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

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock code: 00980)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

As at 31 December 2016, the Group recorded the following:

- Turnover was approximately RMB26,666 million, representing a decrease of approximately 2.0% over 2015. The same store sales of the Group decreased by approximately 1.23% over 2015, in which the hypermarket segment decreased by approximately 2.79%, the supermarket segment grew by approximately 0.61% and the convenience store segment grew by approximately 6.31%.

- Gross profit was approximately RMB3,938 million, representing a decrease of approximately 2.1% over 2015. Gross profit margin was approximately 14.77%, remaining the same compared with that of 2015.

- Distribution expenses and administrative expenses totalled RMB6,670 million. Overall cost ratio was approximately 25.01%, recording an increase of 0.09 percentage point.

- Consolidated income amounted to RMB6,535 million, representing a decrease of approximately 2.0% over 2015. Consolidated income margin reached 24.51%, increasing by 0.01 percentage point over 2015.

- Operating loss amounted to approximately RMB220 million, representing an increase in operating loss by approximately RMB71,420 thousand year over year. Annual loss attributable to shareholders of the Company amounted to approximately RMB450 million, representing a decrease in loss by approximately RMB47,036 thousand year over year. Basic loss per share amounted to RMB0.40.

- The total number of outlets reached 3,618. During the period under review, the Group opened 212 new outlets, including 1 hypermarkets, 120 supermarkets (including 10 directly-operated stores and 110 franchised stores), and 91 convenience stores (including 35 directly-operated stores and 56 franchised stores).

Note 1: Consolidated income = Gross profit + Other revenues + Other income

Note 2: Consolidated income margin = (Gross profit + Other revenues + Other income)/Turnover

Note 3: Operating (loss) profit = Profit (loss) before tax – Share of profits of associates

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	**2016** **RMB'000**	2015 *RMB'000*
Revenue	*2&3*	**26,666,069**	27,222,699
Cost of sales		**(22,728,564)**	(23,201,134)
Gross profit		**3,937,505**	4,021,565
Other revenue	*2&3*	**2,136,038**	2,089,271
Other income and gains	*4*	**461,047**	557,533
Selling and distribution expenses		**(5,984,113)**	(6,039,758)
Administrative expenses		**(686,224)**	(744,467)
Other expenses		**(84,386)**	(32,835)
Share of results of associates		**(687)**	2,853
Finance costs		**(118)**	(140)
Loss before tax	*5*	**(220,938)**	(145,978)
Income tax expenses	*6*	**(115,104)**	(254,219)
Loss for the year		**(336,042)**	(400,197)
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain on available-for-sale financial assets		**(1,840)**	7,672
Income tax relating to items that may be reclassified subsequently		**460**	(1,918)
Share of other comprehensive income of associates		**51**	4,047
Other comprehensive (expense) income for the year		**(1,329)**	9,801
Total comprehensive expense for the year		**(337,371)**	(390,396)
(Loss) profit for the year attributable to:			
Owners of the Company		**(449,955)**	(496,991)
Non-controlling interests		**113,913**	96,794
		(336,042)	(400,197)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(451,284)**	(487,190)
Non-controlling interests		**113,913**	96,794
		(337,371)	(390,396)
Loss per share	*7*	**RMB(0.40)**	RMB(0.44)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	NOTES	31/12/2016 RMB'000	31/12/2015 RMB'000
Non-current assets			
Property, plant and equipment		**3,082,366**	2,691,762
Construction in progress		**221,066**	773,418
Land use rights		**329,348**	335,580
Intangible assets		**198,783**	200,294
Interests in associates		**500,793**	535,636
Available-for-sale financial assets		**73,967**	76,007
Term deposits			
– restricted		**270,000**	783,000
– unrestricted		**1,185,000**	2,010,851
Prepaid rental		**33,190**	50,152
Deferred tax assets		**68,222**	66,614
Other non-current assets		**15,751**	17,210
		5,978,486	7,540,524
Current assets			
Inventories		**3,065,232**	2,836,825
Trade receivables	*8*	**82,633**	87,085
Deposits, prepayments and other receivables		**904,210**	995,473
Amounts due from fellow subsidiaries		**15,768**	14,879
Amounts due from associates		**58**	173
VAT refundable		**203,980**	–
Available-for-sale financial assets		**–**	7,000
Financial assets at fair value through profit or loss		**1,977,894**	538,782
Term deposits			
– restricted		**1,101,000**	606,000
– unrestricted		**952,851**	530,750
Cash and cash equivalents		**3,175,900**	4,447,365
		11,479,526	10,064,332
Total assets		**17,458,012**	17,604,856

(Continued)

	NOTES	**31/12/2016**	31/12/2015
		RMB'000	*RMB'000*
Capital and reserves			
Share capital		**1,119,600**	1,119,600
Reserves		**1,343,237**	1,795,571
Equity attributable to owners of the Company		**2,462,837**	2,915,171
Non-controlling interests		**291,042**	283,915
Total equity		**2,753,879**	3,199,086
Non-current liability			
Deferred tax liabilities		**86,455**	96,971
Current liabilities			
Trade payables	*9*	**4,117,867**	3,804,069
Other payables and accruals		**2,365,021**	2,335,085
Coupon liabilities		**7,941,014**	7,996,463
Deferred income		**23,008**	26,400
Amounts due to fellow subsidiaries		**62,708**	37,259
Amounts due to associates		**1,417**	3,040
Amount due to a shareholder		**–**	5,082
Bank borrowing		**2,000**	2,000
Tax payables		**104,643**	99,401
		14,617,678	14,308,799
Total liabilities		**14,704,133**	14,405,770
Total equity and liabilities		**17,458,012**	17,604,856
Net current liabilities		**(3,138,152)**	(4,244,467)
Total assets less current liabilities		**2,840,334**	3,296,057

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL

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

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

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

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

2. REVENUE AND OTHER REVENUE

The Group is principally engaged in operation of chain stores including supermarkets, hypermarkets and convenience stores. Analysis of the Group's turnover recognised during the year is as follows:

	2016	2015
	RMB'000	*RMB'000*
Revenue		
Sales of merchandise	**26,666,069**	27,222,699
Other revenue		
Income from suppliers (service income)	**1,485,137**	1,410,534
Gross rental income from leasing of shop premises	**600,389**	620,341
Royalty income from franchised stores	**44,677**	50,050
Commission income from coupon redemption in other retailers	**5,835**	8,346
	2,136,038	2,089,271
Total revenue	**28,802,107**	29,311,970

3. SEGMENT INFORMATION

Information reported to the Group's general manager, who is the chief operating decision maker of the Group for the purposes of resource allocation and assessment of performance, is focused on three main operations of the Group identified in accordance with the business nature and the size of the operations.

Specifically, the reportable segments of the Group under HKFRS 8 are as follows:

- Hypermarket chain operation
- Supermarket chain operation
- Convenience store chain operation
- Other operations

There are no significant sales or other transactions between 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.

The following is an analysis of the Group's revenue (including revenue and other revenue) and results by each reportable and operating segment for the two years:

	Segment revenue		**Segment results**	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hypermarkets	**17,836,573**	17,966,840	**(148,818)**	(72,865)
Supermarkets	**8,809,770**	9,238,715	**101,605**	66,137
Convenience stores	**2,080,944**	2,080,258	**(114,812)**	(86,262)
Other operations	**74,820**	26,157	**(15,807)**	(6,888)
	28,802,107	29,311,970	**(177,832)**	(99,878)

A reconciliation of the total segment results to the consolidated loss before taxation is as follows:

	2016	2015
	RMB'000	*RMB'000*
Segment results	**(177,832)**	(99,878)
Interest income	**68,376**	84,238
Unallocated income	**2,931**	4,373
Unallocated expenses	**(113,726)**	(137,564)
Share of profits of associates	**(687)**	2,853
Consolidated loss before taxation	**(220,938)**	(145,978)

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.

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.

The following is an analysis of the Group's assets by operating segments:

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Segment assets		
– Hypermarkets	**7,723,046**	8,448,116
– Supermarkets	**4,798,902**	5,311,757
– Convenience Stores	**490,894**	644,245
– Other operations	**137,631**	137,117
Total segment assets	**13,150,473**	14,541,235
Interests in associates	**500,793**	535,636
Other unallocated assets	**3,806,746**	2,527,985
Total assets	**17,458,012**	17,604,856

For the purpose of monitoring segment performance and allocating resources between 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.

Other segment information

2016

	Hypermarkets *RMB'000*	**Supermarkets** *RMB'000*	**Convenience stores** *RMB'000*	**Other operations** *RMB'000*	**Total** *RMB'000*
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets *(Note)*	**171,219**	**86,121**	**49,877**	**402**	**307,619**
Depreciation	**262,589**	**85,291**	**35,818**	**11,702**	**395,400**
Amortisation	**5,650**	**5,841**	**947**	**5,120**	**17,558**
Impairment losses on property, plant and equipment	**7,363**	**–**	**–**	**–**	**7,363**
Impairment on goodwill	**–**	**–**	**–**	**22,198**	**22,198**
(Gain) loss on disposal of property, plant and equipment and intangible assets	**3,832**	**4,113**	**(23)**	**515**	**8,437**
Interest income	**124,746**	**42,033**	**741**	**69,135**	**236,655**
Finance costs	**–**	**–**	**–**	**118**	**118**

2015

	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)*	291,535	250,175	49,709	195	591,614
Depreciation	298,105	38,898	114,616	12,691	464,310
Amortisation	4,847	629	6,942	5,282	17,700
Impairment losses on property, plant and equipment	5,100	1,450	275	–	6,825
(Gain) loss on disposal of property, plant and equipment and intangible assets	(783)	1,349	121	(3)	684
Interest income	236,743	71,839	5,243	85,187	399,012
Finance costs	–	–	–	140	140

Note: Addition to non-current assets include the additions of RMB146,018,000 (2015: RMB233,607,000) to property, plant and equipment, RMB156,325,000 (2015: RMB351,125,000) to construction in progress and RMB5,276,000 (2015: RMB6,882,000) to intangible assets.

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.

4. OTHER INCOME AND GAINS

	2016	2015
	RMB'000	*RMB'000*
Interest income on bank balances and term deposits	**236,655**	399,012
Government subsidies *(Note)*	**49,603**	53,203
Change in fair value of financial assets at FVTPL	**94,862**	6,584
Gain on disposal of available-for-sale financial assets	**613**	–
Interest income from available-for-sale financial assets	**–**	4,384
Gain on disposal of an associate	**2,810**	–
Dividend from unlisted equity investments	**1,444**	548
Salvage sales	**26,787**	27,247
Others	**48,273**	66,555
Total	**461,047**	557,533

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

5. LOSS BEFORE TAX

	2016	2015
	RMB'000	*RMB'000*
Loss before taxation has been arrived at after charging (crediting):		
Amortisation and depreciation		
Depreciation of property, plant and equipment	**395,400**	464,310
Amortisation of land use rights	**6,232**	6,232
Amortisation of intangible assets	**9,867**	10,010
Amortisation of other non-current assets	**1,459**	1,458
Total amortisation and depreciation	**412,958**	482,010
Share of results of associates		
Share of loss (profit) before taxation	**1,507**	(9,284)
Share of income tax (credit) expense	**(820)**	6,431
	687	(2,853)
Auditors' remuneration	**5,783**	6,843
Loss on disposal of property, plant and equipment and intangible assets	**8,437**	684
Impairment loss on property, plant and equipment recognised (included in other expenses)	**7,363**	6,825
Impairment loss on goodwill (included in other expenses)	**22,198**	–
Director's remuneration	**1,180**	2,321
Salaries, wages and other employee benefits of other staff	**2,683,208**	2,626,708
Retirement benefit scheme contribution of other staff	**273,119**	276,554
Total staff costs	**2,957,507**	2,905,583
Allowance for doubtful debts	**551**	829
Reversal of allowance for doubtful debts	**–**	(559)
Reversal of allowance for write-down of inventories	**–**	(6,776)
Recognition of allowance for write-down of inventories	**1,383**	–
Cost of inventories recognised as expenses	**22,728,564**	23,201,134

6. INCOME TAX EXPENSE

	2016	2015
	RMB'000	*RMB'000*
Current tax on PRC Enterprise Income Tax ("EIT")	**126,768**	108,688
Deferred tax (credit) charge	**(11,664)**	145,531
	115,104	254,219

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

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%. Certain subsidiaries are taxed at preferential rate of 15% as those entities which are located in specific provinces of western China and engaged in specific encouraged industries which enjoy a preferential tax rate of 15% under EIT Law. Since 2013, a group entity is qualified as "High Tech Enterprise" and enjoys a preferential tax rate of 15% under EIT Law and subject to renewal for every three years. In the current period, this group entity computed the EIT with the tax rate of 25%, as the renewal for "High Tech Enterprise" is in process and has not yet been completed as at 31 December 2016.

	2016	2015
	RMB'000	*RMB'000*
Loss before tax	**(220,938)**	(145,978)
Tax at PRC EIT tax rate of 25% (2015: 25%)	**(55,235)**	(36,495)
Tax effect of share of results of associates	**172**	(713)
Tax effect of expenses not deductible for tax purpose	**1,551**	3,238
Tax effect of income not taxable for tax purpose	**(5,036)**	(947)
Tax effect of tax losses and deductible temporary differences not recognised	**179,318**	292,003
Utilisation of tax losses previously not recognised	**(5,666)**	(1,336)
Effect of preferential tax rates granted to certain PRC subsidiaries	**–**	(1,531)
Income tax expense for the year	**115,104**	254,219

7. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

	2016	2015
	RMB'000	*RMB'000*
Loss		
Loss for the year attributable to owners of the Company	**(449,955)**	(496,991)
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 for both years as there was no potential ordinary shares in issue.

8. TRADE RECEIVABLES

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Trade receivables	**86,505**	90,987
Less: allowance for doubtful debts	**(3,872)**	(3,902)
	82,633	87,085

The aging analysis of the trade receivables net of allowance for doubtful debts at the end of the reporting period, arising principally from sales of merchandise to franchised stores and wholesalers with credit terms ranging from 30 to 60 days (2015:30 to 60 days), presented based on the invoice date is as follows:

The Group

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
0-30 days	**77,159**	69,751
31-60 days	**1,981**	258
61-90 days	**290**	11
91 days – one year	**3,203**	17,065
	82,633	87,085

The trade debtors are mainly major retailer chains and well established banks, with good credit standing. The management considered the credit quality of the trade receivables that are neither past due nor impaired were good and there was no default from those debtors in historical record.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB3,493,000 (31 December 2015: RMB17,076,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold collateral over these balances.

Aging of trade receivables which are past due but not impaired:

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
61-90 days	**290**	11
91 days – one year	**3,203**	17,065
	3,493	17,076

Movement in allowance for doubtful debts is as follows:

	2016	2015
	RMB'000	*RMB'000*
1 January	**3,902**	4,774
Impairment losses recognised	**91**	–
Amounts reversed during the year	**–**	(559)
Amounts written-off during the year	**(121)**	(313)
31 December	**3,872**	3,902

9. 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 (2015: 30 to 60 days), is as follows:

The Group

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
0-30 days	**2,065,618**	1,924,636
31-60 days	**757,589**	680,459
61-90 days	**367,604**	327,625
91 days – one year	**927,056**	871,349
	4,117,867	3,804,069

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

Based on the data from the National Bureau of Statistics, in 2016, China's gross domestic product (GDP) achieved a year-on-year growth of 6.7%, representing a decrease of 0.2 percentage point compared to last year. China achieved the same level of GDP growth in the fourth quarter, 6.8%, an increase of 0.01 percentage point compared with the first three quarters. In 2016, the Chinese government continued to promote supply-side structural reforms in order to prevent various financial risks and stimulate the real economy while securing stable growth through tax reduction. China's economic growth showed an L-shaped path of slow recovery, however, judging from data from various fields, there was no concrete foundation for economic recovery. It was very difficult to secure stable growth as downward pressure weighed.

Based on the data from the National Bureau of Statistics, in 2016, total retail sales of consumer goods nationwide had a nominal year-on-year growth of 10.4%, representing a decrease of 0.3 percentage point compared to the same period last year. In particular, the retail sales of consumer goods of enterprises above a designated size had a year-on-year growth of 8.1%, representing an increase of 0.3 percentage point compared to the same period of last year.

Due to the slowdown in economic growth, income growth in China has slowed down. Based on the data from the National Bureau of Statistics, nationwide disposable income per capita had an actual growth of 6.3% in 2016, representing a year-on-year slowdown of 1.1 percentage point and also 0.4 percentage point less than the GDP growth rate. Based on the data from the National Bureau of Statistics, nationwide CPI in 2016 had a year-on-year increase of 2.0%, representing an increase of 0.6 percentage point compared to the same period last year. As indicated by results of a questionnaire for 20,000 depositors in 50 cities conducted by People's Bank of China for the fourth quarter of 2016, Chinese consumers had more rational expectations for future employment, income and personal consumption while downward pressure weighed, among which, 23.1% of households are inclined to engage in more consumption.

In 2016, because of the continuous increase of operation costs, adjustment of consumption demand and rapid development of the online retail industry, the physical retail industry was negatively pressured. According to the data from the China National Commercial Information Center, the retail sales of 50 major large-scale retail enterprises in the PRC had an accumulated year-on-year drop of 0.5% in 2016, representing a drop of 0.3 percentage point compared to the growth rate in the same period of last year. Additionally, the online retail growth rate also retreated from its highs. Based on the data from the National Bureau of Statistics, online retail growth was 26.2%, representing a drop of 7.1 percentage points from the 33.3% growth rate in the same period of last year.

In order to promote healthy development of the physical retail industry, the "*Opinions on Promoting Innovation and Transformation of Physical Retail Industry*" was issued by Office of the State Council of the People's Republic of China on 2 November 2016, providing a series of policies and measures against problems faced by the physical retail industry. In circumstances that the Chinese government strives to boom real economy, physical retailers are now preparing for a new round of development. With the slowdown of online retail growth, the gap between the online and physical retail industries has gradually narrowed with regards to price and service, and the physical retail industry is now regaining its value. Consumers are turning to physical retail stores and the trend of pursuing a real purchasing experience is beginning to resurface.

While the consumption demand of consumers gradually increases, the physical retail industry continues to accelerate its transformation and upgrade. Against the backdrop of an accelerated integration of the online and physical retail industries, physical retail enterprises have enhanced their investments in channels, integrated online and physical marketing resources, deepened their understanding of customers' voice and guided customers' demand, thus improving the overall consumption experience in order to attract customers and increase sales.

Financial Review

Turnover & Consolidated Income

During the period under review, the Group's turnover was approximately RMB26,666 million, decreased by RMB557 million when comparing with corresponding period of last year (a decrease of approximately 2.0% year over year). In particular, same store sales fell by approximately 1.23% when comparing with corresponding period of last year. It was mainly due to: (1) online sales still grew rapidly while total volume of offline sales kept shrinking; (2) expansion of new stores slowed down, resources of network was streamlined and stores with unsatisfactory performance were closed, and total number of stores decreased by 265; (3) promoting restructuring of commodity categories and expanding sales scales and proportion of fresh produce, further, the unit price for fresh produce is rather low compared with other categories, making it hard to lift the unit price; and (4) in the latter half of 2016, the plan of transformation and upgrading of stores was gradually implemented, and the sales of stores during the period of transformation and upgrading showed negative growth.

During the period under review, affected by the year-on-year drop of its turnover, the Group's gross profit amounted to approximately RMB3,938 million, decreased by approximately RMB84,060 thousand when comparing with corresponding period of last year (a decrease of approximately 2.1% year over year). The gross margin remains the same when compared with that of last year, reaching 14.77%. The decrease of gross margin was mainly due to the decrease of the sales for the segment of hypermarkets.

During the period under review, Consolidated Income of the Group was approximately RMB6,535 million, decreased by about RMB134 million when comparing with the corresponding period of last year (a decrease of approximately 2.0% year over year). The decrease was mainly attributable to the decrease of the gross profit amount and the decrease of other income by approximately RMB96,486 thousand year over year. During the period under review, the annual yield of the financial market lowered. Though the Group regulated the structure of financial products while containing risks in order to alleviate impact of downturn annual yield, the capital earnings decreased year over year against the background that the operation capital and annual yield declined. During the period under review, the capital earning reached approximately RMB332 million.

Operating cost and net profit

During the period under review, the total distribution cost and administrative expenses of the Group amounted to approximately RMB6,670,337 thousand, decreased by approximately RMB113,888 thousand year over year. The decrease was mainly attributable to: (1) offsetting the rigid growth of expenses on human resources through integration organization structures of Shanghai and streamlining of personnel, thus realizing decrease of expense on human resources of approximately RMB7,537 thousand year over year; (2) during the period under review, the rental expense decreased by approximately RMB106,053 thousand due to closing of stores and reduction of rental fees in partial areas. At the same time, after the policy of replacing business tax with VAT the rental expenses was cut by approximately RMB24,547 thousand by means of strengthening management of invoices; (3) energy expenses saving of approximately RMB41,918 thousand via promotion of investment in energy-saving equipment.

During the period under review, the Group had expenses on other businesses of approximately RMB84,386 thousand, increased by RMB51,551 thousand year over year. It was mainly due to: (1) the accrued provision of goodwill impairments of the subsidiary Shanghai Lianhua Hypermarket Supermarket Development Co., Ltd. was approximately RMB22,198 thousand; and (2) the additional accrued provision of four marketplaces of the segment of hypermarkets was approximately RMB60,326 thousand.

During the period under review, the Group had an operating loss of approximately RMB220 million, increased in operating loss by approximately RMB71,420 thousand year over year. It was mainly due to the decrease in gross profit and other income, and increase in other operating expenses.

During the period under review, the associates' loss attributable to the Group was approximately RMB687 thousand with a year-on-year decrease of approximately RMB3,540 thousand. The associates of the Group were also affected continuously by online sales, in which Shanghai Carhua Supermarket Co., Ltd ("Shanghai Carhua") had a significant decrease in profit during the period under review. As of 31 December, 2016, there were a total of 30 stores operated by Shanghai Carhua.

During the period under review, the tax expense of the Group was approximately RMB115 million, decreased by approximately 54.7% year over year. Taking no account of the impact of refunding the deferred income tax asset for the previous year, the tax expense decreased by approximately RMB16 million year over year.

During the period under review, the net loss of the Group attributable to the shareholder of the Company was approximately RMB450 million, decreased loss by approximately RMB47,036 thousand year over year. Based on the 1,119.6 million shares issued by the Company as at the end of the period under review, basic loss for each share is approximately RMB0.40. The rapid growth of online retails helps occupy market shares of offline retail industry. Therefore, during the period under review, the Group conquered difficulties and made its breakthroughs and followed the working principle of increasing income and cutting expenditure. On one hand, the "O2O" experience zone for the segment of hypermarkets was promoted and new models of sales featuring interaction between the online and offline stores of "Bailian Daojia", and the commodity category structure was optimized and the amount of customers coming back to buy fresh produce was increased. The transformation of stores was accelerated and the contemporary retail consumption experience was created to enhance our performance and the operation capability in attracting investment. On the other hand, the special projects for controlling expenses were established in order to control expenses on human resources, energy, rental fees and other relevant expenses. In the latter half of the year, the operation performance changed the continuing trend of dropping.

Cash flow

During the period under review, the net cash outflow of the Group was approximately RMB1,271,465 thousand, mainly due to the purchase of financial assets at fair value through profit or loss increasing by RMB1,370 million. The cash and various balance at bank as at the end of the period was approximately RMB6,684,751 thousand.

As at 31 December 2016, the accounts payable turnover days of the Group were 61 days, and the inventory turnover days were approximately 43 days.

During the period under review, the Group did not use any financial instruments for hedging purposes and did not issue any hedging instruments as at 31 December 2016.

Retail business operation

Hypermarkets

During the period under review, the hypermarket segment of the Group recorded a turnover of approximately RMB16,291,815 thousand, accounting for approximately 61.1% of the Group's turnover, with a decrease of approximately RMB320,250 thousand year over year, which represented a year-on-year decrease of approximately 1.9%. Same store sales had a year-on-year decrease of approximately 2.79%, mainly due to the impact of expanding shares of online sales in traditional retail markets. The hypermarket segment of the Group tried to promote the rising of retail sales by successively adopting the those special projects such as stores renovation and transformation, business cooperation and structural adjustment of product offerings to attract customers as well as online and offline "Bailian Daojia". Some transformed stores have witnessed a rebound of sales and performance in Shanghai. During the period under review, the hypermarket segment recorded a gross profit of approximately RMB2,354,741 thousand with a decrease of approximately RMB88,559 thousand year over year. The gross profit margin decreased by 0.26 percentage point year over year to 14.45%. The consolidated income was approximately RMB4,168,267 thousand. The consolidated income margin increased by 0.80 percentage point to 25.59%. During the period under review, operating loss of the hypermarket segment was approximately RMB148,818 thousand.

	As of 31 December	
	2016	2015
Gross Profit Margin (%)	**14.45**	14.71
Consolidated Income Margin (%)	**25.59**	24.79
Operating Profit Margin (%)	**-0.91**	-0.44

Supermarkets

During the period under review, the turnover of the Group's supermarket segment reached approximately RMB8,323,560 thousand, accounting for approximately 31.2% of the Group's turnover with a decrease of approximately RMB300,365 thousand year over year, which represented a year-on-year decrease of approximately 3.5% mainly affected by the net reduction in stores. In particular, same store sales increased by approximately 0.61%. During the period under review, supermarket segment, on one hand promoted the implementation of the online and offline project of "Bailian Daojia" and slowed down the declining of same store sales; On the other hand, after the integration of warehouses of Jiangqiao Warehouse, the resources of suppliers were integrated and the purchasing price of commodities was lowered, thus increasing the commodity revenue year over year. During the period under review, the supermarket segment recorded a gross profit of approximately RMB1,242,313 thousand with an decrease of approximately RMB19,251 thousand year over year, which represented a year-on-year decrease of 1.5%. The gross profit margin increased by 0.30 percentage point year over year to 14.93%. The consolidated income was approximately RMB1,822,733 thousand. The consolidated income margin decreased by 1.22 percentage points year over year to 21.9%. During the period under review, the operating profit of supermarket segment was approximately RMB101,605 thousand with a year-on-year increase of approximately RMB35,468 thousand, mainly due to the reduction in costs. The operating profit margin increased by 0.45 percentage point to approximately 1.22%.

	As of 31 December	
	2016	2015
Gross Profit Margin (%)	**14.93**	14.63
Consolidated Income Margin (%)	**21.90**	23.12
Operating Profit Margin (%)	**1.22**	0.77

Convenience Stores

During the period under review, the Group's convenience store segment recorded a turnover of approximately RMB1,982,848 thousand with a year-on-year increase of approximately RMB14,185 thousand, which represented a year-on-year increase of approximately 0.7%, and accounting for 7.4% of the Group's turnover. In particular, the same store sales had an increase of approximately 6.31%. During the period under review, the convenience store segment recorded a gross profit of approximately RMB330,114 thousand with a year-on-year increase of approximately RMB7,426 thousand, which represented a year-on-year increase of 2.3%. The gross profit margin increased by 0.26 percentage point year over year to 16.65%. The consolidated income was approximately RMB445,364 thousand with a year-on-year decrease of approximately RMB8,099 thousand, which represented a year-on-year decrease of 1.8%. The consolidated income margin decreased by 0.57 percentage point year over year to 22.46%. The distribution cost and administrative expenses increased by approximately RMB21,208 thousand year over year, mainly including the rigid growth of labour cost of approximately RMB11,238 thousand due to the impact of the policy of increasing the minimum salary standards. The convenience store segment suffered an operating loss of approximately RMB114,812 thousand with a year-on-year increase of loss approximately RMB28,550 thousand. The operating profit margin lowered by 1.41 percentage points, reaching approximately -5.79%.

	As of 31 December	
	2016	2015
Gross Profit Margin (%)	**16.65**	16.39
Consolidated Income Margin (%)	**22.46**	23.03
Operating Profit Margin (%)	**-5.79**	-4.38

Capital Structure

As at 31 December 2016, the Group's case equivalent was mainly held in Renminbi. Except for the bank borrowings of RMB2,000 thousand by a non-wholly-owned subsidiary of the Group, there were no other borrowings.

During the period under review, the equity interest of the shareholders of the Group decreased from approximately RMB3,199,086 thousand to approximately RMB2,753,879 thousand, mainly due to the loss for the period amounting to approximately RMB336,042 thousand, the dividend distributed to non-controlling interests amounting to approximately RMB106,286 thousand and the increase of capital reserve by approximately RMB2,879 thousand.

Details of the Group's pledged assets

As of 31 December 2016, 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 currency exchange rates. The Group neither entered into any agreements nor purchased financial instruments to hedge its foreign exchange risk. The Directors believe that the Group is able to meet its foreign exchange requirements.

Share capital

As of 31 December 2016, 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 2016, the Group did not have material contingent liabilities.

Operating Review

Development of Network

During the period under review, the Group followed a quality-oriented development strategy. On one hand, the Group actively opened new outlets in key areas to enhance our market position. On the other hand, the Group adapted to market conditions and reorganized stores that recorded deficits, thus improving the overall quality of physical stores. In 2016, the Group opened 212 new stores and closed 477 stores, of which 395 were 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)*
Major East China Zone	Hypermarkets	1	11,300	3	30,948
	Supermarkets	94	19,688	257	74,203
	Convenience Stores	60	2,990	142	6,242
North China Zone	Hypermarkets	0	0	2	18,130
	Supermarkets	0	0	4	1,020
	Convenience Stores	10	491	15	793
Northeast China Zone	Supermarkets	1	950	0	0
	Convenience Stores	21	869	24	947
Middle China Zone	Supermarkets	4	8,900	13	5,133
South China Zone	Hypermarkets	0	0	1	3,980
	Supermarkets	20	6,936	15	5,031
Southwest China Zone	Supermarkets	1	3,800	1	200
Total		212	55,924	477	146,627

During the period under review, the Group adopted a strategy of prudent development of hypermarkets and reorganized stores that recorded deficits, upgraded network and operation structure through adjusting and optimizing stores, and upgraded stores with potentials periodically. The Group also improved overall store environment, upgraded equipment and enhanced our image in order to improve operational quality and economic benefits of stores. During the period under review, one new hypermarket was opened and 6 stores were closed.

During the period under review, the Group adopted a development strategy of "Exploring markets in a more detailed manner and consolidating existing market shares" for the supermarket segment. The direct sales business mainly focused on transformation and we put more emphasis on improving the operational quality of existing stores. The franchised business mainly focused on sustainable development and accelerated the improvement of support systems for franchised businesses, thus increasing the proportion of income from franchised businesses for the Group. During the period under review, the supermarket segment had 120 new stores opened, in which 10 were directly-operated stores and 110 were newly franchised stores. The supermarkets segment still maintains its advantages in Shanghai.

During the period under review, the Group adopted a development strategy featuring stable growth for the convenience store segment. On one hand, the Group unified labels, improved its image, upgraded and transformed equipment, and expanded fresh produce operation, sales of imported commodities and self-made commodities. At the same time, the Group introduced more new commodities, advocated innovative marketing, upgraded service, accelerated E-commerce operation and continuously improved operating quality and brand image of existing stores. On the other hand, the convenience store segment began to explore models for brand new convenience stores, securing a successful model on which to build future stores. During the period under review, 91 new stores were opened in the convenience store segment, of which 35 were directly-operated stores and 56 were franchised stores.

During the period under review, the actual investment of the Group was approximately RMB453.84 million, among which, RMB38.03 million was for the new store development, RMB107.44 million was for the upgrade and reform of stores, RMB188 million was for Yangxunqiao logistics project, RMB114.6 million for the Jiangqiao logistics project and RMB5.77 million for Lianhua logistics business electronic project.

As of 31 December 2016, the Group owned a total of 3,618 stores, which was 265 less than that in 2015. The number of franchised stores decreased by 216, mainly due to having to face the same unfavorable market conditions as the directly-operated stores did, and the Group standardized its franchise management. Approximately 81.73% of the Group's stores are located in East China.

	Hypermarkets	**Supermarkets**	**Convenience Stores**	**Total**
Directly-operated	152	569	805	1,526
Franchised	–	1,384	708	2,092
Total	152	1,953	1,513	3,618

Note: The above-mentioned data was as of 31 December 2016.

Strengthening Channels

During the period under review, the Group followed its target to consolidate channels and the guideline of "Driving development by performance and making breakthroughs by innovation", regarded transformation of stores as a main tool in consolidating channels, continues to deepen for the "One Hundred Days Action" and fulfill transformation of stores. In accordance with the principle of market segmentation, the overall orientation of the market changed from featuring "comprehensive categories and large areas" and "one-stop shopping" to currently "professional and outstanding community service center". The overall orientation of the marketplace has also changed from a previous focus that "self-operated marketplace dominates and business attraction plays a subsidiary role" to the current one featuring "portfolio operation focusing on meeting comprehensive livelihood and service demand of the community". We have focused on making our marketplaces and produce display categories active, fashionable and vigorous. Through arrangement and display of function sections and theme sections, the Group has improved shopping experience and stimulated additional purchase Additionally, we regrouped store managers. Previously, our store managers were selected based on their qualification and experience. Now, they are selected based on competency. We established a competence evaluation system to help promote qualified managers through competition.

During the period under review, the Group's hypermarket segment focused on promoting the upgrade and reform of stores, through upgrading assets, improving quality, introducing lower prices and improving services. The hypermarket segment expanded the areas and product categories of fresh produce, accelerated product upgrade, and introduced the shop-within-a-shop to achieve brand improvements. The special category zone, pilot O2O experience zone and the innovative multi-scenario marketing atmosphere reinforced interaction with customers, which helped improve shop popularity and increased orders from customers, boosting revenue and profit per square feet of floor area. At the same time, operating areas were rearranged, areas for attracting investment were expanded, the costs were reduced and inventory and human resources costs were cut, thus facilitating reduction of losses and increase of profits in stores recording deficits.

During the period under review, the supermarket segment focused on supply of vegetables for residents by means of introducing, improving and enriching the product categories of fresh produce. The supermarket segment continued to increase the supply of vegetables, fruits, meat and eggs from production bases to provide consumers with non-processed products, increased the proportion of direct delivery from source bases to shorten the supply chain, and enhanced the freshness and quality of fresh produce. The supermarket segment reinforced skills training for the supermarket operation teams, improved the approach of performance appraisal, motivated tier-one personnel enthusiasm towards promoting fresh produce, enhanced daily routine maintenance, and promoted persistent improvements in the management and operational level of fresh produce in stores by means of streamlining operations. The supermarket segment introduced elements related to health, trend and quality, thus optimizing commodity structure and shopping environment to attract more customers.

During the period under review, the convenience store segment continued to streamline its functions and increase its capability, while accelerated the introduction of new products and expanded sales of fresh produce, imported commodities and branded produce. The segment accelerated exploration of a transformation model for stores and opened many convenience stores with unique features. The structure of customers turned younger during the year.

Control of Upstream Resources

During the period under review, the Group, in accordance with the planning requirements for "Control of Upstream Resources", proactively established the industrial chain and optimized the supply chain, continued improving the competitiveness of key products and realizing growth of benefits through establishing interior and exterior supply chain system and workflow system. The Group also closely studied consumption trend to build an appropriate product category strategy and determine goals for optimizing categories. The purchase was organized with clear purpose and the proportion for direct purchase was expanded. The product development was explored and the new product portfolio was created to increase sales proportions of self-made branded commodities and imported commodities. Joint purchase was expanded, nationwide commodity resources were shared and the purchase cost were reduced. The introduction of new products was accelerated and supply of new products increased.

During the period under review, the Group was committed to the enhancement of the strategic fresh produce supply. The department for fresh produce procurement directly meets demands of markets and customers in order to improve their service quality and diversify their portfolio of fresh produce. The Group established a nationwide procurement team and sorted out procurement management flow, regulated management processes, improved procurement quality and reduced procurement costs. It also enhanced the performance of the procurement team's expertise and professional capability and increased capability of base procurement and source procurement in order to accelerate introduction of new products with advantages and new categories with shorter cycles of development and sales. The operation for packaged vegetables and fruits were enhanced and the prices were fixed at a reasonable level to expand sales of individual products and continue to improve local supply chains for fresh produce. and the Group also accelerated the establishment of a central kitchen through integrating market resources in an effort to offset its weakness in fresh produce supply chains.

During the period under review, the Group aimed at the market opportunities resulting from consumption upgrades and established the Premium Lifestyle Pavilion as well as developed and attracted more exquisite products The Group also explored potential transformation of brands operation. By making breakthroughs in the traditional procurement model for self-made products and through market-focused operation, the Group enhanced coordination between marketing and procurement, and actively promoted the "Premium Lifestyle Pavilion" (優品生活館), the "Ichiban Good Products" (一番良品) and Disney. Overall, the brand image of self-made products was markedly improved.

Cost Control and Efficiency Enhanced

During the period under review, the Group achieved significant cost reductions and expense control. Confronted with the rigid increasing trend of labor cost and rental cost, the Group placed greater emphasis on reasonable employment and cut human resources cost, operation cost and rental cost. Through optimizing business flow, reasonably arranging employment and improving human resources efficiency, the Group was able to save on labor costs by means of rearranging operation plans, reasonably determining rental areas and rediscussing rental fees, the rental cost was reduced. The Group enhanced scientific management over its investment and output and enacted strict control over expenditure in order to keep all costs for operation within a reasonable range. These efforts achieved significant results in expense control.

During the period under review, the Group was strict in saving energy and reducing consumption. The Group provided guarantee in terms of organization and appointed personnel in charge of reducing energy and consumption, optimized management system for saving energy and enhanced enforcement for energy saving, improved awareness of staff to save energy and guided staff to save energy in a routine manner. The Group introduced innovative energy saving technology and products that save energy, mastered new energy-saving and consumption reduction technology and successfully promoted such technology. It was guaranteed that there was no blind areas for energy saving and consumption reduction, thus further enhancing fruits in energy saving and consumption reduction. The Group explored ways of demonstration and established Display Hypermarkets to Save Energy in order to advertise and promote the results. After summing up experiences, an energy saving model that can be copied and promoted can be established.

During the period under review, the Group further explored potentials in order to guarantee its effective control over assets and project investment. The budget management was enhanced and the budget enforcement and follow-up analysis were carefully made in a detailed manner, thus effectively guaranteeing that investment does not go beyond budget. The Group enhanced the control before, in and after the project investment and assets and strengthened the compilation and enforcement of standards. The Group compared market procurement prices, improved its selection in bidding and enhanced its comparison in project bidding in an effort to reduce procurement cost. The Group strictly followed the approvals and price auditing rules for projects, enhanced argumentation over maintenance schemes, on-site confirmation of maintenance projects and the annual price list system for maintenance projects. Also, the Group enhanced its comparison and selection in bidding, upgraded quality and reduced costs for projects.

Solid Foundation

During the period under review, the Group proactively implemented the optimization of organization structure and improvement of human resources and deepened regional reform in accordance with the principle of market-focused, professional and flat organization structure. Levels of management for headquarter in Shanghai were reduced in order to build a new structure that is market-oriented, professional, clear in responsibility and rights and prompt in reaction and to cope with slowdown in growth of the traditional retail industry, fast market changes and diversified consumption needs. It clarified that companies in various localities shall be the main body liable for independent operation and accounting to build a new operational management system with regional operation as the base. The Group also adopted an employment method of competition for a post among all management staff. At the same time, the Group combined the market-oriented employment and internal training to introduce senior talents for key posts and diversify the core team.

During the period under review, the Group, in accordance with the requirements of markets and professional performance, realized separation of the procurement business and management of procurement and optimized the business structure. Based on needs for commodity strategy and the trend of development of product categories, the Group arranged independent categories for imported, branded products and products for infants and children. The Group also determined the guidance for future investment attraction, unified strategies of attracting investment, supported transformation of stores, streamlined the stores we attracted and introduced new stores.

During the period under review, the Group, in accordance with the principle of market-focused and professional, pushed forward the optimization of internal organization. During the period under review, the Group targeted horizontal organization, functions with clear responsibilities, professional arrangement of posts, market-oriented capability and reasonable size of personnel force and smoothly finished the integration of the Shanghai operation center, thus establishing a structure of its headquarter with clear responsibilities, prompt reaction and a market-oriented system.

During the period under review, the Group accelerated its integration of logistics. It built a project panel and completed business and system integration by means of unifying the commodity codes, supplier codes and contracts and through modifying business rules, integrating business flows and upgrading the business management information system. Based on this, through order and continuous efforts, the offline stores, online stores and fresh produce stores for marketplaces, standard supermarkets and convenience stores formally started the operation. Thus, the physical shift of stores of Jiangqiao Logistic Center was smoothly finished. Also, the system sharing, inventory sharing and resources sharing have provided a powerful guarantee for the improvement of efficiency of supply chains in Shanghai.

During the period under review, the Group was active in undertaking social responsibilities. One of our affiliates, Lianhua Huashang, was responsible for supplying food to the G20 summit in Hangzhou. Lianhua Huashang successfully and excellently completed its task of supplying food to the summit with its outstanding coordination and joint efforts and was highly appreciated by the attendees. Satisfaction levels for the event was 100%, and Lianhua Huashang was awarded by the Government for its efforts.

During the period under review, the Group focused on supervision, standard operation and guarded against critical accidents. During the period under review, the Group established the safety quality management department to enhance its guidance, supervision and inspection over food security, fire safety, shopping safety and occupational safety. All of its affiliated companies and stores have all strengthened their awareness of safety and actively fulfilled their safety duties.

Employment, Training and Development

As of 31 December 2016, the Group had a total of 44,033 employees, a decrease of 3,590 employees during the period under review. Total employment expenses amounted to approximately RMB2,957,507 thousand.

During the period under review, the Group aimed to motivate employees, retain and attract talents and proactively improved reforms on the incentive mechanism. Through combining horizontal reform, following the principle of fairness and justice, respecting markets, gradually regulating the salary system and redesigning salary levels, the Group continued to build towards a salary system that is market-oriented.

During the period under review, the Group, in accordance with its own development strategy, established a better training system to facilitate the improvement of operation and management. The Group focused on pushing forward a group of key training projects in order to provide guarantee for the career development of employees. The Group also organized training for operation posts to enhance actual capability of tier-one employees in terms of operational management. The Group also sought resources for interior and exterior training cooperation and organized training that fitted certain employee's skills, diversified training resources, provided training resources support for the business department and improved training results. The Group continued to carry out cooperation projects with colleges and universities, enhanced construction of training bases and accelerated reserve of talents and talent pool building.

Strategy and Planning

The year 2017 is an important year for the 13th Five-year Plan of the Chinese government and will be a year to deepen supply-side structural reform. In 2017, China's economy will face an ever greater downward pressure. However, with the gradual formation of new growth drivers, China's economy is expected to achieve L-shape development and maintain a growth rate of about 6.5%. Under such circumstances, the Chinese government will focus on pushing forward reforms and accelerating transformation of the economy as the critical factors in the economic area.

The Chinese government is now focusing on the booming of real economy and issuing a series of policies to support the development of retails stores. According to the 2017 Report on Investigation of Consumption Trends of Chinese Urban Youth conducted by an independent big data analysis organization Standard Ranking Institute, 70% of urban youth are willing to pay for health. To spend money on health, leisure time and entertainment are new consumption trends of Chinese urban youth being the new generation. With the improvement in urban residents' livelihood, the need of urban consumers has changed, and they now pursue quality, healthy and safe consumption. With the influence of supply-side structural reform and the trend of pursuing quality consumption and selective consumption, the quality branded products, well-known brands and food that is healthy, green and imported maintained fast sales growth. For entity retail stores, this is an opportunity as well as a challenge.

Therefore, in 2017, the Group will follow the previously set strategy and realize guidance focusing on human resources, innovation and reform, pragmatic performance and reduction of loss and increase of profits. The Group will aim at meeting the needs of customers and focus on control of upstream resources, consolidating channels and expanding channels. The Group will also push forward upgrading of brands, categories and channels. The Group will steadily carry out expansion of sales and increase of profits, reduction of cost and increase of efficiency, thus improving customer satisfaction levels, employees' confidence and diversities.

In 2017, the Group will focus on human resources, develop an incentive model and improve organization capability. The Group will optimize structure and streamline responsibility and rights in order to clarify the relations between regional organizations and headquarters and strengthen regional reform. The main body for maintaining the budget shall be made clear in a detailed manner and the financial responsibility shall be clarified. The incentive mechanism shall be innovative to build a scientific performance evaluation system, and the Group will push forward construction of enterprise culture and motivate employees' enthusiasm and activeness, thus realizing independent and active action by employees and enhancing the power of teams.

In 2017, the Group will realize growth of sales equal to last years through innovative marketing, coordinated supply chains and guaranteeing supply. The Group will actively change our philosophy, bring out innovative marketing approaches and improve our communication with customers, thus realizing marketing through all employees and transmitting our operation concept. We will continue to aim at meeting the needs of customers and fulfill traditional marketing aspects such as posters and multi-level marketing. By targeting to provide services to business districts, we will go into districts and actively plan and organize marketing and promotion activities with clear goals. We will thoughtfully organize marketing in festivals and holidays, theme marketing and other large marketing activities. We will actively organize supply and maintain focus on offering competitive prices, thus enhancing loyalty and satisfaction levels of our customers.

In 2017, the Group will accelerate upgrading of stores through innovative operations and will consolidate our sales channels. Based on continuous analysis, checking and optimization of existing stores, we will explore new ways of upgrading and diversify the purpose of upgrading stores. At the same time, we will organize and arrange our advantageous resources and carefully plan and make overall arrangements to push forward the transformation of supermarkets, improve input-output ratio and maintain the improved efficiency of transformed stores. We will accelerate the transformation and upgrading of the convenience stores segment through innovative service functions, integrated market chains and enhanced fresh food categories.

In 2017, the Group will continue its reform on the establishment of innovative supply chains and consolidation of supply chains, thus improving the quality of procurement. Guided by the principle of "Generating profits from sales and creating revenue with gross interest", we will accelerate market reform for the procurement business, focus on responsibility of the checking body through clarifying responsibility and rights of the budget enforcement body, motivating the activeness and creativeness of procurement personnel and strengthening competitiveness, thus creating conditions for integrating marketing and procurement and reducing procurement costs. We will speed up construction of a central kitchen and push forward the comprehensive upgrading of our fresh produce operation from raw to cooked products. We will adopt product category management technology to improve output and accelerate survival-of-the-fittest in order to improve sound cycling of commodities. We will accelerate the transformation of self-made operations to OEM production in order to improve independent operation capability and realize differential competitiveness. We will allocate quality resources to attract new businesses, support transformation and upgrading of stores and increase income from attracting new businesses.

In 2017, the Group will continue to adapt to market conditions, enhance management of regulations and improve operation quality. We will actively promote the role of the Sales Promotion Department, guide procurement personnel to face markets demand and enhance coordination of marketing and procurement. We will adapt to the transformation of our fresh produce from raw to cooked products. We will focus on various sections in fresh produce operation and improve the operation quality of fresh produce. We will enhance standardized operational management, enhance supervision and inspection of rules related to the operation of stores, integrate rewards with punishment, fulfill reform and modification, thus realizing an overall improvement of operational management.

In 2017, the Group will continue to integrate the online and offline businesses and promote upgrading of channels. We will depend on physical stores and take advantage of E-commerce technology to explore online sales channels in order to adapt to changes of consumption behavior. We will focus on "delivery to home, buy online and pick up in stores". Through building complete O2O value chains, the customers, commodities, logistics, information and capital will interact and be integrated, building synergies between the online and offline operation, while optimizing the supply chains, commodity structure, supplier structure, business flow and marketing.

In 2017, in order to grasp the market opportunities arising from the rapid development of community businesses and consumption upgrades, the Group will give the same priority to direct sales, franchised stores and mergers, and accelerates development of supermarkets and convenience stores. The convenience store segment will enter into new zones. At the same time, boutique supermarkets will be established and transformation and upgrades of convenience stores 2.0 version will be explored.

In 2017, the total capital expenditure budget of the Group amounts to approximately RMB1,141.82 million, among which, the investment in new store development amounts to approximately RMB455.29 million. the investment in store upgrading and reform amounts to approximately RMB436.53 million and the investment in Yangxunqiao logistic project amounts to approximately RMB250 million.

In 2017, the Group will seek more ways to control expenses and cut costs, and will cut human resources cost through integrating interior structures, functions and flows, streamlining posts and reasonably cutting employees. We will reduce consumption through improving our management and will reduce our rental costs through active negotiations. Also, we will reduce inventory costs through accelerating cycling of commodities. We will control investment costs through a careful budget and will reduce transportation expenses through a detailed plan. We will cut cost for IT development through sorting out and optimizing the existing system.

In 2017, the Group will steadily push forward reform of the salary system, improve the training system, enhance expertise of our staff and accelerate training of talents in various fields, thus guaranteeing the sustainable development of our enterprise. We will speed up the construction of support system for logistics, improve the operation quality of logistic systems and support the expansion of sales and increase of efficiency of stores. We will strengthen the construction of support system for supply chains, push forward the transformation and upgrading of franchised stores and improve the quality of franchised business. We will push forward ERP and OA projects in an orderly manner in order to improve management efficiency and will give priority to safety in order to fulfill our duty to society.

Purchase, Sale or Redemption of Shares

From 27 June 2003, the date of listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to the date of this announcement, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the listed securities of the Company.

Final Dividend

The board of directors (the "Board") of the Company recommends not to distribute final dividend for the year ended 31 December 2016.

Audit Committee

The audit committee of the Company has reviewed the annual results of the Company for the year ended 31 December 2016 and confirmed that they are prepared in accordance with the applicable accounting standards, laws and regulations and appropriate disclosures have been made.

Scope of Work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2016 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu ("Deloitte"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte on this announcement.

Compliance with Model Code for Securities Transactions by directors in Appendix 10 to the Listing Rules

The Company has adopted the Model Code for Securities Transactions by directors ("Model Code") as set out in Appendix 10 to the Listing Rules as code of conduct for securities transactions by all directors of the Company. After specific enquiries to all Directors, the Board is pleased to confirm that all of the Directors have fully complied with the provisions under the Model Code the financial year ended 31 December 2016.

Compliance with the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules

The Board is pleased to confirm that save and except for the matters as set out below, the Company has complied with all the code provisions in the "Corporate Governance Code" (the "Code") under Appendix 14 to the Listing Rules during the financial year ended 31 December 2016. Apart from the following deviation, none of the directors is aware of any information that would reasonably indicate that the Company is not or was not for any time of the period under review in compliance with the Code. Details of the deviation are set out as follows:

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

For Provision A.6.7 of the Code:

Mr. Zhang Xuan-song, the then non-executive Director at that time, Mr. Wong Tak Hung, a non-executive Director, and Mr. Gu Guo-jian, the then independent non-executive Director at that time, were unable to attend the 11th meeting of the fifth session of the Board convened on 30 March 2016 by the Company due to their other work engagements.

Mr. Zhang Xuan-song, the then non-executive Director at that time, Mr. Wong Tak Hung, a non-executive Director were unable to attend the 12th meeting of the fifth session of the Board convened on 25 August 2016 by the Company due to their other work engagements.

Mr. Zhang Xuan-song, the then non-executive Director at that time was unable to attend the 13th meeting of the fifth session of the Board convened on 10 November 2016 by the Company due to his other work engagements.

Mr. Zhang Xuan-song, the then non-executive Director at that time, was unable to attend the 14th meeting of the fifth session of the Board convened on 5 December 2016 by the Company due to his other work engagements.

Mr. Zhang Xuan-song, the then non-executive Director at that time was unable to attend the extraordinary general meeting of the Company convened on 5 December 2016 due to their other work engagements.

After receiving the relevant materials for the Board meetings, the above mentioned Directors have authorized other Directors of the Company to attend the meetings and vote on their behalf. The matters considered at the Board meetings were ordinary matters and all resolutions were passed smoothly. The Company had 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 extraordinary general meeting of the Company(the "EGM") to all members of the Board before the EGM. All ordinary resolutions and special resolutions considered at the EGM were passed smoothly. The Company had sent the related minutes of the EGM to all members of the Board after the EGM so that any Directors who were unable to attend the meeting was able to understand the resolutions passed at the meeting.

For Provisions A.6.7 and E.1.2 of the Code, Mr. Zhang Xuan-song, the then non-executive Director at that time, Mr. Qian Jian-Qiang, a non-executive Director, Mr. Wong Tak Hung, a non-executive Director, and Mr. Lee Kwok Ming, Don, an independent non-executive Director, were unable to attend the 2015 annual general meeting of the Company (the "AGM") convened on 13 June 2016 due to their other work engagements. The Company has provided the relevant materials relating to the 2015 annual general meeting to all members of the Board before the AGM. All ordinary resolutions and special resolutions were passed smoothly at the AGM. The Company had sent the related minutes to all members of the Board after the AGM so any Director who was unable to attend the AGM was able to understand the resolutions passed at the AGM.

Publication of Annual Report

The annual report of the Company will be dispatched to the shareholders as well as published on the website of the Stock Exchange of Hong Kong Limited and the Company respectively in due course.

By order of the Board
Lianhua Supermarket Holdings Co., Ltd.
Ye Yong-ming
Chairman

Shanghai, PRC, 29 March 2017

As at the date of this announcement, the Board comprises:

Executive director:	*Qi Yue-hong;*
Non-executive directors:	*Ye Yong-ming, Zhang Ye, Zhou Jing-bo, Qian Jian-qiang, Zheng Xiao-yun and Wong Tak Hung;*
Independent non-executive directors:	*Xia Da-wei, Lee Kwok Ming, Don, Sheng Yan and Zhang Jun.*