior to 1 January 2019)

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Lease (prior to 1 January 2019) (Continued)

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.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Interest and rental income which are derived from the Group's ordinary course of business are presented as other revenue.

The Group as lessor (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as lessor (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Borrowing costs

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

Effective from 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

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

Government grants 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

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 to the same taxable entity by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

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

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

Impairment on property, plant and equipment, right-of-use assets 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 property, plant and equipment, right-of-use assets 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 property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, 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 property, plant and equipment, right-of-use assets 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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 or the group of cash-generating units. 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 or the group of cash-generating units. 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 or a group of cash-generating units) 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 or a group of cash-generating units) 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 or first-in, first-out 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).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

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.

Financial assets

Classification and subsequent measurement of financial assets

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 of HKFRS 9/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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified 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.

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.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under ECL model on financial assets (trade receivables, other receivables, amounts due from fellow subsidiaries/associates, term deposits and bank balances and cash and cash equivalents), and other items (finance lease receivables) which are subject to impairment under HKFRS 9. 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 finance lease 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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

(i) Significant increase in credit risk (Continued)

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.

(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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

(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.

(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. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (prior to 1 January 2019).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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.

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

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

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

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. The Group concluded that the Group acts as the principal for such transactions as it controls the specified goods before it is transferring to the customer after taking into consideration of the key indicators such as the Group is primarily responsible for fulfilling the promise to provide the goods and the Group has inventory risk on the merchandises.

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 2019, the carrying amount of goodwill was RMB127,953,000 (net of accumulated impairment loss of RMB23,988,000) (2018: RMB127,953,000 (net of accumulated impairment loss of RMB23,988,000)). Details of the recoverable amount as determined by value-in-use calculation are disclosed in note 19.

Estimated impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

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

Key sources of estimation uncertainty (Continued)

Estimated impairment of property, plant and equipment and right-of-use assets (Continued)

As at 31 December 2019, the carrying amounts of property, plant and equipment and right-of-use assets are RMB3,452,466,000 (2018: RMB3,503,796,000) and RMB7,480,238,000 respectively, after taking into account the impairment losses of RMB45,111,000 (2018: RMB41,009,000) and RMB122,042,000 in respect of property, plant and equipment and right-of-use assets that have been recognised respectively. Details of the impairment of property, plant and equipment and right-of-use assets are disclosed in notes 15 and 17.

Deferred tax assets

As at 31 December 2019, no deferred tax asset has been recognised in respect of the tax losses of RMB3,370,430,000 (2018: RMB3,371,750,000) 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 RMB1,307,938,000 as at 31 December 2019 (2018: RMB3,239,350,000) 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.

Allocation of the consideration between lease components and non-lease components

For a contract that contains multiple lease components and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies judgement to allocate the consideration between the lease components and non-lease components. The assessment of stand-alone price for the non-lease components significantly affects the amount of lease liabilities and right-of-use assets recognized.

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 receivables. 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 is disclosed in notes 29 and 45b.

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 2019, the carrying amount of property, plant and equipment was RMB3,452,466,000 (net of accumulated impairment loss of RMB45,111,000 (2018: RMB3,503,796,000 (net of accumulated impairment loss of RMB41,009,000).

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 2019, the carrying amount of store closure provision was RMB6,583,000 (2018: RMB53,757,000).

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 customers for over five years. The breakage amounts are recognised as revenue from contract liabilities according to HKFRS 15. As at 31 December 2019, the carrying amount of the contract liabilities was RMB8,022,516,000 (2018: RMB7,816,494,000).

Interests in associates related to Tianjin Yishang (as defined in note 21)

As of the date of this report, the 2019 unaudited consolidated financial statements provided by Tianjin Yishang showed that the net assets attributable to the parent company at the beginning of 2019 is inconsistent with the figures at the end of the reporting year of 2018, representing a decrease of RMB1.11 billion. As relevant procedures are still in progress, the Company does not include such groundless adjustments into its interests in associates of the consolidated statement of financial position as at 31 December 2019 of the Group.

The Company is of the view that it has made sufficient disclosure in its consolidated financial statements as at 31 December 2019 for uncertainties relating to financial information with Tianjin Yishang.

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:

(i) Disaggregation of revenue from contracts with customers

Type of Revenue

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Revenue		
Sales of merchandise	**25,859,198**	25,389,082
Services		
Income from suppliers (service income)	**1,593,557**	1,492,814
Royalty income from franchised stores	**41,852**	41,477
Commission income from coupon redemption in other retailers	**3,918**	3,683
	1,639,327	1,537,974
Total	**27,498,525**	26,927,056

Timing of revenue recognition

At a point in time	**25,863,116**	25,392,765
Over time	**1,635,409**	1,534,291
Total	**27,498,525**	26,927,056

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Revenue		
Revenue from contracts with customers – sales of merchandise	**25,859,198**	25,389,082
Other revenue from contracts with customers – services	**1,639,327**	1,537,974
Rental income from leasing of shop premises	**645,843**	615,842
	2,285,170	2,153,816
Total revenue and other revenue	**28,144,368**	**27,542,898**

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 in accordance with the rate 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.

(iii) Leases

	Year ended 31/12/2019 RMB'000
For operating leases:	
Fixed lease payments	**603,670**
Total	**603,670**
For finance leases:	
Finance income on the net investment in the lease	**42,173**
	42,173
Total revenue arising from leases	**645,843**

	Year ended 31/12/2018 RMB'000
Operating lease income	615,842
Total revenue arising from leases	615,842

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 stores 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 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000	**Year ended 31/12/2019 RMB'000**	Year ended 31/12/2018 RMB'000
Hypermarkets	**16,549,191**	16,322,527	**372,759**	204,790
Supermarkets	**9,575,930**	9,144,786	**(36,963)**	96,727
Convenience stores	**1,912,790**	1,982,914	**(282,420)**	(177,473)
Other operations	**106,457**	92,671	**49,582**	81,537
	28,144,368	27,542,898	**102,958**	205,581

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 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Segment results	**102,958**	205,581
Unallocated interest income	**57,672**	76,173
Unallocated income	**7,258**	4,401
Unallocated expenses	**(200,051)**	(217,623)
Share of (loss) profit of associates	**(13,938)**	42,435
Consolidated profit before taxation	**(46,101)**	110,967

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 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
– Hypermarkets	**14,373,277**	8,025,826
– Supermarkets	**5,089,889**	2,844,832
– Convenience stores	**505,783**	484,199
– Other operations	**120,801**	140,153
Total segment assets	**20,089,750**	11,495,010
Interests in associates	**725,098**	682,370
Other unallocated assets	**2,737,612**	5,012,730
Total assets	**23,552,460**	17,190,110

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 31/12/2019

	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)	**527,245**	**641,566**	**234,571**	**56,663**	**1,460,045**
Depreciation and amortisation	**833,676**	**534,035**	**26,442**	**15,151**	**1,409,304**
Impairment losses on property, plant and equipment and right-of-use assets in profit or loss	**9,292**	**–**	**122,042**	**–**	**131,334**
(Gain) loss on disposal of property, plant and equipment, right-of-use assets and intangible assets	**(122,662)**	**(33,786)**	**2,148**	**529**	**(153,771)**
Interest income on bank balance and term deposits	**123,762**	**36,917**	**415**	**1,908**	**163,002**
Interest income on finance lease receivables	**42,173**	**–**	**–**	**–**	**42,173**
Finance costs	**240,521**	**66,853**	**–**	**–**	**307,374**

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
(Gain) loss 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

note: Addition to non-current assets include the additions of RMB285,327,000 (2018: RMB315,206,000) to property, plant and equipment, RMB60,475,000 (2018: RMB155,917,000) to construction in progress, RMB1,101,421,000 to right-of-use assets and RMB12,822,000 (2018: RMB13,015,000) 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 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Interest income on bank balances and term deposits	**220,674**	150,513
Government subsidies (note i)	**56,622**	51,535
Gain on change in fair value of financial assets at FVTPL	**91,751**	133,025
Dividends from financial assets at FVTPL	**530**	2,090
Gain on disposal of property, plant and equipment (note ii)	**153,771**	86,380
Gain on disposal of a subsidiary	**–**	2,243
Salvage sales	**35,020**	32,273
Early termination of an operating lease contract by lessor (note iii)	**–**	38,000
Income from breakage (note iv)	**34,796**	50,066
Others	**58,618**	55,457
Total	**651,782**	601,582

7. OTHER INCOME AND OTHER GAINS AND LOSSES (Continued)

notes:

i. The Group received unconditional subsidies of RMB48,869,000(2018: RMB45,482,000) from the PRC local government as an encouragement for the operation of certain subsidiaries in certain areas. In addition, amount of RMB7,753,000(2018: 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 May 2019, a subsidiary of the Group entered into an agreement with the local government for the dismantlement plan carried out by the local government ("the Agreement"). According to the agreement, the government would pay RMB148,849,000 in total as compensation for dismantling the warehouse of the subsidiary. As at 31 December 2019, the relevant procedures as set out in the Agreement have been completed and the compensation has been received, resulting in a gain of RMB135,433,000 on disposal of property, plant and equipment.

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 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 in 2018 and no further payment has received up to 31 December 2019.

iv. 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 customers for over five years. The breakage amounts are recognised as revenue from contract liabilities according to HKFRS 15.

8. FINANCE COSTS

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Interest expense on lease liabilities	**307,374**	–

9. IMPAIRMENT LOSSES REVERSED (RECOGNISED) UNDER ECL MODEL

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Impairment loss reversed (recognised) on:		
– trade receivables	**256**	(1,030)
– deposits, prepayments and other receivables	**(106)**	(402)
	150	(1,432)

Details of impairment assessment are set out in note 45b.

10. PROFIT BEFORE TAXATION

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Amortisation and depreciation		
Depreciation of property, plant and equipment (note 15)	**353,360**	378,552
Depreciation of right-of-use assets (note 17)	**1,038,528**	–
Amortisation of land use rights (note 18)	**–**	26,312
Amortisation of intangible assets (note 19)	**17,416**	13,415
Amortisation of other non-current assets (note 27)	**–**	1,458
Total amortisation and depreciation	**1,409,304**	419,737
Share of results of associates		
Share of (loss) profit before taxation	**(5,527)**	65,035
Less: Share of income tax expense	**8,411**	22,600
	(13,938)	42,435
Release of prepaid lease payments	**–**	1,717
Auditors' remuneration	**5,621**	5,167
Gain on disposal of property, plant and equipment, right-of-use assets and intangible assets	**(153,771)**	(86,380)
Impairment loss on property, plant and equipment recognised (included in other expenses)	**9,292**	5,814
Impairment loss on right-of-use assets recognised (included in other expenses)	**122,042**	–
Impairment loss on goodwill (included in other expenses)	**–**	1,790
Director's remuneration (note 12)	**3,078**	3,337
Salaries, wages and other employee benefits of other staff	**2,503,204**	2,558,448
Retirement benefit scheme contribution of other staff	**236,596**	252,303
Total staff costs	**2,742,878**	2,814,088
Allowance for credit losses	**106**	1,432
Reversal of allowance for credit losses	**(256)**	–
Reversal of allowance for write-down of inventories	**(6,750)**	(8,370)
Cost of inventories recognised as expenses	**22,340,358**	21,801,683

11. INCOME TAX EXPENSE

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Current tax on the PRC Enterprise Income Tax ("EIT")	**191,730**	176,510
Deferred tax expense (note 26)	**4,168**	11,589
	195,898	188,099

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

11. INCOME TAX EXPENSE (Continued)

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. Certain subsidiaries which are identified as small low-profit enterprises are entitled to enjoy preferential EIT rate of 5% to 10%.

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
(Loss) profit before taxation	**(46,101)**	110,967
Tax at PRC EIT tax rate of 25% (2018: 25%)	**(11,525)**	27,742
Tax effect of share of results of associates	**3,484**	(10,609)
Tax effect of expenses not deductible for tax purpose	**1,112**	2,058
Tax effect of income not taxable for tax purpose	**(1,394)**	(1,696)
Tax effect of tax losses and deductible temporary differences not recognised	**229,601**	199,953
Utilisation of tax losses previously not recognised	**(24,133)**	(29,349)
Effect of different tax rates of subsidiaries	**(1,247)**	–
Income tax expense for the year	**195,898**	188,099

12. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION

(1) Directors' emoluments

The remuneration of each director for the year ended 31 December 2019 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	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Executive/Non-executive Directors:												
Mr. Xu Tao (note b)	**–**	–	**1,320**	1,320	**1,056**	1,320	**74**	72	**27**	24	**2,477**	2,736
Mr. Ye Yong-ming	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Ms. Xu Zi-ying	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Mr. Dong Zheng (note c)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Mr. Qian Jian-qiang	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Ms. Zheng Xiao-yun	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Mr. Wong Tak Hung	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Mr. Xu Hong (note d)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
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 e)	**–**	38	**–**	–	**–**	–	**–**	–	**–**	–	**–**	38
Mr. Chen Wei (note f)	**150**	113	**–**	–	**–**	–	**–**	–	**–**	–	**150**	113
Mr. Zhang Jun (note g)	**38**	150	**–**	–	**–**	–	**–**	–	**–**	–	**38**	150
Mr. Zhao Xinsheng (note h)	**113**	–	**–**	–	**–**	–	**–**	–	**–**	–	**113**	–
Total	**601**	601	**1,320**	1,320	**1,056**	1,320	**74**	72	**27**	24	**3,078**	3,337

12. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(1) Directors' emoluments (Continued)

notes:

(a) The discretionary bonus is determined based on the Group's and personal performance.

(b) Mr. Xu Tao is the executive director and the general manager of the Company.

(c) Mr. Dong Zheng was resigned from the the non-executive director of the Company on 28 August 2018.

(d) Mr. Xu Hong was elected as the non-executive director of the Company on 28 August 2018.

(e) Ms. Sheng Yan was resigned from the independent non-executive director of the Company on 28 March 2018.

(f) Mr. Chen Wei was elected as the independent non-executive director of the Company on 28 March 2018.

(g) Mr. Zhang Jun was resigned from the independent non-executive director of the Company on 29 March 2019.

(h) Mr. Zhao Xinsheng was elected as the independent non-executive director of the Company on 29 March 2019.

The executive director's emoluments shown above was 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 2019 and 2018.

12. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(2) Supervisory committee members' emoluments

The remuneration of each supervisor for the year ended 31 December 2019 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	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Mr. Yang A-guo	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Tao Qing	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Shi Hao-gang (note b)	–	–	519	333	277	500	67	72	25	24	888	929
Total	–	–	519	333	277	500	67	72	25	24	888	929

note:

(a) 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 2019 and 2018

(b) Mr. Shi Hao-gang was resigned from the supervisory of the Company on 11 December 2019.

(3) Senior management's emoluments

The remuneration of each senior management for the year ended 31 December 2019 is set out below:

Name	Fees		Basic salaries, allowances and benefits in kind		Discretionary bonus (note a)		Retirement benefit costs		Medical benefits		Total	
RMB'000	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Ms. Hu Li-ping	–	–	752	752	250	501	74	72	27	24	1,103	1,349
Mr. Liang Bao-long	–	–	617	617	216	303	74	72	27	24	934	1,016
Ms. Zhang Hui-qin	–	–	305	311	9,074	7,654	68	62	21	19	9,468	8,046
Mr. Chang Yu-bing (note b)	–	–	–	138	–	94	–	40	–	14	–	286
Mr. Xi Yu (note c)	–	–	74	295	89	354	18	72	6	24	187	745
Mr. Dai Yu-peng (note d)	–	–	720	1,080	402	800	–	–	29	22	1,151	1,902
Mr. Dong Gang	–	–	1,080	1,080	688	800	73	72	27	23	1,868	1,975
Ms. Tang Hao (note e)	–	–	507	295	270	354	74	72	27	24	878	745
Mr. Chong Xiao-bing (note f)	–	–	469	–	197	–	38	–	14	–	718	–
Total	–	–	4,524	4,568	11,186	10,860	419	462	178	174	16,307	16,064

12. 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 deputy general manager of the Company in June 2018.

(c) Mr. Xi Yu was resigned from the deputy general manager of the Company in March 2019.

(d) Mr. Dai Yu-peng ceased to be the deputy general manager of the Company in August 2019.

(e) Ms. Tang Hao was elected as the supervisory of the Company from 11 December 2019 till the end of the annual general meeting for the year 2019.

(f) Mr. Chong Xiao-bing was appointed as the executive deputy general manager of the Company in August 2019.

The senior management's emoluments shown above were for their services as one of the key management team rendered to the Company.

13. 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 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Salaries, allowances and benefits in kind	**1,230**	1,260
Discretionary bonuses	**35,795**	30,824
Retirement benefits	**340**	316
Medical benefits	**105**	96
	37,470	32,496

13. FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of the highest paid employees who are not the directors and supervisors of the Company whose remuneration fell within the following bands:

	Number	
	Year ended 31/12/2019	Year ended 31/12/2018
HK$5,500,001—HK$6,000,000	**–**	3
HK$6,000,001—HK$6,500,000	**1**	–
HK$6,500,001—HK$7,000,000	**2**	–
HK$7,000,001—HK$7,500,000	**–**	1
HK$8,000,001—HK$8,500,000	**–**	1
HK$8,500,001—HK$9,000,000	**1**	–
HK$10,000,001—HK$10,500,000	**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.

14. 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 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Loss for the year attributable to owners of the Company	**(378,301)**	(218,724)

	Year ended 31/12/2019	Year ended 31/12/2018
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.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Transportation vehicles and equipment RMB'000	Operating and office equipment RMB'000	Total RMB'000
COST					
At 1 January 2018	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 16)	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
Additions	515	159,092	40,250	85,470	285,327
Transfer from construction– in progress (note 16)	–	35,196	–	1,139	36,335
Disposals	(8,256)	(161,232)	(15,604)	(118,784)	(303,876)
At 31 December 2019	**3,156,689**	**2,100,169**	**288,045**	**1,553,867**	**7,098,770**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2018	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
Provided for the year	86,541	120,710	23,947	122,162	353,360
Impairment loss recognised	–	9,292	–	–	9,292
Eliminated on disposals	(4,818)	(156,863)	(13,792)	(118,063)	(293,536)
At 31 December 2019	**865,492**	**1,439,559**	**179,757**	**1,161,496**	**3,646,304**
CARRYING VALUES					
At 31 December 2019	**2,291,197**	**660,610**	**108,288**	**392,371**	**3,452,466**
At 31 December 2018	2,380,661	600,693	93,797	428,645	3,503,796

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 RMB9,292,000 (2018: RMB5,814,000) in respect of those identified assets have been recognised in full for the year ended 31 December 2019.

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

notes: (Continued)

(b) Amongst the depreciation expense of RMB353,360,000 (2018: RMB378,552,000), RMB304,112,000 (2018: RMB327,167,000) and RMB49,248,000 (2018: RMB51,385,000) were included in distribution and selling expenses and administrative expenses respectively.

(c) As at 31 December 2019, the carrying amount of certain buildings without building ownership certificates is RMB12,510,000 (2018: RMB13,027,000) 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

Impairment assessment

The management of the Group concluded there was indication for impairment and conducted impairment assessment on recoverable amounts of certain property, plant and equipment, right-of-use assets with carrying amounts of RMB3,452,466,000 and RMB7,480,238,000 respectively. The recoverable amount of buildings and right-of-use assets are estimated by relevant cash generating unit (CGU) which is loss making. The Group estimates the recoverable amount of the several CGUs of retail stores to which the asset belongs when it is not possible to estimate the recoverable amount individually.

The recoverable amount of respective CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the Group covering the following 5 years with a pre-tax discount rate is 10.6% as at 31 December 2019 (2018: 15.2%), respectively. The annual growth rate used is ranging from 0-2%, which is based on the industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry. The cash flows beyond the five-year period are extrapolated for perpetuity growth rate. Another key assumption for the value in use calculated is the budgeted gross margin, which is determined based on the CGUs' past performance and management expectations for the market development.

Based on the result of the assessment, management of the Group determined that the recoverable amounts of certain CGU are lower than the corresponding carrying amount. The impairment amount has been allocated to each category of property, plant and equipment and right-of-use assets such that the carrying amount of each category of asset is not reduced below the highest of its fair value less cost of disposal, its value in use and zero. Based on the value in use calculation and the allocation, an impairment of RMB9,292,000 (2018: RMB5,814,000) and RMB122,042,000 respectively, has been recognised against the carrying amount of property, plant and equipment and right-of-use assets.

16. CONSTRUCTION IN PROGRESS

	Construction in progress RMB'000
At 1 January 2018	313,168
Additions	155,917
Transfer to property, plant and equipment (note 15)	(423,623)
Transfer to intangible assets (note 19)	(14,183)
At 31 December 2018	31,279
Additions	**60,475**
Transfer to property, plant and equipment (note 15)	**(36,335)**
Transfer to intangible assets (note 19)	**(22,074)**
At 31 December 2019	**33,345**

17. RIGHT-OF-USE ASSETS

	Land use rights RMB'000	Buildings RMB'000	Total RMB'000
As at 1 January 2019			
Carrying amount	865,136	7,092,014	7,957,150
As at 31 December 2019			
Carrying amount	838,878	6,641,360	7,480,238
For the year ended 31 December 2019			
Depreciation charge	(26,258)	(1,012,270)	(1,038,528)
Impairment	–	(122,042)	(122,042)
Addition	–	1,101,421	1,101,421
Disposal	–	(417,763)	(417,763)
	(26,258)	(450,654)	(476,912)

	Year ended 31/12/2019 RMB'000
Expense relating to short-term leases and other leases with lease term end within 12 months of the date of initial application of HKFRS 16	149,499
Variable lease payments not included in the measurement of lease liabilities	9,171
Total cash outflow for leases	1,405,132

17. RIGHT-OF-USE ASSETS (Continued)

For both years, the Group leases retail stores for its operations. Lease contracts are entered into for fixed term of 1 to 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group has obtained all the land use right certificates for all leasehold lands.

Leases of retail stores are either with only fixed lease payments or contain variable lease payment that are based on 5% to 20% sales and minimum annual lease payment that are fixed over the lease term. No variable payment term includes cap clauses. The payment terms are common in retail stores in PRC where the Group operates. The amount of fixed and variable lease payments paid/payable to relevant lessors for the year ended 31 December 2019:

The Group regularly entered into short-term leases for building. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term to which the short-term lease expense disclosed above.

Variable lease payments

	Number of stores RMB'000	Fixed payments RMB'000	Variable payments RMB'000	Total payments RMB'000
Retail stores without variable lease payments	1,451	1,187,216	–	1,187,216
Retail stores with variable lease payments	27	56,147	9,171	65,318
	1,478	1,243,363	9,171	1,252,534

The overall financial effect of using variable payment terms is that higher rental costs are incurred by stores with higher sales. Variable rental expenses are expected to continue to represent a similar proportion of store sales in future years.

Restrictions or covenants on leases

In addition, lease liabilities of RMB7,528,356,000 are recognised with related right-of-use assets of RMB7,480,238,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes or be subleased under certain circumstances.

18. LAND USE RIGHTS

	Land use rights RMB'000
COST	
At 1 January 2018 and 31 December 2018	965,477
AMORTISATION	
At 1 January 2018	74,029
Charge for the year	26,312
At 31 December 2018	100,341
CARRYING VALUES	
At 31 December 2018	865,136
Adjustment upon application of HKFRS 16 (note 2.1)	(865,136)
At 1 January 2019	–

	31/12/2019 **RMB'000**	31/12/2018 RMB'000
Analysed for reporting purposes as:		
Non-current portion	–	838,878
Current portion to be charged to the profit or loss next year included in deposits, prepayments and other receivables (note 30)	–	26,258
Total	–	865,136

note: In 2018, Amongst the amortisation charge for the year of RMB26,312,000, RMB24,107,000 and RMB2,205,000 were included in distribution and selling expenses and administrative expenses respectively.

19. INTANGIBLE ASSETS

	Software RMB'000	Goodwill RMB'000	Total RMB'000
COST			
At 1 January 2018	225,393	151,941	377,334
Additions	13,015	–	13,015
Transfer from construction in progress (note 16)	14,183	–	14,183
Disposals	(7,478)	–	(7,478)
At 31 December 2018	245,113	151,941	397,054
Additions	12,822	–	12,822
Transfer from construction in progress (note 16)	22,074	–	22,074
Disposals	(7,150)	–	(7,150)
At 31 December 2019	**272,859**	**151,941**	**424,800**
AMORTISATION AND IMPAIRMENT			
At 1 January 2018	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
Charge for the year	17,416	–	17,416
Eliminated on disposals	(7,150)	–	(7,150)
At 31 December 2019	**172,909**	**23,988**	**196,897**
CARRYING VALUES			
At 31 December 2019	**99,950**	**127,953**	**227,903**
At 31 December 2018	82,470	127,953	210,423

notes:

(a) Amongst the amortisation charge for the year of RMB17,416,000 (2018: RMB13,415,000), RMB3,418,000 (2018: RMB2,401,000) and RMB13,998,000 (2018: RMB11,014,000) 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, presented in others in note 20, 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 20.

20. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill set out in note 19 has been allocated to each individual cash-generating unit (CGU) identified according to the separate acquisition. The goodwill as at 31 December 2019 allocated to these units is as follows:

	31/12/2019 RMB'000	31/12/2018 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**	10,781
	127,953	127,953

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% (2018: 0% to 5%), as appropriate, and a discount rate at 10.6% (2018: 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.

21. INTERESTS IN ASSOCIATES

The Group

	31/12/2019 RMB'000	31/12/2018 RMB'000
Unlisted equity investments	**472,117**	415,451
Share of post – acquisition profits and post – acquisition other comprehensive income net of dividends received	**252,981**	266,919
	725,098	682,370

21. 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
			2019 %	2018 %	
Shanghai Carhua Supermarket Co., Ltd. ("Carhua") (上海聯家超市有限公司(“聯家”))	Corporate	The PRC	**45.00**	45.00	Hypermarket
Shanghai Sanming Taige information technology Co., Ltd. (上海三明泰格信息技術有限公司)	Corporate	The PRC	**45.00**	45.00	Trading Company
Shanghai Gude commerce Company (上海谷德商貿合作公司)	Corporate	The PRC	**27.00**	27.00	Trading Company
Tianjin Yishang Friendship Holdings Co.,Ltd. ("Tianjin Yishang") (天津一商友誼股份有限公司 (“天津一商”))	Corporate	The PRC	**20.00**	20.00	Department Stores
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 i)	Corporate	The PRC	**11.77**	11.77	E-commerce
Hangzhou Jiangtou Lianhua Supermarket Co., Ltd. ("Jiangtou") (杭州江投聯華超市股份有限公司 (“江投”)) (note ii)	Corporate	The PRC	**49.00**	NA	Supermarket

21. INTERESTS IN ASSOCIATES (Continued)

note:

i. 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. Bailian E-commerce was renamed as Bailian Financial Services on 7 September 2018.

   The share capital of Bailian Financial Services increased by RMB440,000,000 in 2019. The Group invested RMB51,766,000, and the proportion of equity remains 11.765% after the investment.

ii. On October 31, 2019, a subsidiary of the Group and a third party established Jiangtou with a total investment of RMB10,000,000. The subsidiary invested RMB4,900,000 to hold 49% of the shares.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

Summarised financial information in respect of each of the Group's material associates are set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs:

Carhua

	31/12/2019 RMB'000	31/12/2018 RMB'000
Current assets	**1,903,448**	1,801,179
Non-current assets	**1,349,032**	728,941
Current liabilities	**1,783,179**	1,683,192
Non-current liabilities	**613,699**	–

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Revenue	**4,506,009**	4,421,924
Profit for the year	**9,823**	80,421
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:

	31/12/2019 RMB'000	31/12/2018 RMB'000
Net assets of Carhua	**855,592**	846,928
Proportion of the Group's ownership interest in Carhua	**45%**	45%
Carrying amount of the Group's interest in Carhua	**385,017**	381,118

21. INTERESTS IN ASSOCIATES (Continued)

Tianjin Yishang

	31/12/2019 RMB'000	31/12/2018 RMB'000
Current assets	**3,233,386**	419,733
Non-current assets	**882,520**	3,844,208
Current liabilities	**2,813,614**	1,940,970
Non-current liabilities	**699,436**	1,611,560

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Revenue	**1,145,721**	3,452,466
Loss for the year	**(108,554)**	(27,468)
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:

	31/12/2019 RMB'000	31/12/2018 RMB'000
Net assets of Tianjin Yishang	**602,856**	711,411
Proportion of the Group's ownership interest in Tianjin Yishang	**20%**	20%
The Group's interest in Tianjin Yishang	**120,571**	142,282
Goodwill	**6,787**	6,787
Carrying amount of the Group's interest in Tianjin Yishang	**127,358**	149,069

21. INTERESTS IN ASSOCIATES (Continued)

Tianjin Yishang (Continued)

As of the date of this report, the 2019 unaudited consolidated financial statements provided by Tianjin Yishang showed that the net assets attributable to the parent company at the beginning of 2019 is inconsistent with the figures at the end of the reporting year of 2018, representing a decrease of RMB1.11 billion. This was mainly because Tianjin Yishang made adjustments on the figures of the beginning of 2019 for internal reorganisation of its parent company, including provision for impairment loss on trade receivables of the original four subsidiaries of approximately RMB937 million. The management of the Group has conducted relevant review procedures on the consolidated financial statements of Tianjin Yishang and commenced communication regarding relevant issues on financial statements with Tianjin Yishang. The Company considers that the impairment provision of Tianjin Yishang is lack of legal basis, and such matter was not resolved at its general meeting. In addition, the decision procedures had not been audited and reviewed by auditors in compliance with relevant requirements. The Company has engaged a professional lawyer to file a legal letter to Tianjin Yishang, requiring Tianjin Yishang to convene a general meeting in accordance with its articles of association, conduct a special audit and submit relevant information. The Company reserves the right to legal proceedings to safeguard its own rights and interests. As relevant procedures are still in progress, the Company did not include such groundless adjustments into its interests in associates of the 2019 consolidated financial report of the Group.

21. INTERESTS IN ASSOCIATES (Continued)

Bailian Financial Services

	31/12/2019 RMB'000	31/12/2018 RMB'000
Current assets	**8,302,876**	8,026,454
Non-current assets	**41,542**	40,738
Current liabilities	**6,625,369**	6,840,048
Non-current liabilities	**17,400**	–

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Revenue	**98,606**	93,661
Profit for the year	**37,790**	131,703
Dividends appropriation from the associate during the year	**–**	51,766

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2019 RMB'000	31/12/2018 RMB'000
Net assets of Bailian Financial Services Non-controlling interests of Bailian Financial Services	**1,701,649** **–**	1,227,144 2,393
	1,701,649	1,224,751
Proportion of the Group's ownership interest in Bailian Financial Services	**11.77%**	11.77%
Carrying amount of the Group's interest in Bailian Financial Services	**200,199**	144,091

Aggregate information of associates that are not individually material:

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
The Group's share of loss	**(466)**	(798)
Aggregate carrying amount of the Group's interests in these associates	**12,524**	8,092

22. FINANCIAL ASSETS AT FVTPL

	31/12/2019 RMB'000	31/12/2018 RMB'000
Non-current		
Unlisted equity instruments (note a)	**21,872**	21,172
Equity securities listed in Shanghai Stock Exchange	**52,037**	31,729
Total	**73,909**	52,901
Current		
Equity securities listed in Shanghai Stock Exchange	**2,809**	1,864
Unlisted financial products (note b)	**1,307,938**	3,239,350
Total	**1,310,747**	3,241,214

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 ended 31 December 2018, an unlisted equity investment was disposed of, with corresponding loss on disposal of financial assets at FVTPL of RMB1,736,000 recognised in "other income and other gains and losses".

(b) 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 RMB70,498,000 (2018: RMB149,730,000), credited to "other income and other gains and losses " in the current year.

23. 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 2019, restricted term deposits amounting to RMB2,288,000,000 (2018: RMB1,730,000,000) 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. RMB1,978,000,000 of the restricted term deposits has been classified as current assets, and RMB310,000,000 has been classified as non-current assets. Structured deposit of RMB1,308,300,000 (2018: 200,000,000) are measured as FVTPL.

The rest of term deposits are held to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The effective interest rates on term deposits range from 2.25% to 4.99% (2018: 1.75% to 4.99%) per annum for the Group. The carrying amounts of the term deposits of the Group approximated their fair value.

24. PREPAID RENTAL

Prepaid rental is for the lease of certain store premises and is amortised over the relevant lease periods. The carrying amount of prepaid rental was adjusted to right-of-use assets at 1 January 2019 (note 2.1).

25. FINANCE LEASE RECEIVABLES

The Group entered into finance lease arrangements as a intermediate lessor for subleases of buildings. The average terms of finance leases entered into usually range from 3.33 to 12 years. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

There is no guaranteed residual values for the lease contracts.

For the year ended 31 December 2019, the finance lease receivables increased for the following reasons for the initial application of HKFRS16 (note 2.1).

	Minimum lease payments 31/12/2019 RMB'000	**Present value of minimum lease payments 31/12/2019** RMB'000
Finance lease receivable comprise:		
Within one year	65,496	62,764
In the second year	65,234	57,661
In the third year	67,350	55,046
In the fourth year	64,820	48,901
In the five year	60,261	41,939
After five year	127,577	78,245
	450,738	344,556
Unguaranteed residual values	–	–
Gross investment in the lease	450,738	N/A
Less: unearned finance income	(106,182)	N/A
Present value of minimum lease payment receivables	344,556	N/A
Analysed as:		
Current	65,496	39,376
Non-current	385,242	305,180
	450,738	344,556

Interest rates implicit in the above finance leases is 8.00%

There is no accumulated impairment loss in the carrying amount of the above finance lease receivables as at 31 December 2019.

Details of impairment assessment are set out in note 45b.

26. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	31/12/2019 RMB'000	31/12/2018 RMB'000
Deferred tax assets	2,933	79,146
Deferred tax liabilities	(94,388)	(93,210)
	(91,455)	(14,064)

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 2018	(62,731)	1,426	4,313	(13,894)	68,411	(2,475)
(Charge) credit 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)
Adjustment (note 2.1)	–	–	–	–	(73,223)	(73,223)
At 1 January 2019 (restated)	(70,437)	1,767	4,156	(22,773)	–	(87,287)
Credit (charge) to profit or loss	19,598	(9)	(2,981)	(20,776)	–	(4,168)
At 31 December 2019	**(50,839)**	**1,758**	**1,175**	**(43,549)**	**–**	**(91,455)**

The unrecognised tax losses and deductible temporary differences are as follows:

	31/12/2019 RMB'000	31/12/2018 RMB'000
Unrecognised unused tax losses	3,370,430	3,371,750
Unrecognised deductible temporary differences	814,296	657,578
	4,184,726	4,029,328

At the end of the reporting period, the Group had unused tax losses of approximately RMB3,370,430,000 (31 December 2018: RMB3,371,750,000) 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.

26. DEFERRED TAXATION (Continued)

The unrecognised unused tax losses will expire as follows:

	31/12/2019 RMB'000	31/12/2018 RMB'000
Year of expiring		
2019		397,635
2020	**402,393**	489,936
2021	**694,534**	804,930
2022	**711,858**	827,626
2023	**799,964**	851,623
2024	**761,681**	
	3,370,430	3,371,750

27. OTHER NON-CURRENT ASSETS

	31/12/2019 RMB'000	31/12/2018 RMB'000
Prepayments for the leasing of certain buildings (note)	**–**	12,834
Interest receivable	**63,171**	–
	63,171	12,834

note:

The prepayments for the leasing of certain buildings are amortised over the shorter of the contract periods and the estimated useful lives of the buildings and were reclassified as right-of-use assets at 1 January 2019. (note 2.1).

During the year ended 31 December 2018, amongst the amortisation of RMB1,458,000, RMB1,335,000 and RMB123,000 were included in distribution and selling expenses and administrative expenses respectively.

28. INVENTORIES

	31/12/2019 RMB'000	31/12/2018 RMB'000
Merchandise for resale	**2,764,918**	2,508,876
Write-down for obsolescence	**(1,114)**	(7,864)
	2,763,804	2,501,012
Low value consumables	**11,207**	8,066
	2,775,011	2,509,078

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 RMB6,750,000 (2018: RMB8,370,000) has been recognised and included in cost of sales in the current year.

29. TRADE RECEIVABLES

	31/12/2019 RMB'000	31/12/2018 RMB'000
Trade receivables – contracts with customers	169,049	179,876
Less: allowance for credit losses (note 45b)	(4,618)	(4,874)
	164,431	175,002

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB133,564,000.

The aging analysis of the trade receivables net of allowance for credit losses at 31 December 2019, arising principally from sales of merchandise to franchised stores and wholesalers with credit terms ranging from 30 to 60 days (2018: 30 to 60 days), presented as follows:

	31/12/2019 RMB'000	31/12/2018 RMB'000
0-30 days	161,692	171,377
31-60 days	963	1,353
61-90 days	1,432	1,915
91 days – one year	344	357
	164,431	175,002

note: The aging is determined from the date on which the control of the goods or services is transferred to the customers till the end of the reporting period.

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. For trade receivables, the Group has applied provision matrix to measure the ECL.

Aging of trade receivables which are past due:

	31/12/2019 RMB'000	31/12/2018 RMB'000
61-90 days	1,432	1,915
91 days – one year	344	357
	1,776	2,272

30. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	31/12/2019 RMB'000	31/12/2018 RMB'000
Land use rights – current portion (note 18)	–	26,258
Prepaid rental (note 24)	–	280,969
Deposits and prepayments	238,336	206,985
Dividend receivables (note 21)	–	51,766
Other receivables (note)	184,088	178,103
VAT recoverable	335,667	377,961
Less: allowance for credit loss (note 45b)	(3,859)	(3,753)
	754,232	1,118,289

Note: Other receivables included mainly interest recoverable from bank deposits in both years.

Details of impairment assessment of trade and other receivables are set out in note 45b.

31. 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 (2018: 30 to 60 days). As at 31 December 2019, balances of both amounts due from/to fellow subsidiaries are all aged within 60 days (2018: 60 days).

32. 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 (2018: 90 days) and the credit terms of the trade balances range from 30 to 90 days (2018: 30 to 90 days). Such balances with associates are unsecured and interest free.

33. 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 4.50% (2018: ranging from 0.30% to 4.99% per annum) per annum for the year ended 31 December 2019. As at 31 December 2019, the restricted cash and cash equivalents is RMB28,516,000 due to contract lawsuit with suppliers.

34. 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 (2018: 30 to 60 days), is as follows:

	31/12/2019 RMB'000	31/12/2018 RMB'000
0-30 days	2,188,279	2,178,686
31-60 days	600,744	679,871
61-90 days	347,832	357,182
91 days – one year	847,338	914,235
	3,984,193	4,129,974

note: The aging is determined from the date on which the control of the goods or services is transferred to the Group till the end of the reporting period.

35. OTHER PAYABLES AND ACCRUALS

	31/12/2019 RMB'000	31/12/2018 RMB'000
Payroll, staff welfare and other staff cost payable	321,863	358,701
Value added tax and other tax payables	42,994	73,436
Rental payable	–	810,480
Deposits from lessees, franchisees and other third parties	293,659	210,033
Dividend payable to non-controlling interests	–	14,127
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	21,100	27,391
Prepayments received from franchisees and other third parties	655,474	566,387
Payables for acquisition of property, plant and equipment and low value consumables	212,459	213,587
Store closure provision	6,583	53,757
Accruals	106,787	90,291
Other miscellaneous payables	14,950	20,931
	1,675,869	2,439,121

36. CONTRACT LIABILITIES

	31/12/2019 RMB'000	31/12/2018 RMB'000
Unredeemed balance of the Group's loyalty points under loyalty reward programs (i)	–	30,795
Coupon liabilities (ii)	7,896,106	7,659,255
Advance from customers	126,410	126,444
Total	8,022,516	7,816,494

As at 1 January 2018, contract liabilities amounted to RMB7,850,393,000.

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.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

i. Loyalty reward programs

The customer loyalty points had been forfeited after 30 June 2019.

ii. Coupon liabilities

The Group receives 100% of the face value of gift cards, which have no expiration.

37. LEASE LIABILITIES

	31/12/2019 RMB'000
Lease liabilities payable:	
Within one year	754,352
Within a period of more than one year but not more than two years	992,639
Within a period of more than two years but not more than five years	2,550,745
Within a period of more than five years	3,230,620
	7,528,356
Less: Amount due for settlement with 12 months shown under current liabilities	(754,352)
Amount due for settlement after 12 months shown under non-current liabilities	6,774,004

38. DEFERRED INCOME

	31/12/2019 RMB'000	31/12/2018 RMB'000
Government grants (note)	**11,779**	17,082

note:

During the year, the Group received a government subsidy of RMB750,000 (2018: RMB990,000) mainly related to compensation for acquisition of plant and equipment. The amount has been accounted for 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 RMB7,753,000 (2018: RMB6,053,000). As at 31 December 2019, an amount of RMB11,779,000 (31 December 2018: RMB17,082,000) remains to be amortised.

39. SHARE CAPITAL

	Number of shares		**Nominal value**	
	31/12/2019	31/12/2018	**31/12/2019 RMB'000**	31/12/2018 RMB'000
Ordinary shares of RMB1.00 each				
Registered, issued and fully paid:				
At 1 January 2018, 31 December 2018 and 31 December 2019	**1,119,600,000**	1,119,600,000	**1,119,600**	1,119,600

The share capital of the Company as at 31 December 2019 and 2018 comprises:

	Number of shares of RMB1.00 each		**Nominal value**	
	31/12/2019	31/12/2018	**31/12/2019 RMB'000**	31/12/2018 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.

40. NON-CONTROLLING INTERESTS

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Adjustment at 1 January 2019	**(19,570)**	26,484
Balance at beginning of year (restated)	**283,359**	322,165
Share of profit for the year	**136,302**	141,592
Dividend to non-controlling interest during the year	**(145,108)**	(136,354)
Acquisition of additional equity interest in a subsidiary	**–**	(24,474)
Balance at end of year	**274,553**	302,929

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

	31/12/2019 RMB'000	31/12/2018 RMB'000
Current assets	**7,339,276**	7,084,611
Non-current assets	**6,108,916**	2,829,720
Current liabilities	**9,310,066**	8,985,681
Non-current liabilities	**3,380,697**	97,150
Equity attributable to owners of the Company	**540,485**	605,459
Non-controlling interests	**216,944**	226,041

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Revenue	**13,255,971**	12,822,263
Total cost of sales, expense and other income	**(12,839,211)**	(12,392,084)
Profit for the year	**416,760**	430,179
Profit attributable to owner of the Company	**306,302**	315,088
Profit attributable to non-controlling interests	**110,458**	115,091
Dividends paid to non-controlling shareholders	**119,555**	109,237
Dividends paid to the Group	**371,276**	301,102
Net cash inflow from operating activities	**661,782**	599,250
Net cash inflow (outflow) from investing activities	**953,592**	(261,840)
Net cash outflow from financing activities	**(899,475)**	(410,867)
Net cash inflow (outflow)	**715,899**	(73,457)

41. 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 RMB236,670,000 (2018: RMB252,375,000) represents contributions payable to these scheme by the Group in respect of the current accounting period.

42. OPERATING LEASE

(1) The Group as lessee

	Year ended 31/12/2018 RMB'000
Minimum lease payment paid and recognised as an expense under operating leases during the year – Land and buildings	1,504,750

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31/12/2018 RMB'000
Within one year	1,504,195
In the second to fifth year inclusive	4,908,546
Over five years	4,824,427
	11,237,168

42. OPERATING LEASE (Continued)

(2) The Group as lessor

Minimum lease payments receivable on leases are as follows:

	31/12/2019 RMB'000
Within one year	200,836
In the second year	123,752
In the third year	86,132
In the fourth year	50,058
In the fifth year	36,024
After five years	46,646
	543,448

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

	31/12/2018 RMB'000
Within one year	284,384
In the second to fifth years inclusive	572,174
After five years	189,431
	1,045,989

43. CAPITAL COMMITMENTS

	31/12/2019 RMB'000	31/12/2018 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	**149,026**	178,932

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

	31/12/2019 RMB'000	31/12/2018 RMB'000
Financial assets at FVTPL	**2,692,956**	3,494,115
Financial assets at amortised cost (including cash and cash equivalents)	**5,243,484**	4,886,816
	7,936,440	8,380,931

Financial liabilities

	31/12/2019 RMB'000	31/12/2018 RMB'000
Financial liabilities, at amortised cost	**4,261,871**	5,305,991

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, financial assets at FVTPL, financial lease receivables, 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.

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and term deposits (see notes 23 and 33 for details). 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.

45. FINANCIAL INSTRUMENTS (Continued)

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

Total interest income from financial assets is as follows:

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Interest income		
– Financial assets at amortised cost	**220,674**	150,513

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 are outstanding for the whole year. A 10-basis point (2018: 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 (2018: 10-basis point) higher/lower and all other variables were held constant, the Group's post-tax loss for the years ended 31 December 2019 and 2018 would have decreased/increased by approximately RMB4,601,000 and RMB5,922,000 respectively.

Other price risk

The Group is exposed to equity price risk in relation to its financial assets at FVTPL which mainly include listed equity investments. The unlisted equity investments and legal person shares are measured at FVTPL 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)

Other price risk (Continued)

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date.

If the market prices of the respective equity instruments had been 5% (2018: 5%) higher/lower, post-tax loss for the year ended December 31 2019 would decrease/increase by RMB2,877,000 (2018: decrease/increase by RMB2,054,000) as a result of the changes in fair value of the financial assets at FVTPL (2018: FVTPL).

Credit risk and impairment assessment

As at 31 December 2019, 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, finance lease 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 this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

Amounts due from associates and fellow subsidiaries

The Group regularly monitors the business performance of the associates and fellow subsidiaries. The Group's credit risks in these balances are mitigated through the value of the assets held by these entities and the power to participate or jointly control the relevant activities of these entities. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2019 and 2018, the Group assessed the ECL for amounts due from associates and fellow subsidiaries were insignificant and thus no loss allowance was recognized.

Trade receivables

Trade receivables are due from regular institutional customers with an appropriate financial strength. The Group did not experience any significant defaults by the debtors.

For trade 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 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)

Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2019 and 31 December 2018:

At 31 December 2019

	Expected loss rate %	Trade Receivable RMB'000	Loss allowance RMB'000
Current (not past due)	**2**	**166,092**	**(3,437)**
1 – 30 days past due	**2**	**1,461**	**(29)**
More than 30 days past due	**77**	**1,496**	**(1,152)**
		169,049	**(4,618)**

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)

Other receivables

For other receivables, most of which are interest receivables from bank and deposits paid to lessors or other third parties, the directors of the Company make periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. During the year ended 31 December 2019, ECL on other receivables amounting to RMB106,000 (2018: RMB378,000) was recognised in the profit or loss.

Finance lease receivables

For finance lease receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of finance lease receivables.

45. FINANCIAL INSTRUMENTS (Continued)

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment (Continued)

Bank balances, term deposits and financial assets at FVTPL

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 2019, the Group's bank balances and term deposits deposited in the major five banks in the PRC accounted for 57.4% (2018: 74.0%) of total term deposits and cash and cash equivalents of the Group.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Watch risk	Debtor frequently repays after due dates but usually settle after due date	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
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – 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

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:

2019	Note	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000
Amounts due from associates	32	Low risk Loss	12-month ECL	39
Amounts due from fellow subsidiaries	31	Low risk Loss	12-month ECL	9,075
Trade receivables	29	Low risk Loss	Lifetime ECL (not credit Impaired)	166,092
		Watch risk loss	Lifetime ECL (not credit Impaired)	1,854
		Doubtful	Lifetime ECL (not credit Impaired)	1,103
			Total	169,049
Other receivables	30	Low risk or watch risk Loss	12-month ECL	171,104
		Doubtful	Lifetime ECL (not credit Impaired)	12,462
		Loss	Lifetime ECL (credit Impaired)	522
			Total	184,088
Finance lease receivables	25	Low risk Loss	Lifetime ECL (non credit Impaired)	344,556

2018	Note	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000
Amounts due from associates	32	Low risk Loss	12-month ECL	42
Amounts due from fellow subsidiaries	31	Low risk Loss	12-month ECL	29,556
Trade receivables	29	Low risk Loss	Lifetime ECL (not credit Impaired)	176,454
		Watch risk loss	Lifetime ECL (not credit Impaired)	2,319
		Doubtful	Lifetime ECL (not credit Impaired)	1,103
			Total	179,876
Other receivables	30	Low risk or watch risk Loss	12-month ECL	152,325
		Doubtful	Lifetime ECL (not credit Impaired)	25,582
		Loss	Lifetime ECL (credit Impaired)	196
			Total	178,103
Dividend receivables	30	Low risk Loss	12-month ECL	51,766

45. FINANCIAL INSTRUMENTS (Continued)

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment (Continued)

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.

2019

	Past due	**Not past due/No fixed repayment terms**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Amounts due from associate	**–**	**39**	**39**
Amounts due from fellow subsidiaries	**–**	**9,075**	**9,075**
Other receivables	**12,984**	**171,104**	**184,088**
Finance lease receivables	**–**	**344,556**	**344,556**

2018

	Past due	**Not past due/No fixed repayment terms**	**Total**
	RMB'000	RMB'000	RMB'000
Amounts due from associate	–	42	42
Amounts due from fellow subsidiaries	–	29,556	29,556
Other receivables	25,778	152,325	178,103
Dividend receivables	–	51,766	51,766

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 2019, the Group has net current liabilities of RMB5,144,812,000 (2018: RMB3,282,693,000). Taking into account of the historical settlement and addition pattern of the contract liabilities and the Group's ability of withdrawal of non-current unrestricted term deposits of RMB1,385,000,000, 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.

Liabilities	Weighted average interest rate	On demand or less than 12 months	1-5 years	more than 5 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2019						
Trade payables	–	3,984,193	–	–	3,984,193	3,984,193
Other payables and accruals	–	248,509	–	–	248,509	248,509
Lease liabilities	3.60-3.84	1,120,161	4,418,932	3,754,697	9,293,790	7,528,356
Amounts due to fellow subsidiaries	–	25,156	–	–	25,156	25,156
Amounts due to associates	–	1,262	–	–	1,262	1,262
Amounts due to other related parties	–	2,751	–	–	2,751	2,751
		5,382,032	4,418,932	3,754,697	13,555,661	11,790,227
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
		5,305,991	–	–	5,305,991	5,305,991

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)
	31/12/2019 RMB'000	31/12/2018 RMB'000			
1) Structured deposits measured as FVTPL and investments in low risk bank financial products classified respectively as term deposits and financial assets at FVTPL in the consolidated statement of financial position	**Assets – 2,616,238**	Assets – 3,439,350	Level 2	Discounted cash flow was used to capture the present value of the expected future economic benefit that will flow to the Group.	Expected 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 – 54,846**	Assets – 33,593	Level 1	Quoted bid prices in an active market	Not applicable
3) Unquoted equity investments classified as financial assets at FVTPL	**Assets – 21,872**	Assets – 21,172	Level 3	Fair value of net assets	

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 34	Bank and other borrowings RMB'000	Amounts due to Shanghai Bailian RMB'000	Lease liabilities RMB'000 note 37	Total RMB'000
At 1 January 2018	14,127	2,000	–	–	16,127
Financing cash flows	(136,354)	–	–	–	(136,354)
Dividend appropriation to non-controlling shareholders	136,354	–	–	–	136,354
Acquisition of partial interest of a subsidiary	–	–	28,176	–	28,176
Disposal of a subsidiary	–	(2,000)	–	–	(2,000)
At 31 December 2018	14,127	–	28,176	–	42,303
Adjustment (note 2.1)	–	–	–	7,961,049	7,961,049
At 1 January 2019 (restated)	14,127	–	28,176	7,961,049	8,003,352
Financing cash flows	(159,235)	–	(28,176)	(942,745)	(1,130,156)
Dividend appropriation to non-controlling shareholders	145,108	–	–	–	145,108
New lease entered	–	–	–	938,236	938,236
Lease termination				(428,184)	(428,184)
At 31 December 2019	**–**	**–**	**–**	**7,528,356**	**7,528,356**

47. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into new lease agreements for the use of leased properties for 1– 20 years. On the lease commencement, the Group recognised RMB971,114,000 of right-of-use asset and RMB938,236,000 of lease liability.

48. 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 31/12/2019 RMB'000**	Year ended 31/12/2018 RMB'000
Sales to fellow subsidiaries	(a)	**456,197**	243,690
Purchases from associates	(a)	**4,855**	4,569
Purchases from fellow subsidiaries	(a)	**81,160**	88,318
Purchases from other related parties	(b)	**4,498**	2,626
Rental income from fellow subsidiaries	(c)	**41,586**	32,230
Commission income earned from fellow subsidiaries	(d)	**234**	662
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	(e)	**5,752**	5,966
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	(e)	**8,325**	9,127
Property management fee charged by fellow subsidiaries	(f)	**14,205**	–
Expenses relating to short-term leases charged by fellow subsidiaries	(f)	**1,023**	–
Interest expenses on lease liabilities charged by fellow subsidiaries	(f)	**4**	–
Rental expenses and property management fee paid to fellow subsidiaries	(f)	**–**	66,352
Interest income earned from a fellow subsidiary	(g)	**32,122**	24,585
Platform usage fee charged by fellow subsidiaries	(h)	**19,887**	11,095
Logistics material rental fee charged by fellow subsidiaries	(i)	**2,350**	2,696
Logistics distribution service fee charged by fellow subsidiaries	(j)	**1,379**	2,054
Logistics distribution fee charged by the other related parties	(k)	**1,557**	1,450
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account	(l)	**19,058**	11,736
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account upon redemption of membership points by the customers	(l)	**14,161**	7,748

48. 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 Hangzhou Alibaba International Trading Co., Ltd. ("Hangzhou Alibaba") in respect of various kinds of goods, including but not limited to foods, fresh produce and industrial products. Hangzhou Alibaba 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) 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.

(d) 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% (2018: 0.5% to 1%) of the sales made through the coupons in the retail outlets of these companies.

(e) According to the business agreement on the settlement of coupon liabilities entered into between the Group and a fellow subsidiary controlled by Bailian Group, when the coupons issued by one party are redeemed in exchange for products or services to the retailers contracted by the other party or when the coupon liabilities are settled through the other party's network, a commission would be charged at a rate of 0.5% (2018: 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.

(f) These represent rental expenses and property management fee of certain hypermarkets charged by the fellow subsidiaries. Under HKFRS 16, the rental expenses as presented in 2018 have been recognised as lease liabilities paid to fellow subsidiaries and related financial cost during this current period except for those contracts which are applicable to the exemption of short lease as more fully explained in note 2.1. The payments to settle lease liabilities and finance cost as well as the property management fee as presented separately upon the application of HKFRS 16 during the current year are comparable to the corresponding item of rental expenses and property management fee, which were charged in accordance with the terms of the underlying agreements at the market price.

(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.

48. RELATED PARTY TRANSACTIONS (Continued)

(1) Related party transactions (Continued)

notes: (Continued)

(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.

(i) These logistics resources service fees 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.

(j) 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.

(k) 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.

(l) 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.

(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：

	31/12/2019 **RMB'000**	31/12/2018 RMB'000
Cash and cash equivalents in a fellow subsidiary	**566,757**	753,664
Unrestricted term deposits in a fellow subsidiary	**70,000**	20,000

48. RELATED PARTY TRANSACTIONS (Continued)

(2) Related party balances (Continued)

The summary of lease liabilities and lease receivables to/from related party is as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Lease liabilities	**–**	–

note: During the year ended 31 December 2019, the Group entered into one new lease agreements for supermarket operating with the holding company for one year. Except for short-term lease and low value leases in which the Group applied recognition exemption, the Group has recognised an addition of right-of-use assets and lease liabilities of RMB189,000 and RMB189,000.

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

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

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

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

(4) Compensation of key management personnel

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

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Salaries and other short-term employee benefits	**18,687**	18,669
Post-employment benefits	**493**	534
Other long-term benefits	**205**	198
	19,385	19,401

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at the end of the reporting period are set out below.

Name of entity	Date of establishment	Paid up issued/ registered capital RMB'000	Proportion voting power and ownership interest held by the Company Directly 2019 %	Directly 2018 %	Indirectly 2019 %	Indirectly 2018 %	Principal activities
Subsidiaries							
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	293,000	**100.00**	100.00	**–**	–	Convenience store
Shanghai Yanyu Trading Co., Ltd (上海岩鈺貿易有限公司)	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**	100.00	**–**	–	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

50. 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:

	31/12/2019 RMB'000	31/12/2018 RMB'000
Non-current assets		
Property, plant and equipment	**184,038**	190,318
Construction in progress	**–**	1,378
Right-of-use assets	**24,459**	–
Land use rights (note)	**–**	24,459
Intangible assets	**15,089**	16,671
Investments in subsidiaries	**1,506,220**	1,276,220
Interests in associates	**403,807**	231,714
Financial assets at fair value through profit or loss ("FVTPL")	**5,909**	4,761
Term deposits	**550,000**	–
Deferred tax assets	**117**	87
Other non-current assets	**2,100**	2,223
	2,691,739	1,747,831
Current assets		
Inventories	**652,310**	786,503
Deposits, prepayments and other receivables	**35,620**	168,189
Amounts due from fellow subsidiaries	**1,933**	2,336
Amounts due from subsidiaries	**5,734,108**	5,390,621
Amounts due from associates	**39**	42
Financial assets at FVTPL	**205,729**	518,779
Term deposits	**150,000**	200,000
Cash and cash equivalents	**723,932**	1,492,370
	7,503,671	8,558,840
Total assets	**10,195,410**	10,306,671

note: The Company has applied HKFRS 16 since 1 January 2019 in accordance with transitional provision stated in note 2. Upon application of HKFRS 16, the current and non-current portion of land use rights amounting to RMB929,000 and RMB24,459,000 respectively were reclassified to right-of-use assets.

50. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Information about the statement of financial position of the Company at the end of the reporting period includes (Continued):

	31/12/2019 RMB'000	31/12/2018 RMB'000
Capital and reserves		
Share capital	**1,119,600**	1,119,600
Reserves	**5,122,128**	4,700,921
Total equity	**6,241,728**	5,820,521
Non-current liability		
Deferred tax liabilities	**1,149**	862
Current liabilities		
Trade payables	**1,552,811**	1,789,577
Other payables and accruals	**135,442**	146,505
Contract liabilities	**1,791,010**	1,779,252
Amounts due to Shanghai Bailian	**–**	28,176
Amounts due to fellow subsidiaries	**23,566**	37,022
Amounts due to subsidiaries	**435,580**	693,668
Amounts due to associates	**1,262**	1,156
Amounts due to other related parties	**2,751**	785
Tax payable	**10,111**	9,147
	3,952,533	4,485,288
Total liabilities	**3,953,682**	4,486,150
Total equity and liabilities	**10,195,410**	10,306,671
Net current assets	**3,551,138**	4,073,552
Total assets less current liabilities	**6,242,877**	5,821,383

50. 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 2018	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 income 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
Adjustments	**–**	**–**	**–**	**–**	**120,326**	**120,326**
At 1 January 2019 (restated)	**1,119,600**	**258,353**	**3,595**	**559,800**	**3,999,499**	**5,940,847**
Profit for the year	**–**	**–**	**–**	**–**	**300,881**	**300,881**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**300,881**	**300,881**
At 31 December 2019	**1,119,600**	**258,353**	**3,595**	**559,800**	**4,300,380**	**6,241,728**

The amount of the Company's retained profits available for distribution to shareholders as at 31 December 2019 amounted to approximately RMB4,300,380,000 (2018: RMB3,879,173,000).

Environmental, Social and Governance Report

Contents

About the Report

The 2019 Environmental, Social and Governance Report of Lianhua Supermarket (hereinafter referred to as the "Report") states the principles adopted by Lianhua Supermarket Holdings Co., Ltd. in 2019 in fulfilling its social responsibility and the work performance, including topics about sustainable development of environment and society that attract attention of important stakeholders.

Basis for Compilation

The Report is compiled based on Environmental, Social and Governance Reporting Guide (hereinafter referred to as the "ESG Reporting Guide") by The Stock Exchange of Hong Kong Limited (hereinafter referred to as "SEHK") and by referring to the matrix approach of material issues raised in Sustainability Reporting Standards by Global Reporting Initiative (GRI Standards 2016, hereinafter referred to as the "GRI Standards").

Scope of Reporting

The Report is mainly about Lianhua Supermarket Holdings Co., Ltd. and covers all segments, regional companies (listed below) and all directly-operated stores, which conform to the entities covered in the consolidated financial statements in the Company's annual report. Certain contents cover franchised stores, which has been explained in corresponding parts.

Full Name of Companies	Abbreviation in the Report
Lianhua Supermarket Holdings Co., Ltd.	Lianhua Supermarket or the Company
Shanghai Century Lianhua Supermarket Development Co., Ltd.	Century Mart or Hypermarket Operation Centre
Shanghai Lianhua Supermarket Development Co., Ltd.	Lianhua Supermarket Development or Supermarket Operation Centre
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 2019 to 31 December 2019, and the Report is an annual report.

Explanation on Data

All data and cases are based on the original records or financial reports from the actual operation of the Company.

Reliability Assurance

The Board of the Company warrants that the Report does not contain any false information, misleading statement or material omission.

Performance Overview

Social Performance

Total employees **35,238**	Proportion of female employees in the middle management is **37.60%**, and proportion of female employees in the senior management is **41.46%**.
Staff training coverage **94.41%**	Training hours per employee **19.14 hours**
Percentage of total products sold that are subject to recalls for safety and health reasons was **0.002%**, decreasing by **0.003%** from the previous year.	
Community investment **RMB350,300**	

Environmental Performance

Gas consumption per unit business area decreased by **$0.02m^3/m^2$** from the previous year

Hazardous waste discharge per unit business area decreased by **$0.02ton/10,000m^2$** from the previous year

Non-hazardous waste discharge per unit business area decreased by **$7.42ton/10,000m^2$** from the previous year

Honors

- The Company was honored "**Best Brand Visual Expression – Gold Prize in Retail Business**" and "**Best Brand Establishment Internal Communication Silver Prize**" by Transform Awards.

- In the Fourth "αi Social Value Creation event" Outstanding Corporate Social Responsibility Practices in China which was jointly held by School of Management of Fudan University, CCM CSR Promotion Center, Zhongzhi Guanaitong (Shanghai) Technology Co., Ltd. and Shanghai Channel of People's Daily Online, the "Stay True to the Mission and 100 Stores in 10 Cities Support Xinjiang of Lianhua Huashang" (「聯華華商不忘初心十城百店援疆工程」) program of the Company was honored "**Red Practice of Enterprise • Model of Social Value and Spirit of the Times**" (「**企業紅色實踐 • 社會價值共創—時代精神案例獎**」).

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 direct operation, franchises, and mergers and acquisitions. Lianhua Supermarket was listed on the SEHK 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 operate a total of 3,352 outlets (excluding those operated by the Company's associated companies) in 21 provinces and municipalities across the nation, providing daily necessities to consumers.

Our Brands

世纪联华 CenturyMart

快客 Quik

华联超市

联华超市

1.1 Concept of Social Responsibility

With the corporate vision of "increase our customer's loyalty to us"(「讓消費者更喜愛我們」), the Company launches the brand refreshment and sets the corporate mission of "good commodities and good experience to build a good life"(好商品、好體驗構建人情好生活), which reflects the Company's concept of social responsibility as an operator running business concerned with people's livelihood: to help consumer realize high-quality lifestyle and to build better living environment through offering high-quality products and services.

Brand Slogan
Living Wholeheartedly

Brand Mission
Good commodities and good experience to build a good life

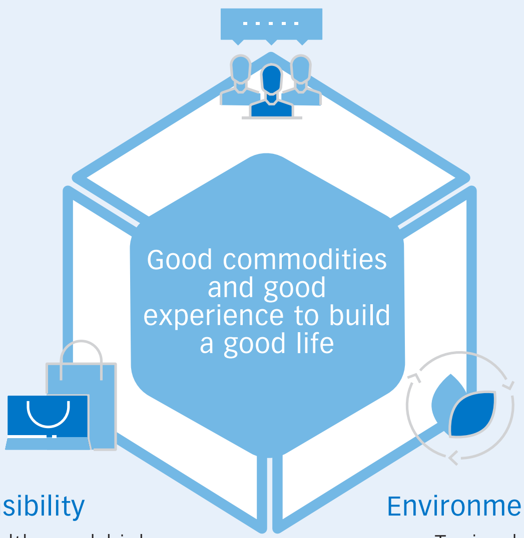
Brand Vision
Increase our customer's loyalty to us

Brand Value
Staying customer oriented, pursuing excellence, leading by innovation, upholding integrity, devoting to retail industry

Further, as the Company is a labor-intensive enterprise, protecting the rights and interests of employees and providing an equal, inclusive, healthy and safe working environment is closely related to the Company's sustainable development and is also a way for the Company to build a good life for its staff. Leveraging the advantage of broad outlets and wide network coverage, the Company actively participates in community service and public welfare activities to promote community prosperity, and becomes a creator of better life for the society. In addition, the Company attaches great importance to environmental protection, continuously promotes green operation in hypermarkets and supermarkets, advocates sustainable consumption and makes contribution to environmental protection.

Staff and Community Responsibility

- To build an equal and harmonious employment environment and a complete occupational development roadmap
- To build convenience centre and disaster preparation centre in the community and to promote community prosperity



Consumer Responsibility

- To offer safe, healthy and high-quality products and friendly consumer service experience

Environmental Responsibility

- To implement green operation and to promote sustainable development

Corporate Social Responsibility Model of Lianhua Supermarket

1.2 Stakeholder Engagement and Material Issue Analysis

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 devoted to realizing its sustainable development by exploring diverse communication methods and responding actively to these wishes and appeals in daily management and business practices.

Table of Major Stakeholders of Lianhua Supermarket and their Concerns

Major stakeholders	Stakeholders' concerns	Communication and response
Shareholders	• Compliant operations • Risk management • Economic performance • Anti-corruption	• Information disclosure of listed companies • Shareholders meeting • Investors meeting
Customers and consumers	• Product and service quality • Responsible marketing • Customers/consumers relationship management • Protection of customers'/consumers' information and privacy	• 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 benefits and welfare • Staff health and safety • Staff development and training • Talent attraction and retention	• Trade union and employee representative meeting • Staff activities • Staff 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

In 2019, based on its own business and operational characteristics and making reference to the ESG Reporting Guide of the SEHK and GRI Standards as well as national and industry policies and reviewing peer industry reports at home and abroad, the Company has identified 16 environmental, social and governance issues. 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 on the economy, environment and society as high materiality issues by making reference to material issues analysis methods of GRI.

Issues identification

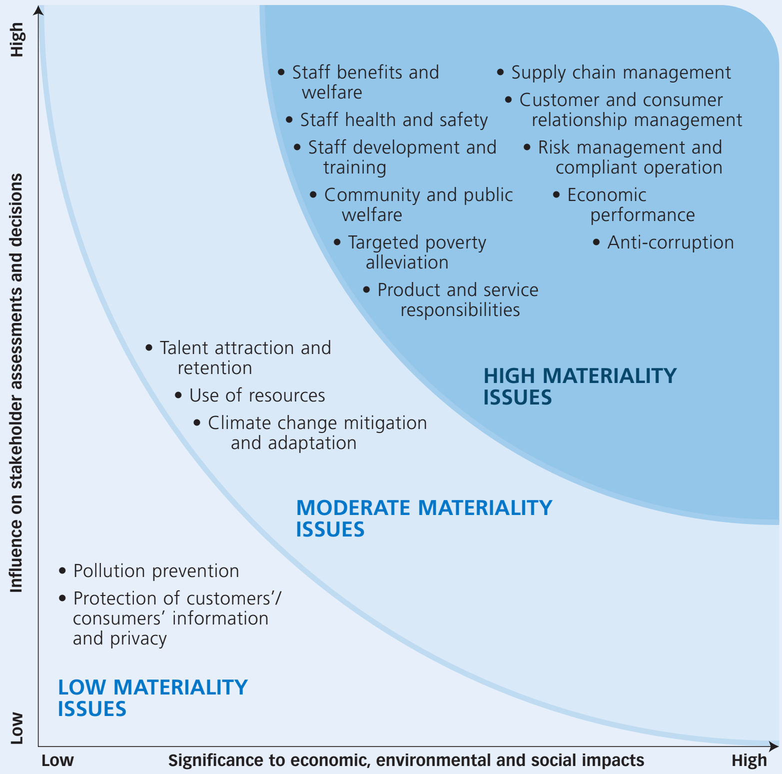
To identify environmental, social and governance issues based on the ESG Reporting Guide of the SEHK and GRI Standards.

Sequence

Ranking issues based on peer-reviewed research at home and abroad and practical operation conditions of the Company and selected 16 issues with respect to the Company's operations are screened by sequence.

Verification

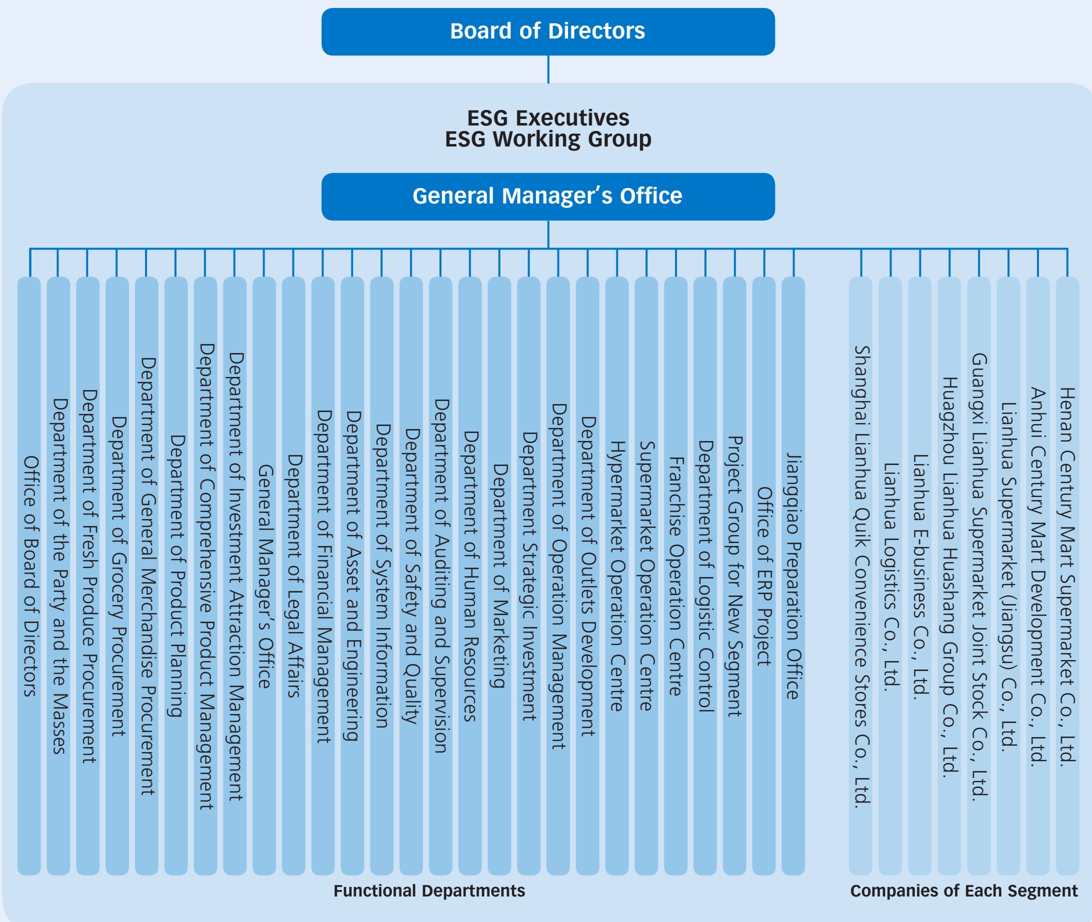
High materiality issues shall be further screened on the basis of the experts' opinion, and are addressed in the Report.



1.3 Structure of 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 structure which involves the Board's decision-making, the participation of the management and the coordination of various functional departments, the Company continues to live up to its own responsibility concepts as well as commitments to stakeholders and guarantees the implementation and advance of social responsibility tasks.

ESG Decision Makers: Setting Strategies and Goals



2 Offering Consumers High-quality Products and Superior Experience

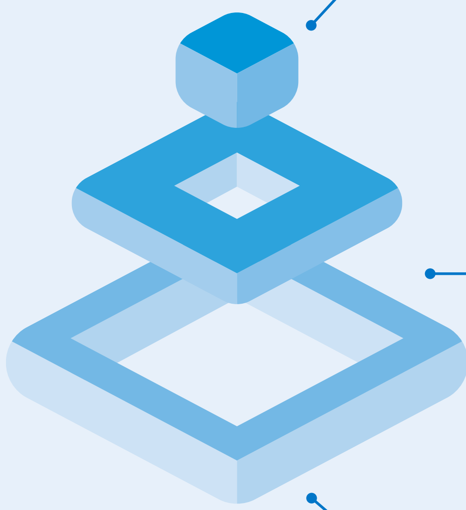
As an operator running business concerned with people's livelihood, the quality of goods and customer services are the cornerstone of winning consumers' trust and its most basic social responsibility. Taking the construction of "Trustworthy Supermarket" and safe production standardization and systematization as the key 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 Market, Administrative Measures for Food Recall, Regulations of Shanghai Municipality on the Protection of Consumers' Rights 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	Primary Responsibility Practice	Primary Responsibility Result
• Products and services responsibility • Corresponding United Nations Sustainable Development Goals (SDGs): 	• Ensuring product quality • Providing safe and healthy food • Building a favorable shopping environment	• Trustworthy Supermarket assessment has been conducted on all directly-operated stores of Century Mart and Lianhua Quik; a total of 616 directly-operated stores and franchised stores of Lianhua Supermarket Development and franchised stores of Lianhua Quik have completed the regional-level Trustworthy Supermarket assessment. • Lianhua Huashang won the first prize and second prize of Hangzhou Outstanding Quality Management Group for 2019 (2019年杭州市優秀質量管理小組) respectively for Lowering the Maintenance Cost of QR Code Traceability System (《降低二維碼追溯系統維護成本》) and Improving the Effectiveness of Drug Warehousing, Selling and Inventory Lot Number Management (《提高藥品進銷存批號管理工作的效率》).

2.1 Ensuring Product Quality

Three-tier Quality Management System

Following the quality principles of "People Oriented, Leading Service, Enhanced Management and Quality First", the Company established the production and food safety incident response group and gradually constructed "Department of Safety and Quality – Shanghai Operation Centre – Stores" three-tier safety and quality management system to strengthen the quality management.



Department of Safety and Quality

- Report safety and quality work to the Board, procure operation centers, companies of each segment to sign letters of responsibilities on food safety
- Hold safe production and food safety management meetings on a monthly basis, and nation-wide video conferences about safe production and food safety management on a quarterly basis
- Supervise and spot check the implementation of each department and each segment in respect of safe production and food safety

Shanghai Operation Centre

- Build the hypermarket visit system, guide and inspect the Trustworthy Supermarket arrangement of each store, conduct store safety inspections, other special inspections and joint inspections
- Sign Letter of Responsibility on Safety Targets with stores of the supermarket segment, hold safe production meetings, and organize pre-holiday safe production inspections

Stores

- Construct Trustworthy Supermarket and promote self-inspections of stores

Three-tier Safety and Quality Management System

Production and Food Safety Incident Response Group:

- Chief leaders of each department in headquarters, Shanghai Operation Centre, each segment and regional companies are the chief responsible person for production and food safety incident response group.
- Major duties of the group are to carry out and supervise incident response measures and to promptly and effectively control production and safety incidents.

Product Quality Management Procedures

The Company's product quality management involves supplier review, product review, product acceptance, inspection of on-shelf products and unqualified goods disposal. In 2019, the Company improved Measures for Management of Product Certificates and Invoice (《商品索證索票管理辦法》), Procedures for Management of Product Acceptance, Warehousing and Return (《商品進貨驗收、儲存及退貨管理程序》), Unqualified Product Management Procedures (《不合格商品管理程序》) and other systems, offering guidance for product management procedures.

Supplier Review

- Supplier qualification and credit review
- Third-party professional institution's on site inspection on the production of private-label products

Check more than 6,300 electronic certificates on the platform, with the uploading rate over 94.2%

Product Review

- Product qualification review
- Physical verification: package review of samples, assessment of food quality, products weight, product lot conformity certificate
- Certificate and invoice: certificate of qualification, inspection and quarantine certificate for fresh produce, etc.

Review 4,478 new products, with 3,852 products passing the initial inspection

Product Acceptance Control

- Test Centre, Jingjie Logistics Test Laboratory[1] and store conduct product quality acceptance control
- Establish rapid food test unit management system and inspect procedures and take records

Test Centre and Jingjie Logistic conducted 47,446 tests for pesticide residues in vegetables and fruits, and Test Centre conducted 3,417 tests for clenbuterol in pork, with 100% qualification rate.

Inspection of On-shelf Products

- Carry out spot check at two stores three times a month in order to check product quality, with results recorded on Spot Check of Product Quality Record
- Conduct third-party assessment on the food quality and safety of stores and warehousing and distribution centers

Century Mart conducted 38,959 tests for pesticide residues in vegetables and fruits, 8,874 test for clenbuterol in pork, and 7,159 tests for water-swollen products, with 100% qualification rate; and 43 third-party tests, and 97.67% of them were qualified. The inspection covered 43 stores, warehousing and distribution centers in total

Unqualified Goods Disposal

- Unqualified goods identified by municipal quality and technical supervision bureau through voluntary check or spot check shall be prohibited from sale, removed from the shelves, and returned to the suppliers together with the 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

23 notices were issued in respect of unqualified products, involving 52 products

[1] Jingjie Logistics Test Laboratory is a logistics test lab established by Lianhua Supermarket in Chongming Vegetable Base

As a retail enterprise, Lianhua Supermarket sells products all provided by its suppliers. Therefore, supplier review is the first section of quality management. Suppliers of the Company mainly include those of private-label products and those of non-private-label products. 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 requirements of relevant laws and regulations.

Licenses Examination – 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), China Compulsory Certification (referred to as: "3C Certificate"), and tax registration certificate.

For suppliers of the private-label brand, the Company develops Procedures for Private-label Brand Supplier Review and Management (《自有品牌供應商審核管理程序》), Procedures for Private-label Product Review and Management (《自有品牌商品審核管理程序》) and Procedures for Private-label Brand Quality Management (《自有品牌質量管控流程》), so as to standardize the management of private-label product suppliers and guarantee the quality of private-label products.

Requirements on Private-label Brand Supplier Review

Supplier of Private-label Products	Review Requirements	Major Progress
New suppliers	Introduction: ✔ Certificate verification, including production permit or food distribution permit, trademark registration certificate, etc. ✔ First on-site inspection, including production environment, production process, quality management system and other aspects First mass production: ✔ Second on-site inspection	90 private-label brand suppliers newly introduced were reviewed. One production enterprise of private-label brand rice was rejected because it failed to meet the Company's requirements on production environment, production process, management system, etc.
Existing suppliers	✔ At least one on-site inspection every year ✔ At least one spot check every year for food production suppliers	

With respect to unqualified products, the Department of Safety and Quality, the Procurement Department, the Department of Comprehensive Product Management, Lianhua Logistics, operation centers/stores are jointly responsible for the disposal of unqualified products.

Department of Safety and Quality	Procurement Department	Department of Comprehensive Product Management	Lianhua Logistics	Operation Centers/ Stores
Collect information about unqualified products, prepare and issue removal notices, track the whole course of disposal and the remediation	Notify suppliers and urge suppliers to take rectification measures	Take charge of the permission setting of unqualified products in the Company's product system	Transfer unqualified products to another warehouse for further disposal	Take unqualified products off the shelve, and re-launch the sale after these unqualified products are determined qualified

2.2 Providing Safe and Healthy Foods

Food Safety Management Network

With enhanced health and safety awareness, food safety has become the focus of the public. The Company takes food safety as the key aspect of quality management. The Company launched the in-store catering business in 2018, and currently operates two stores providing catering services in Shanghai, offering consumers more convenient and diverse catering choices. The launching of in-store catering business sets higher requirements on the Company's food safety work. In 2019, the Company developed nine documents on food safety system for the in-store catering management to further improve the food safety management and ensure that safe and healthy foods are offered to consumers.

The Company established a three-tier prompt response and management mechanism and food safety management network involving stores, segments (companies) and the Department of Safety and Quality of the Company, and adopted a top-down approach to promote government's requirements and the Company's activities related to food safety and, at the same time, a bottom-up approach to regularly promote the information communication related to food safety, so as to advance the food safety management. In addition, for food suppliers, the Company implemented 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.

Company	Achievements on Food Safety Management
Lianhua Huashang	Study and Application of Key Technology for Precise Control of Quality and Safety in the Whole Process of Supply Chain of Fresh Aquatic Products in Hypermarket(《大型商超鮮活水產品供應鏈全過程質量安全精準控制關鍵技術研究與應用》), a technology innovation project cooperated with Hangzhou Academy of Agricultural Sciences, focused on the quality control and the traceability of fresh aquatic products and promoted the construction of agriculture products traceability system through technology innovation.
Lianhua Guangxi Company	14 stores were designated by the local Commission of Commerce as pilot stores of meat and vegetable traceability system. Consumers can get access to the information of meat and vegetables by scanning the meat and vegetable traceability code within the stores.
Lianhua Henan Company	Promoted 6S food safety management requirements, and comprehensively controlled the food safety in every process of stores' production and operation through six dimensions, being Organized, Rectified, Clean, Hygiene, Professional and Secure, and provided necessary guarantee to the food safety management.

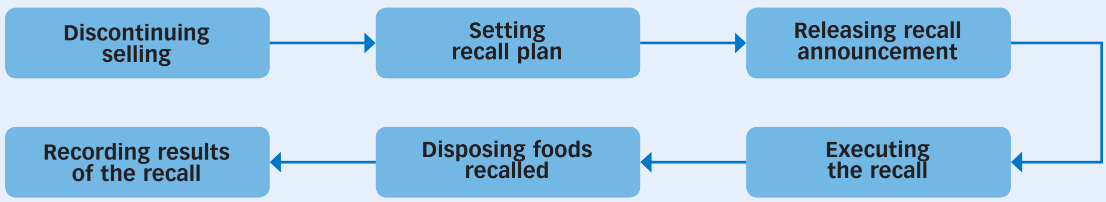
Construction of Trustworthy Supermarket

In 2019, the Company continued to promote the construction of Trustworthy Supermarket and improved the food safety level. Based on relevant requirements of "Trustworthy Supermarket" review, the Company streamlined and improved the system, launched the supermarket store "Trustworthy Supermarket" universal training, and urged stores to make rectifications in respect of issues identified. In the meantime, the Company selected 12 stores from franchised stores of Lianhua Quik, franchised stores and directly-operated stores of Lianhua Supermarket Development as Trustworthy Supermarket model stores in 2019, engaged a third-party audit company to conduct simulated review on these model stores, and facilitated stores to make rectifications in respect of issues identified, which improved the level of Trustworthy Supermarket construction.

All directly-operated stores of Century Mart and Lianhua Quik have completed the Trustworthy Supermarket review. As of December 2019, directly-operated stores of Century Mart and Lianhua Quik have completed the Trustworthy Supermarket review. 616 directly-operated stores and franchised stores of Lianhua Supermarket Development and franchised stores of Lianhua Quik were rated as regional-level Trustworthy Supermarket, among which, 38 stores participated in the municipal-level Trustworthy Supermarket review, and three stores participated in the "Safe Meat & Vegetable Supermarket"(「放心肉菜示範超市」) municipal-level review.

Food Recall

The Company develops Procedures for Food Recall Management of Lianhua Supermarket Holdings Co., Ltd. (《聯華超市股份有限公司食品召回管理程序》) and strengthens the food safety management to minimize and prevent any unsafe foods affecting consumers' health. The Department of Safety and Quality, the Procurement Department, operation centers, Lianhua Logistics and stores are jointly responsible for food recall management. For recalled foods, the Company takes measures including non-hazardous treatment and destruction in accordance with relevant requirements of the State to prevent these foods from flowing back to the market again.

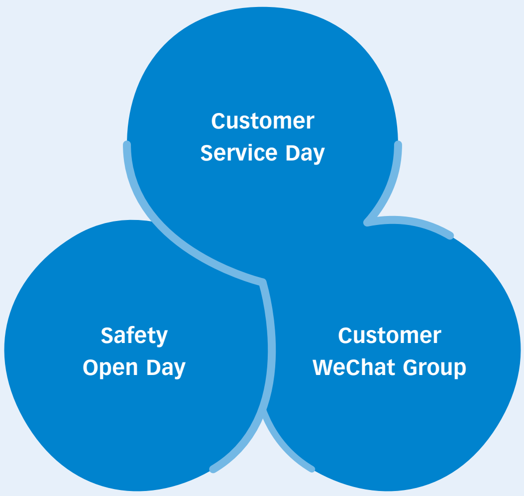


The Company takes recall drills to improve its capability of food incident response management. In 2019, the Department of Safety and Quality, operations centers and the logistics centers organized food recall drills to improve the appropriateness and completeness of the recall system of the Company.

2.3 Building Favorable Shopping Environment

Communication with Consumers

The Company establishes a customer insight system. Shanghai Operation Centre prepares customer service manual and service improvement plan for stores of the supermarket segment, builds the customer service system and offers guidance for customer services. In the meantime, stores of the hypermarket segment develop various channels for communication with consumers to fully understand customers' needs and therefore to improve customer services.



Consumers Communication Channels

"3.15 Credit Assurance Consumption" Series Activities

In 2019, 34 stores of Century Mart launched "3.15 Credit Assurance Consumption" Series Activities(「3.15信用讓消費更放心」), and conducted "3.15" consumer right protection campaign and customer satisfaction survey, assessing 34 stores from 14 aspects and collecting 3,399 questionnaires. The comprehensive satisfaction of customer satisfaction survey was 97.19%, which represented a year-on-year improvement of 0.55%.

In addition, the Company launched the food safety promotion activities in Century Mart Zhonghuan Store to offer consumers food safety knowledge. The store disseminated knowledge of foods by various means including wobblers and table cards.

For consumer complaints, the Company develops Procedures of Consumer Complaint Management (《顧客投訴管理程序》) in accordance with the Food Safety Law, the Price Law and the Law on the Protection of Consumer Rights and Interests to respond to consumers' complaints. It gets access to consumer complaint information through "12315 Consumer Complaint System"(「12315消費者投訴處理系統」), and summarizes such information and reports the information to each segment and member companies.

Category of Complaint	Treatment
Complaint about store	The relevant store is responsible for responding to the complaint in accordance with Procedures of Consumer Complaint Management.
Complaint about product quality and food safety	The Department of Safety and Quality negotiates with suppliers and works with the Procurement Department to develop the solution.
Complaint about the headquarters	The Department of Safety and Quality records the complaint and directly transfers the matter to the relevant operation center/segment/member company and the relevant department.

Safe and Friendly Shopping Environment

The Company manages the production safety of stores under the "Headquarters – Shanghai Operation Center – Stores of each segment" three-tier safety management system. In 2019, the Company improved relevant systems related to safe production in accordance with Opinions of the State Council on Promoting the Reform and Development in the Field of Production Safety, actively organized fire drills, pre-holiday safe production inspections and store self-inspections and offered safety trainings to all staffs to improve safety awareness and strengthen safety management.

System Amendment and Improvement

- Systems including the Safety Management System of Lianhua Supermarket Holdings Co., Ltd. (《聯華超市股份有限公司安全防範管理制度》), the Incident Response Plan of Lianhua Supermarket Holdings Co., Ltd. (《聯華超市股份有限公司處置突發事件應急預案》), the Incident Response Plan of Lianhua Supermarket (Insurance Claims) (《聯華標超應急處理預案(保險理賠)》), and the Implementation Rules for Safety Work in Typhoon and Rainstorm (《颱風暴雨安全工作實施細則》) were amended and improved

Safety Drills and Inspections

- All stores conducted fire drills in line with "Safe Production Month" program in early June 2019
- 245 pre-holiday safe production inspection for all stores were conducted throughout 2019; Stores identified 1,420 potential dangers through self-inspection and made 1,420 rectifications

Staff Safety Trainings

- Trainings were offered through VKO platform and Bailian i Learning (百聯i學), including lectures delivered by professional trainers, interpretations of laws and regulations by the Department of Safety and Quality, and Q&A sessions

Safety Month

The Company launched "Safe Production Month", "CIIE Period" and "119 Fire Safety Month" drills, and achieved relevant results.

During the Safety Month, stores of each segment delivered the theme of the activity to each staff by regular meetings, organized drills in respect of typhoon and flood, water leakage in the course of store operation, short-circuiting due to overloading of electricity of stores, firefighting and evacuation in the course of special incident response, so as to improve staffs' accident prevention awareness and rescue and response capabilities, and the effectiveness and operability of emergency response plans.

In addition, the Company offers the elderly shopping facilitated means. 34 stores provide presbyopia glasses and delivery-to-home services to the elderly. Qingpu Store of Century Mart sets up baby care rooms and private bathrooms for people with disabilities and children.

2.4 Building Operation Basis in Compliance with Laws

To guarantee the sustainable operation, the Company stands firmly to the basis of compliant operation. In June 2019, the Party Committee of the Company organized workshops of "remaining true to our original aspiration and keeping our mission firmly in mind", which included special anti-corruption and self-discipline education. In addition, the Company updated the Accountability Mechanism of Clean and Honest Party Construction and Responsibility of Discipline Supervision of Lianhua Supermarket Holdings, Co., Ltd.(《聯華股份落實黨風廉政建設責任制紀委監督責任清單》) in 2019, signed the Responsibility Agreement on Clean and Honest Party Construction (《黨風廉政責任書》), the Letter of Commitment of Party Members (《黨員崗位承諾書》) with Party members, and the Letter of Undertaking on Clean and Honest Practices (《廉潔從業承諾書》) with personnel of key positions, and developed the Management Practices on Group-purchase Products in the Supermarket (《賣場商品團購管理規範》) and the Regulations on Management's 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》), thereby ensuring the Company's compliant and stable operation.

With respect to suppliers, the Company has established the Lianhua Supermarket bribery-crime inquiry platform with the Shanghai Putuo District People's 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, prohibited from taking engineering business and disqualified as suppliers of the Company. In 2019, the Company inquired 462 suppliers on the bribery-crime inquiry platform, and all suppliers passed the inquiry.

3 Offering Better Living for Staff and Community

As a labor-intensive enterprise, the Company actively protects employees' basic rights and physical and mental health and launches a variety of employee activities and comprehensive staff training according to the national laws and regulations and the policies of places of incorporation, devoting itself to creating a favorable working environment and a harmonious and friendly working atmosphere for employees, thus promoting employees' positive development. Currently, the Company has 3,352 stores in total covering 21 provinces and municipalities. Leveraging the retailing advantages, the Company actively participates in public welfare activities such as community services, poverty alleviation and agricultural assistance, seeking development together with the community.

In 2019, 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	Responsibility Practice	Responsibility Result
• Employee Responsibility and Community Responsibility • Corresponding United Nations Sustainable Development Goals (SDGs): 	• Safeguarding employees' equal opportunities and democratic communication, and carrying out employee caring activities • Guaranteeing employees' occupational health and safety • Offering employees training and development opportunities • Engaging in community activities • Helping farmers through procurement, pairing and helping poverty-stricken areas	• Lost days due to work injury per employee decreased by 0.089 day/person from 2018 • Training hours per employee was 19.14 hours • 822 stores established "Caring Station" for sanitation workers • Stores in Shanghai region sold products purchased from poverty-stricken farmers of RMB22.92 million, and Lianhua Huashang Hangzhou Qingchun Store became the first model store of poverty relief through consumption in Hangzhou City

3.1 Interests of and Solicitude to Employees

Staff Employment

The Company has significant amount of staffs who are working in product procurement, store operation, and operation management, etc. In 2019, the Company further strengthened the recruitment and selection process management, continued to adopt the online-offline integrated recruitment model, launched the program of hiring management trainees through campus recruitment, and consolidated the talent reserve.

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 to 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, salary and benefits, etc. In addition, the Company complies with relevant laws and regulations on prohibiting child and forced labor and prohibits the recruitment of persons under the age of 16. The Company signs employment contracts with employees according to the relevant laws and regulations, and pays social insurance and the housing provident fund for its employees. In 2019, the Company signed employment contracts with all the employees and paid social insurance for all of them.

Overview of Staff Employment and Rights and Interests System of Lianhua Supermarket

Employment, Dismissal and Promotion	Working Hours and Vacation	Salary and Welfare
✔ **Employment principles:** openness, equality, competitiveness, versatility, suitability and abstention ✔ **Dismissal:** terminating labor contracts through negotiation under the principle of "compliance with laws and regulations, and fairness and reasonability" ✔ **Promotion Process:** announcement of information, resume submission, interview, recruitment, 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 and competition for posts, promotion of staff with outstanding performance through an annual evaluation and spontaneous promotion proposal by 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 paid 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 paid ✔ **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 10-day 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 Day and National Day incentive program, store partnership incentive program ✔ **Medical health:** medical expense reimbursement system with mutual funds for outpatient and emergency treatment, mutual assistance insurance for employees, 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

Occupational Health and Safety

As a labor-intensive company, the Company has significant amount of employees who are working in different regions and segments. The Company has been following relevant policies about staff physical and mental health protection specified by the national and local governments and strictly complying with the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases and relevant laws and regulations.

In 2019, the Company made arrangement for staffs to take physical examination, conducted workplace safety inspections, organized firefighting skill competition and staff safe production trainings to protect staffs' physical and mental health and to improve staffs' safety awareness. In the meantime, 424 employees on special positions of Lianhua Huashang (including all drivers) and provincial and municipal models (outstanding workers) were covered by commercial insurance for accidents and serious diseases.

In addition, with the establishment of segment company, Lianhua Logistic and Jiangqiao Logistic (for Shanghai region), the Company pays great attention to the safety education and management of logistic staffs. It offers one or two trainings every month to logistics drivers in respect of safety and accident analysis, invites specialists from transport agencies to provide logistics drivers with one or two safety trainings every year, shares the information of vehicles that have violated relevant regulations, eliminates any dangerous driving behaviors such as drunk driving and speeding, so that logistics drivers' safety awareness will be improved and traffic accidents will be prevented and minimized.

Communication with Employees

The Company builds diverse democratic communication platforms for employees, including the communication system of employee representative meeting, youth employee experience sharing meetings, management trainee face-to-face communication, and launches "Youth Innovation and Productivity Competition", "Employees' Golden Idea" and other programs, to promote the common development of employees and the Company and to strengthen the cohesiveness within the Company. In 2019, the Company organized employees to discuss about the administration work report for 2018, the improvement of operation results and employees' income and other plans in the employee representative meeting.

"Employees' Golden Idea" Program

For fully listening to employees, soliciting advice from them and encouraging them to care about and participate in the Company's development, the Company launched the "Employees' Golden Idea" program, encouraging employees to contribute new and better ways for improving product quality and productivity and costs reduction.

In the program, the Company conducted three employee survey and interactions: Lianhua CNY Support Station (《聯華CNY加油站》), Collection of Popular Foods (《人氣美食征集令》) and Pick Your Lianhua Trainers (《聯華講師,憶路有你》), attracting 588 participants to engage in questionnaires and interaction and adopting 77 pieces of advice and suggestion, including the proposal to record the best sellers, the addition of baby care rooms and the provision of wet tissue papers in the area of fresh produce.

"Youth Creation | Youth Innovation, Youth Capsule" Youth Innovation and Productivity Project Competition

To improve the engagement and influence of youth employees and develop their potential, the Company organized "Youth Creation | Youth Innovation, Youth Capsule" 2019 Youth Innovation and Productivity Project Competition.

Youth employees of each department within the Company designed 19 innovation and productivity projects in total. After review and assessment, "Cashier Receipt Streamlining, Transformation and Upgrading"(「收銀憑證瘦身轉型提升」), "Fresh Produce Marketing Innovation and Corporate Performance Improvement "(「生鮮營銷創新,增加企業效益」) and "Friendly Neighbor of Community and Improvement of GMS Friendly Image"(「社區好鄰居,GMS親民形象提升」).

In the meantime, at the review and assessment meeting, the Company established "Youth Capsule of Lianhua Supermarket Youth League Committee"(「聯華股份團委青囊團」), serving as the innovation and productivity experience sharing platform and the incubation platform for youth league members.

Solicitude to Employees

The Company delivers solicitude to frontline employees in a comprehensive manner, cares about female employees, and offer assistance from many aspects to employees with difficulties. In 2019, the Company organized employees to take holidays and continued to send greetings to dispatched staffs at festivals. The Company also launched the 2-month Migrant Birds Summer Nursery School (2個月小候鳥暑託班) to employees with children.

The Company signs Special Contract for Female Employee (《女職工專項合同》) to protect their rights. Meanwhile, the Company actively organizes health lectures, the home letters writing program, and interaction activities for female employees, and offers gifts and half-day holiday to female employees on Women's Day.

In 2019, the trade union of the Company established and improved the tiered assistance system and promoted the assistance to employees with difficulties. It established special assistance projects for employees with difficulties from aspects of living assistance, children's education, medical aid, and sent solicitude to those employees. In 2019, trade unions at each level of the Company offered assistance to a total of 639 employees and sent solicitude to 3,691 employees. In particular, Lianhua Huashang offered over RMB360,000 for special solicitude to the employees in 26 new stores.

Balance Between Work and Life

In 2019, the Company organized various cultural and sports activities for its employees including poem recitation competition, dragon boat competition and singing competition, launched the orienteering and Lianhua Culture Festival series activities, and set up special clubs, enriching the leisure life of employees and keeping a balance between work and life. The Company also constructed the employee culture park (職工文化家園) in Logistics Shaoxing Base (物流紹興基地), which was named "Employee Intelligent Fitness Club"(「職工智能健身俱樂部」) by Hangzhou Federation of Trade Unions (杭州市總工會).

Lianhua Culture Festival

In 2019, the Company launched the "Lianhua Culture Festival" series activities, enhanced the corporate culture and established an enjoyable and harmonious workplace.

"Lianhua Culture Festival" series activities included poem recitation competition, drama show, singing competition, photography exhibition and choir competition. Employees of regional companies of Lianhua Supermarket in Zhejiang, Jiangsu, Guangxi and Anhui, and those of segments including Lianhua E-business, Lianhua Quik, Hypermarket Operation Centre, Lianhua Logistics actively participated in the culture festival series activities.

3.2 Staff Training and Professional Development

Staff Training

The Company is committed to promoting the common development of the enterprise and the staff, and focuses on professional skill and management skill trainings to enhance staffs' working skills. Meanwhile, the Company provides management trainees and new staffs with "Eya" Program and offers new staffs "Rainbow" Program to strengthen the Company's talent pool.

	Training Program	Target
Business skill training	Lianhua Fresh Expert fruit series micro lectures (《聯華生鮮專家》水果系列微課)	All operational staff
	Skill trainings for personnel under "New Franchise" model	Management personnel of five stores under "New Franchise" model totaling 32 employee
	Improvement of 10,000 employees of Bailian in new retail (百聯新零售萬名員工再提升)	About 2,180 employees
Management skill training	Operation Empowerment and Procurement Execution Training (營運賦能&採購行動力培訓)	40 sessions for regional managers, operation leaders and store managers, involving 1,700 attendees
	Training for new management trainees and new staffs of stores of Lianhua Supermarket Development	New employees of stores of Lianhua Supermarket Development
	Operation skill training for staffs of supermarket in new retail	32 transformed store managers of Lianhua Supermarket Development

In 2019, the Company continued to improve the internal trainer system and established a "headquarters + region + store" multi-layer internal trainer team, increase another 70 internal trainers to the team and has about 300 internal trainers in total. To satisfy employees' training demands and enhance training interactions of all segments, the Company upgraded the online learning platform and adopted UMU online training and Bailian i Learning.

Lianhua Supermarket UMU and Bailian i Learning Online Training Platform

In the first half of 2019, the Company launched a series of courses, including "New Staff 'Rainbow' Program"(「新員工'虹'計劃」), "Safety Series Courses"(「安全知識系列小課堂」), "Safety and Quality Trustworthy Supermarket Training"(「安全質量守信超市培訓」), "Supermarket New Manager Training"(」標超新進管理人員培訓」), "2019 Operation Centre Empowerment Training"(「2019營運中心賦能者培訓」), through the UMU online training platform. It also developed waste sorting trainings based on Shanghai waste sorting policies and attracted 8,448 attendees.

In the second half of 2019, the Company applied the internal training platform of Bailian Group, "Bailian i Learning", to enhance employees' online training and offered training courses to 13,177 attendees in total.

Staff Occupational Development

In 2019, the Company further strengthened the cultivation of reserve talents, and selected reserve talents through working on second basis, job rotation and innovation project incubation. Meanwhile, the Company further developed the staff incentive mechanism to improve the productivity. It took the contract mechanism reform as the key point, improved the incentive mechanism innovation and constructed the "core management – headquarters – frontline staffs" common incentive system.

Staff Incentive Mechanism of Lianhua Supermarket 2019

Incentive Model	Incentive
Core Position Performance Target Contract（核心崗位業績目標契約化）	• For key positions of core management personnel in operation and procurement department, promote performance target contract and offer corresponding bonus.
Overall Sharing and Incentive Model（全員分享激勵模式）	• For the whole staffs, improve the sharing based on excessive performance and incremental revenue.
Frontline Employee Incentive（一線員工激勵）	• Store partnership, incentives for frontline staffs' holiday marketing efforts and rewards for 100-day productivity competition, with 20 stores covered by the partnership.

3.3 Developing Friendly Community

Community Services

As the Company has many stores and wide network coverage, building a friendly relationship with the community is critical to the development of the Company. The Company actively builds the disaster preparation center and the community convenience center to promote the common development of the community and itself. Meanwhile, Shanghai Operation Center establishes the community neighbor center to enhance the communication between the store and the community through customer interaction activities, festival theme activities, charity activities and customer social group operation.

Area of Community Service	Measures	Progress in 2019
Disaster preparation center	• Prepare and transport aid supplies	• Lianhua Guangxi Company prepared and delivered over 6,000 items, including grain, oil and daily necessities, to Sanjiang County and Rong'an County, Guangxi Province for fighting the flood.
Community convenience center	• Launch store charity activities • Establish caring stations	• Launched Century Mart Charity Sale on 99 Charity Day. • 822 directly-operated stores of Century Mart, Lianhua Supermarket, Hualian Supermarket, Lianhua Quik and GMS in Shanghai region established "Caring Stations" for sanitation workers.

In addition, the Company participated in the "Spring Action"(「春風行動」) recruitment campaign organized by the Employment Promotion Center of Shanghai Putuo District (上海市普陀區就業促進中心) and the "Enjoy Work and Enjoy Life in Shanghai"(「樂業上海」) recruitment campaign, prioritizing the recruitment of Putuo District residents and promoting community employment. Lianhua Anhui Company launched community service activities, including sending solicitude to people in difficulty, fire-fighters and community policemen, sending greetings to the elderly on the Double Ninth Festival, providing financial aids to schools and students, arranging store tour for preschool children and establishing caring stations, to strengthen communication between the Company and the community and to fulfill its social responsibilities.

"Caring Stations" for Sanitation Workers and Offering Hot Water and Hot Meals to Street Angels

All 822 directly-operated stores of Century Mart, Lianhua Supermarket, Hualian Supermarket, Lianhua Quik and GMS in Shanghai region put up the signboard of "Caring Station" to offer sanitation workers rest places for free, where sanitation workers can get hot water, utilize the microwave oven, or store their lunch boxes and dinner boxes into refrigerators within stores for free.

Besides, the Company launched the initiative that "each store shall be responsible for environment conditions of the area in front of it" to all chain retail stores, therefore relieving sanitation workers from heavy burden and building and maintaining a clean and civilized city environment.

Poverty Alleviation and Agricultural Assistance

As a retail company, the Company conducts targeted poverty alleviation and fulfills its social responsibilities by purchasing products from farmers and launching pairing and assisting programs. It attracted consumers to participate in the special promotion activities of introducing vegetables of Guizhou Province into Shanghai and set up a special marketing area for products offered by regions of targeted poverty alleviation. In 2019, value of products for poverty alleviation sold in stores of Shanghai region amounted to RMB22.92 million. Meanwhile, Lianhua Huashang donated a charity fund totaling RMB310,320 to purchased over 1,500 product categories, with the cumulative purchase volume of approximately 50,000 tons and the value of over RMB470 million. Over 300,000 rural families were benefited. Hangzhou Qingchun Store was the first model store of alleviating poverty through consumption in Hangzhou City.

The Company actively reacted to government policies, and launched paring and assisting programs in Guangxi, Zhejiang and Xinjiang, focusing on poverty relief through promoting agricultural development to help poverty-stricken regions to get rid of poverty.

Major Pairing and Helping Work Conducted in 2019

Regional Company	Pairing and Assisting Program
Lianhua Guangxi Company	• Supporting the construction of public welfare and livelihood project in Dongfeng Village, Changming Town, Daxin County, Guangxi • Launching the "remaining true to our original aspiration and keeping our mission firmly in mind" poverty alleviation and support sending activity with Baisha Village Committee, Baisha Town, Liuzhou City, Guangxi, donating electric bicycles, oil, rice, milk and other daily necessities to 25 poverty-stricken families recorded by Baisha Village Committee and to the village committee
Lianhua Huashang	• Launching pairing and assisting program in Linqi Town, Zhejiang Province, helping with the raspberry marketing and idle land development plan through Party branch pairing and joint construction • Helping Zitong Town, Zhejiang Province, to develop the marketing channel for the corn industry • Assisting Aksu, Xinjiang, in building "Selected Offering & Tianshan Shenmu"(「優饗&天山神木」) Xinjiang specialty brand, and launching the "Fruit Tree Adoption"(「果樹認養」) consumer poverty alleviation project

Lianhua Huashang Pairing with and Assisting Linqi Town

Lianhua Huashang singed the raspberry fresh fruit sales agreement with Linqi Town, Zhejiang Province, adopted the strategy of promoting "going out" through "raspberry branding", and worked out the raspberry marketing solution covering production standards, quality management, packaging specifications and transportation requirements according to the experience gained in years of agriculture marketing.

Lianhua Huashang Party Committee paired with Linqi Village and appointed procurement staffs of the Fresh Produce Procurement and Processing Center (生鮮採購加工中心) to Linqi Village. The purchasing staffs conducted investigation on the planting foundation, worked out development plans according to local conditions, reached an agreement with the local government about "vegetable order-based agriculture model" (「蔬菜訂單農業模式」), and turned the idle lands into radish lands, enabling idle lands to create value.

In addition, the Party Committee paired with Linqi Village Party Branch for joint construction. They held joint construction meetings, visited farmers, sending solicitude to farmers, organized health lectures and free clinic activities and offered on-site agriculture technology guidance, thereby actively responding to the poverty alleviation initiatives of the State.

Lianhua Huashang Aksu Xin Jiang Supporting Program

In 2019, Lianhua Huashang entered into the strategic cooperation with Aksu Tianshan Shenmu Ecological Agriculture Technology Co., Ltd. (阿克蘇天山神木生態農業科技有限公司). The cooperation focused on the orchard advantage in Aksu and, based on the core industry, built a whole industry chain covering fresh fruits, dried fruits, honey and other agricultural products and leisure foods. It is expected that 300 Xinjiang specialty stores labelled by the Aksu geographic identity and branded by "Selected Offering & Tianshan Shenmu" (「優饗&天山神木」) will be incubated in two years. Lianhua Huashang will take "Selected Offering & Tianshan Shenmu" as a private-label brand to be launched in all Century Mart stores in Zhejiang Province.

Meanwhile, Lianhua Huashang launched the "Lianhua Huashang & Tianshan Shenmu 100,000 Consumers Support Xinjiang Program – Connecting with Aksu by Fruit Tree Adoption" (「聯華華商&天山神木十萬消費者援疆工程—心繫阿克蘇，愛心果樹認養」) project, advocating poverty alleviation through consumption. Consumers who adopt apple trees will become Tianshan Shenmu Xinjiang Supporting Ambassadors (天山神木援疆大使), and Lianhua Huashang will regularly deliver information about the growth of apple trees to these consumers. In addition, 3% of the adoption fees will be deposited in the "Hangzhou Lianhua Huashang & Tianshan Shenmu Charity Fund" (「杭州聯華華商&天山神木愛心基金」) in the name of such consumers, which will be fully used for charity activities.

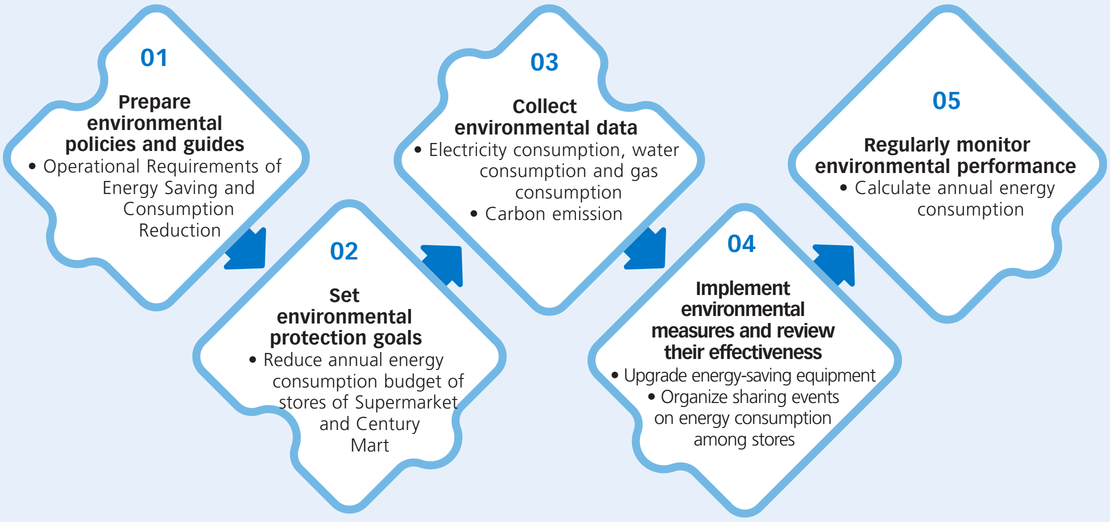
4 Contributing to Sustainable Development of the Environment

The Company considers green operation 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 implements the green development concept and strives to reduce energy consumption in retail operations and adverse impact on the environment. The Company also leverages its vast network of outlets to promote the green concept to consumers and encourages the public to implement green living together.

Area of Responsibility	Responsibility Practice	Responsibility Result
• Environmental responsibility • Corresponding United Nations Sustainable Development Goals (SDGs):   	• Improving the environmental management system • Building green stores • Developing green logistics and warehousing • Launching sustainable consumption promotional activities	• Gas consumption per unit business area decreased by 0.02 m^3/m^2 from the previous year. • Hazardous waste discharge per unit business area decreased by 0.02ton/10,000m^2 from the previous year. • Non-hazardous waste discharge per unit business area decreased by 7.42ton/10,000m^2 from the previous year.

4.1 Green Development Management

The Company's impact on environment is mainly due to 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 Measures

Environmental Impact Arising from Operations

The Company fully considers the resources and energy consumption (including electricity, water, natural gas, gasoline and diesel, packaging materials, etc.) and the overall environmental impacts (greenhouse gas emissions, waste generation, etc.) of the stores, office operations and each modules of logistics and warehousing process, 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	2019
Total water consumption (in terms of stores) (m³)	2,830,149.19
Total consumption of power (in terms of stores) (MWh)	388,708,40
Total water consumption (in terms of office operations) (m³)	83,865.62
Total consumption of power (in terms of office operations) (MWh)	12,310.06
Total water consumption (in terms of warehousing) (m³)	196,139.17
Total consumption of power (in terms of warehousing) (MWh)	19,656.15
Total water consumption (others)[1] (m³)	268,345.00
Total consumption of power (others)[2] (MWh)	22,449.97
Water consumption per unit business area (m³/m²)	1.84
Power consumption per unit business area (kWh/m²)	241.52
Total gas consumption (m³)	126,049.00
Total quantity of purchased packages (ton)	2,709.73

OUTPUT

Key performance indicators	2019
Greenhouse gas (in terms of stores) (ton CO_2e)	264,619.72
Greenhouse gas (in terms of office operations) (ton CO_2e)	8,380.28
Greenhouse gas (in terms of warehousing) (ton CO_2e)	13,381.25
GHG emissions per unit business area (ton CO_2e/m^2)	0.15
Hazardous wastes output per unit business area (ton/10,000m²)	0.44
Non-hazardous wastes output per unit business area (ton/10,000m²)	55.75

Notes:

1. Total water consumption (others) refers to water consumption for investment attraction.
2. Total consumption of power (others) refers to electricity consumption for investment attraction.

4.2 Green Stores

Saving Energy and Resources

Energy resources that the Company consumes in the course of store operation mainly include electricity, natural gas, water resources and packaging materials. The Company has developed the Operation Standards Manual (《運營標准手冊》), and the Operation Requirements for Energy Saving and Consumption Reduction (《節能降耗相關的操作要求》) to standardize the utilization of energy and water in store operation, and adopted energy and water saving measures to improve the efficiency of energy utilization. The Company mainly derives water from the tap water supplied by the municipal network. Therefore, the Company does not have problem in sourcing water resources.

Type of Resource	Consumption	Resource-saving Measures
Energy	Including electricity, natural gas, for the lighting system, air condition system and condensation system of stores	• Adopting LED lights for the lighting system of stores • Adopting the intelligent cool chain control system and the anti-condensation system for refrigerator
Water resources	For the cleaning of office and store and the storage of fresh produce	• Promoting water saving • Improving the efficiency of water utilization in the course of operation by checking and maintaining water equipment, promptly repairing and replacing damaged equipment, as well as upgrading to sensor water taps • Lianhua Logistics promptly dealing with water running, springing out, dripping and leaking and other failures in its region
Packaging materials	Including trays, cling film and roll bags, for the packaging of fresh produce and others	• Advocating utilization reduction of plastic bags, and offering paid shopping bags in all stores of all regions

Emission Reduction

The Company realizes that climate change mitigation is of great significance to itself and the world and 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 electricity purchased. 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 store and office 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.

Management of Wastes

Waste generated by the Company during the store operation process is mainly non-hazardous waste such as packaging materials, paper used for printing of shopping receipts and expired fresh produce, and other wastes including LED lights, air cabinets and conductive cabinets (including electronic thermometers, etc.). Following the principle of "Reduction" in waste management, the Company actively collects and manages waste data, and promotes waste recycling. The waste refrigerators recycled were valued RMB610,000 in 2019.

Type of Waste	Measures
Non-hazardous wastes such as packaging materials	• Monitoring the consumption of paper, paper products, plastic bags and other materials • Signing Waste Packaging Material Acquisition Contract (《廢包裝物收購合同》) with third party to reasonably dispose waste packaging materials
Waste LED lights, air cabinets and conductive cabinets, etc.	• Recycling and disposing by product suppliers or waste disposal service providers • Adopting waste refrigerator recycling plans, dismantling waste refrigerators and recycling refrigerants, compressors, condensers, distribution cabinet and other items

Besides, the Company incorporates the waste sorting in stores in Shanghai region into the regular operation inspections in accordance with Shanghai Household Waste Management Regulations (《上海市生活垃圾管理條例》), offers waste sorting trainings, provides live demonstration of waste sorting requirements at stores and launches "I am the Waste Sorting Volunteer" activity to standardize the waste sorting of stores.

4.3 Green Logistics and Warehousing

In 2019, the Company focused on promoting green development when building the green logistics and warehousing, and realized energy saving and emission reduction by adopting green logistics measures including multi-segment distribution, paperless operation and intelligent logistics and taking green warehousing measures including the application of energy-saving equipment. In addition, for the domestic wastewater generated during the logistics operation process and oily sewage generated by vehicle maintenance, Lianhua Logistics sets up secondary sewage treatment tank to treat such generated non-domestic sewage before discharge.

Green Logistics Measure	Details
Multi-segment distribution	• Shanghai region adopted the model of joint distribution to several segments, improved TMS (Transportation Management System), chose the best route and arranged unified transportation based on the locations of stores, thereby reducing the transportation mileage and the energy consumption during the distribution.
Paperless operation	• The Department of Logistics Affairs terminated the free printing services for receipts and checklists offered to suppliers, realized online reconciliation, improved warehousing operation procedures, reduced relevant material consumption and achieved energy saving and environmental protection.
Intelligent logistics	• Lianhua Huashang focused on intelligence, standardization and greenization to construct the intelligent logistics system.
Green Warehousing Measure	**Details**
Reduction of warehousing energy consumption	• Adopting energy-saving refrigerating compressors, assembly line equipment, and LED energy-saving lights • Adopting the natural lighting band design • Monitoring electricity data in real time and enhancing electricity management
Reduction of waste discharge	• Using electric forklifts in all processes including shelving, picking and collection • Using pallets, roll containers, turnover box and other green vehicles

Lianhua Huashang Intelligent Logistics System

Lianhua Huashang currently has five major logistics bases in Jiubao, Shaoxing, Gouzhuang, Jinhua and Taizhou, and the distribution covers 267 stores of each segment in the whole Zhejiang Province. It focused on intelligence, standardization and greenization when constructing the intelligent logistics system.

- Intelligence: Lianhua Huashang focused on constructing the AGV intelligent picking operation model. It applied the Hik vision AGV, GEEK+ intelligent picking AGV and other devices to improve the logistics visualization and optimize the resource allocation, thus reducing the total cost of warehousing for the year by RMB1.55 million.

- Standardization: Lianhua Huashang established the pallet circulation flow system and the turnover box circulation lease system for agricultural products, and effectively reduced wastes of cartons and plastic bags; piloted the transportation with slats, reduced the occupation area in the warehouse by improving the warehousing efficiency and lowered the loading and unloading cost by mechanized operation.

- Greenization: Lianhua Huashang adopted green new energy vehicles, adopted the photovoltaic power generation system and the rainwater recycling system and other green measures to save energy and reduce emissions.

4.4 Promotion of Green Concept

As a large-scale retail chain enterprise, the Company actively promotes low-carbon and green products to consumers and advocates green consumption through store activities, store posters and the setting of organic green products counters, thus actively promoting the community and the public to engage in the sustainable development and leading consumers' green concept.

The Company continued to participate in the "Earth Hour" initiative in 2019. At the same time, the Company advocates consumers to reduce the use of plastics such as plastic bags, plastic straws, plastic tableware, polyethylene daily chemical products through paid use of plastics and slogan publicity. In line with the government's waste sorting measures, the Company's stores in Shanghai region promoted the waste sorting knowledge to customers

In addition, Lianhua Anhui Company launched "Earth Hour", "Earth Day" and "World Environment Day" series activities, and arose customers' environmental protection awareness by organizing the family creative drawing competition and waste sorting activities.

"Earth Hour" 2019

The Company set the theme of "Earth Hour" in 2019 as "Renew the Old, Turn off the Lights and Connect to the Nature", and promoted the environmental protection concept to customers by launching activities including renewing old items with creative handwork, sending idle bags to others for further utilization and turning off the light for one hour.

The activity of renewing old items with creative handwork encouraged customers to reproduce old items or non-hazardous wastes into environment-friendly artworks, and a total of 340 customers participated in the activity. The activity of sending idle bags to others for further utilization encouraged customers to collect clean and idle shopping bags and environment-friendly bags, display them in stores and send those for free to customers who needed them for further utilization. The activity of turning off the light for one hour lasted from 20:30 to 21:30 on 30 March.

5 Data

In 2019, the Company 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

Performance indicator	Unit	2017	2018	2019
Emissions				
GHG emissions	$tonCO_2e$	293,125.40	269,089.38	**279,509.15**
GHG emissions per unit business area	kg CO_2e/m^2	121	143	**152**
Total quantity of hazardous wastes[1]	ton	21.80	30.52	**32.43**
Hazardous wastes output per unit business area	ton/10,000m^2	0.21	0.46	**0.44**
Total quantity of non-hazardous wastes	ton	7,017.30	4,207.00	**4,030.34**
Non-hazardous wastes output per unit business area	ton/10,000m^2	62.30	63.17	**55.75**
Use of Resources				
Total consumption of power[2]	MWh	429,438.20	440,074.79	**443,256.58**
Power consumption per unit business area	kWh/m^2	177.40	234.20	**241.50**
Total gas consumption[3]	m^3	183,142.30	115,537.90	**93,709.00**
Gas consumption per unit business area	m^3/m^2	0.12	0.14	**0.12**
Total water consumption[4]	10,000m^3	315.70	271.47	**320.69**
Water consumption per unit business area	ton/m^2	1.30	1.55	**1.89**
Total quantity of purchased packages[5]	ton	2,754.70	2,926.03	**2,564.73**

Notes:

1. Data in relation to hazardous and non-hazardous wastes in 2017 exclude Lianhua Quik, Lianhua Huashang, Lianhua Henan Company, Lianhua Jiangsu Company and Lianhua Guangxi Company. Data in relation to hazardous wastes output per unit business area have been updated retrospectively. Data in relation to non-hazardous wastes in 2018 exclude Lianhua Supermarket Development, Lianhua Quik, Lianhua Huashang, Lianhua Henan Company and Lianhua Guangxi Company. Data in relation to hazardous wastes in 2018 exclude Lianhua Supermarket Development, Lianhua Quik, Lianhua Huashang and Lianhua Henan Company. Data in relation to hazardous and non-hazardous wastes in 2018 have been updated retrospectively. Data in relation to hazardous wastes in 2019 exclude Lianhua Supermarket Development, Lianhua Quik, Lianhua Huashang and Lianhua Henan Company.

2. Total consumption of power in 2018 excludes the power consumption of stores of Lianhua Quik.

3. Data in relation to gas consumption in 2017 and 2018 have been updated retrospectively.

4. Data in relation to total water consumption in 2018 have been updated retrospectively. Total water consumption in 2018 excludes the water consumption of stores of Lianhua Quik.

5. Packages include trays, cling film and roll bags. Data in relation to packages in 2017 exclude Lianhua Quik and Lianhua Guangxi Company; those in 2018 exclude Lianhua Quik and Lianhua Guangxi Company; and those in 2019 exclude Lianhua Quik.

Employment and labor practice

Performance indicator	Unit	2017	2018	2019
Employment				
Total staff	Person	40,766	37,579	**35,238**
Males	Person	12,583	11,728	**10,885**
Females	Person	28,183	25,851	**24,353**
Labour contract staff	Person	33,291	29,616	**27,678**
Labour dispatch staff	Person	3,342	4,245	**3,576**
Staff in other ways of employment[1]	Person	4,133	3,718	**3,984**
Under 30 years old	Person	7,050	3,241	**2,788**
30-50 years old	Person	27,952	28,991	**26,960**
Over 50 years old	Person	5,764	5,347	**5,490**
Number of staff from mainland	Person	40,765	37,578	**35,237**
Number of staff from Hong Kong, Macao and Taiwan & overseas	Person	1	1	**1**
Employee turnover rate	%	27.26	22.17	**19.90**
Male employees' turnover rate	%	26.88	21.01	**17.59**
Female employees' turnover rate	%	27.44	22.68	**20.90**
Under 30 years old employees' turnover rate	%	35.67	41.51	**37.45**
30-50 years old employees' turnover rate	%	23.92	18.04	**16.02**
Over 50 years old employees' turnover rate	%	35.46	27.47	**26.16**
Turnover rate of staff from mainland	%	27.26	22.17	**19.90**
Turnover rate of staff from Hong Kong, Macao and Taiwan & overseas	%	0	0	**0**
Health and safety				
Number of work-related fatalities[2]	Person	0	1	**1**
Lost days due to work injury	Day	20,889	13,808	**9,816**
Number of participants attending safety trainings[3]	Person time	56,122	208,131	**238,333**
Development and training				
Percentage of employees trained	%	71.46	91.21	**94.41**
Percentage of male employees trained	%	79.00	100	**90.95**
Percentage of female employees trained	%	68.00	87.23	**95.96**
Percentage of junior management trained	%	70.00	100	**93.69**
Percentage of middle management trained	%	92.80	44.41	**97.87**
Percentage of senior management trained	%	98.60	100	**100**
Average training hours completed per employee	hour	12.05	13.56	**19.14**
Average training hours completed by male employees	hour	10.30	13.56	**26.22**
Average training hours completed by female employees	hour	12.97	13.56	**15.98**
Average training hours completed by junior management	hour	11.21	14.36	**19.07**
Average training hours completed by middle management	hour	21.63	10.23	**22.99**
Average training hours completed by senior management	hour	42.10	51.82	**18.59**

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 one store staff of Lianhua Henan Company who died of an illness in a sudden despite of emergency treatment.

3. Data in relation to participants attending safety trainings in 2018 have been updated retrospectively.

Product responsibility

Performance indicator	Unit	2017	2018	2019
Percentage of total products sold or shipped subject to recalls for safety and health reasons	%	0.002	0.005	**0.002**
Complaint received in relation to products and services	Case	3,445	2,035	**4,120**
Complaint treatment rate with respect to products and services	%	100	100	**100**

Supply chain management

Performance indicator	Unit	2017	2018	2019
Number of suppliers	/	2,176	2,180	**2,033**
Number of suppliers from mainland	/	2,174	2,178	**2,031**
Number of suppliers from Hong Kong, Macao and Taiwan & overseas	/	2	2	**2**

Anti-corruption

Performance indicator	Unit	2017	2018	2019
Number of anti-corruption trainings	Time	36	29	**92**
Participants in anti-corruption trainings	Person time	2,510	1,590	**1,641**
Number of legal cases regarding corrupt practices brought against the Company or its employees	Piece	0	0	**0**

Community investment

Performance indicator	Unit	2017	2018	2019
Number of volunteers	Person time	807	1,195	**1,255**
Number of volunteer services hours	hour	10,241	1,260	**4,297**
Public welfare and community investment amount	RMB’0000	41.46	29.74	**35.03**

6 Index of ESG Reporting Guide by SEHK

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
	Major Area A. Environmental **Aspect A1. Emissions**	
General Disclosure A1	Information on air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	Green Development Management
KPI A1.1	The types of emissions and respective emissions data	Green Development 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)	Green Development Management Data
KPI A1.3	Total hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Green Development 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)	Green Development 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	Green Development 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)	Green Development Management Data
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	Green Development 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	Green Development 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	Green Development 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	Green Development Management Green Stores Green Logistics and Warehousing Promotion of Green Concept

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
Major Area B. Social Employment and Labour Practices		
Aspect B1. Employment		
General Disclosure B1	Information on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	Interests of and Solicitude to 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 providing a safe working environment and protecting employees from occupational hazards: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	Occupational Health and Safety
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

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	Staff 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 preventing child and forced labour: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	Interests of and Solicitude to Employees
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Interests of and Solicitude to 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	Product Quality Management Procedures
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	Product Quality Management Procedures
	Aspect B6. Product Responsibility	
General Disclosure B6	Information on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	Product Quality Management Procedures Providing Safe and Healthy Foods Building a Favorable Shopping Environment
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	Building a Favorable Shopping Environment
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Product Quality Management Procedures
KPI B6.4	Description of quality assurance process and recall procedures	Product Quality Management Procedures Providing Safe and Healthy Foods
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Building a Favorable Shopping Environment

Aspects, General Disclosures and KPIs	Description	Chapter Disclosed
	Aspect B7. Anti-corruption	
General Disclosure B7	Information on bribery, extortion, fraud and money laundering: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer	Building Operation Basis in Compliance with Laws
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	Building Operation Basis in Compliance with Laws
	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	Community Services
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	Developing Friendly Community
KPI B8.2	Resources contributed (e.g. money or time) to the focus areas	Data

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