
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action you should take, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in Lianhua Supermarket Holdings Co., Ltd., you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 00980)

**(1) MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
THE ACQUISITION OF YIWU CITY LIFE;
(2) DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO
THE DISPOSAL OF LIANHUA LIVE AND FRESH;
AND
(3) NOTICE OF EGM**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



A letter from the Board is set out on pages 6 to 26 of this circular. A letter from the Independent Board Committee containing its recommendation to the Shareholders is set out on pages 27 to 28 of this circular. A letter from Octal Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 49 of this circular.

The Company will convene the EGM at 10:00 a.m. on Monday, 17 July 2017 at the Conference Room, 13th Floor, Bailian Central Plaza, 1258 Zhen Guang Lu, Shanghai, the PRC. The notice of EGM, together with the reply slip and proxy form, are enclosed herein. If you are eligible, and intend, to attend the EGM, please complete and return the relevant reply slips for attendance in accordance with the instructions printed thereon as soon as possible and in any event not later than Tuesday, 27 June 2017. Whether or not you will attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for holding such meeting. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or at any adjourned meetings should you so wish.

31 May 2017

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Acquisition”	the acquisition of 100% equity interest in Yiwu City Life by Lianhua Huashang from Bailian Group pursuant to the terms and conditions of the Acquisition Agreement
“Acquisition Agreement”	the equity transfer agreement dated 2 May 2017 entered into between Bailian Group and Lianhua Huashang in respect of the Acquisition
“Announcement”	the announcement of the Company dated 2 May 2017 in relation to, among other things, the Acquisition and the Disposal
“Articles of Association”	the articles of association of the Company
“Bailian Group”	Bailian Group Co., Ltd.* (百聯集團有限公司), a company incorporated in the PRC with limited liability, a controlling Shareholder
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or Sunday or public holidays or days on which a tropical cyclone warning number 8 or above or a “black” rain warning signal is hoisted in Hong Kong at any time between 9 am and 5 pm) on which PRC and Hong Kong clearing banks are open for the transaction of normal banking business
“China” or “PRC”	The People’s Republic of China, which shall, for the purposes of this circular, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Company”	Lianhua Supermarket Holdings Co., Ltd. (聯華超市股份有限公司), a joint stock limited company incorporated under the laws of PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange
“Director(s)”	director(s) of the Company

DEFINITIONS

“Disposal”	the disposal of 100% equity interest in Lianhua Live and Fresh by the Company to Bailian Group pursuant to the terms and conditions of the Disposal Agreement
“Disposal Agreement”	the equity transfer agreement dated 2 May 2017 entered into between the Company and Bailian Group in respect of the Disposal
“Domestic Share(s)”	the domestic shares of nominal value of RMB1.00 each in the registered capital of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among other things, the Acquisition Agreement, the Disposal Agreement and the transactions contemplated thereunder
“Enlarged Group”	the Group (including Lianhua Live and Fresh) and Yiwu City Life
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign shares of nominal value of RMB1.00 each in the registered capital of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of, among other things, the Acquisition and the Disposal
“Independent Financial Adviser”	Octal Capital Limited, a corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the Disposal

DEFINITIONS

“Independent Shareholders”	Shareholders other than (i) Bailian Group and Shanghai Bailian and their respective associates; and (ii) any Shareholder with a material interest in the Acquisition and the Disposal
“Latest Practicable Date”	25 May 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Lianhua Huashang”	Hangzhou Lianhua Huashang Group Co., Ltd.* (杭州聯華華商集團有限公司), a limited liability company incorporated in the PRC and an approximately 74.19% owned subsidiary of the Company as at the Latest Practicable Date
“Lianhua Live and Fresh”	Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd.* (上海聯華生鮮食品加工配送中心有限公司), a limited liability company incorporated in the PRC
“Lianhua Live and Fresh Closing”	the closing of the Disposal pursuant to the terms and conditions of the Disposal Agreement
“Lianhua Live and Fresh Closing Date”	the date on which all the conditions precedent to the Lianhua Live and Fresh Closing have been fulfilled or waived, or such other date as agreed in writing by the parties
“Lianhua Live and Fresh Consideration”	RMB378,600,000, being the consideration for the Disposal
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“percentage ratio(s)”	any of the five ratios set out in Rule 14.07 of the Listing Rules
“RMB”	Renminbi, the lawful currency of the PRC
“Savills”	Savills Valuation and Professional Services Limited, an independent property valuer appointed by the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Shanghai Bailian”	Shanghai Bailian Group Co., Limited* (上海百聯集團股份有限公司) (formerly known as Shanghai Friendship Group Incorporated Company* (上海友誼集團股份有限公司), a controlling Shareholder
“Shanghai Yiguo”	Shanghai Yiguo E-Commerce Co., Ltd. (上海易果電子商務有限公司), a substantial Shareholder
“Share(s)”	the H Shares, the Domestic Shares and the Unlisted Foreign Shares of the Company
“Shareholder(s)”	the holder(s) of the Shares
“sq.m.”	square metre(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tiwer City”	Tiwer Century City (天華世紀城), a hypermarket based in Yiwu Property
“Unlisted Foreign Share(s)”	the unlisted foreign shares of nominal value of RMB1.00 each in the registered capital of the Company
“Yiwu City Life”	Yiwu City Life Supermarket Co., Ltd* (義烏都市生活超市有限公司), a limited liability company incorporated in the PRC, being the subject company of the Acquisition
“Yiwu City Life Closing”	the closing of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement
“Yiwu City Life Closing Date”	the date on which all the conditions precedent to the Yiwu City Life Closing have been fulfilled or waived, or such other date as agreed in writing by the parties
“Yiwu City Life Consideration”	RMB970,780,000, being the consideration for the Acquisition
“Yiwu Property”	the property located at No. 168 Wang Dao Road, Yiwu City, Zhejiang Province, the PRC which is currently owned by Yiwu City Life
“Zhejiang Century Lianhua”	Zhejiang Century Lianhua Supermarket Co., Ltd. (浙江世紀聯華超市有限公司), a subsidiary of the Company

DEFINITIONS

“Zhejiang Yiwu Leasing Agreement”	the leasing agreement dated 15 July 2016 entered into between Zhejiang Century Lianhua and Yiwu City Life in relation to the lease of the Yiwu Property
“%”	per cent

In this circular, unless the context otherwise requires, the terms “associate(s)”, “connected person(s)”, “connected transaction(s)”, “controlling shareholder(s)”, “subsidiary(ies)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Listing Rules, as modified by the Stock Exchange from time to time.

For the purpose of this circular, unless the context otherwise requires, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of RMB0.8858 to HK\$1.00. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in HK\$ or RMB have been, could have been or may be converted at such or any other rate or at all.

Certain amounts and percentage figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables and the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

The English names of Chinese entities marked with “” are translations of their Chinese names and are included in this circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

LETTER FROM THE BOARD



(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 00980)

Executive Director:

Qi Yue-hong

Non-executive Directors:

Ye Yong-ming

Zhang Ye

Zhou Jing-bo

Qian Jian-qiang

Zheng Xiao-yun

Wong Tak Hung

Independent Non-executive Directors:

Xia Da-wei

Lee Kwok Ming, Don

Sheng Yan

Zhang Jun

Registered Office:

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31 May 2017

To the Shareholders

Dear Sir or Madam,

**(1) MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
THE ACQUISITION OF YIWU CITY LIFE;
(2) DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO
THE DISPOSAL OF LIANHUA LIVE AND FRESH;
AND
(3) NOTICE OF EGM**

I. INTRODUCTION

On 2 May 2017, Lianhua Huashang, a subsidiary of the Company, entered into the Acquisition Agreement with Bailian Group, pursuant to which Lianhua Huashang conditionally agreed to purchase, and Bailian Group conditionally agreed to sell, 100% equity interest in Yiwu City Life for a cash consideration of RMB970,780,000 (equivalent to approximately HK\$1,095,935,877).

LETTER FROM THE BOARD

On the same day, the Company entered into the Disposal Agreement with Bailian Group, pursuant to which Bailian Group conditionally agreed to purchase, and the Company conditionally agreed to sell, 100% equity interest in Lianhua Live and Fresh for a cash consideration of RMB378,600,000 (equivalent to approximately HK\$427,410,251).

The purpose of this circular is to provide the Shareholders with (i) further information of the Acquisition and the Disposal; (ii) the letter from the Independent Board Committee; (iii) the letter from the Independent Financial Adviser; and (iv) other information as required under the Listing Rules.

II. THE ACQUISITION AGREEMENT

On 2 May 2017, Lianhua Huashang, a subsidiary of the Company, and Bailian Group entered into the Acquisition Agreement in relation to the Acquisition. Details of the Acquisition Agreement are set out below:

Date

2 May 2017

Parties

- (1) Lianhua Huashang (as the purchaser); and
- (2) Bailian Group (as the vendor)

Subject matter

Lianhua Huashang conditionally agreed to purchase, and Bailian Group conditionally agreed to sell, 100% equity interest in Yiwu City Life, subject to the terms and conditions of the Acquisition Agreement.

Yiwu City Life owns the Yiwu Property and is principally engaged in the development and operation of the Yiwu Property. Further details of Yiwu City Life and the Yiwu Property are set out in the sub-paragraphs headed “Information on Yiwu City Life” below.

Yiwu City Life Consideration

The Yiwu City Life Consideration is RMB970,780,000 (equivalent to approximately HK\$1,095,935,877).

The Yiwu City Life Consideration shall be settled by way of a cash payment of RMB970,780,000 by Lianhua Huashang to Bailian Group within five Business Days from the Yiwu City Life Closing Date.

LETTER FROM THE BOARD

Basis of the Yiwu City Life Consideration

The Yiwu City Life Consideration of RMB970,780,000 was determined after arm's length negotiation between Lianhua Huashang and Bailian Group on normal commercial terms after taking into account of, among other things, the audited net asset value of Yiwu City Life as at 31 December 2016 of RMB836,935,000 and the property valuation of the Yiwu Property held by Yiwu City Life of RMB949,000,000 as at 31 March 2017.

The Directors (including the independent non-executive Directors after taking into account the opinion and advice from the Independent Financial Adviser) are of the view that the Yiwu City Life Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Conditions precedent to the Yiwu City Life Closing

Closing of the transactions under the Acquisition Agreement is conditional upon the fulfilment or waiver (as the case may be) of the following conditions precedent:

- (1) approvals having been obtained from the shareholders of Lianhua Huashang at its general meeting in accordance with the articles of association of Lianhua Huashang for the Acquisition Agreement and the transaction contemplated thereunder;
- (2) approvals having been obtained from the board of directors of Bailian Group in accordance with the articles of association of Bailian Group for the Acquisition Agreement and the transaction contemplated thereunder;
- (3) approvals having been obtained from the Independent Shareholders of the Company at the EGM in accordance with the Listing Rules and the Articles of Association for the Acquisition Agreement and the transaction contemplated thereunder;
- (4) approval having been obtained from the shareholders of Shanghai Bailian, a controlling Shareholder, at a general meeting of Shanghai Bailian for the Acquisition Agreement and the transaction contemplated thereunder;
- (5) the Acquisition Agreement and the transaction contemplated thereunder having been approved by the state-owned assets regulatory body or its authorized entity, and the valuation report(s) in relation to the Acquisition having been filed and registered with the state-owned assets regulatory body or its authorized entity;
- (6) pursuant to the PRC laws and regulations and the Acquisition Agreement, the legal procedures and steps of the Acquisition Agreement and the transaction contemplated thereunder having been completed through Shanghai United Assets and Equity Exchange;

LETTER FROM THE BOARD

- (7) all necessary licences, consents, approvals, authorisations, permissions, waivers, orders, exemptions or notifications of, among others, creditors and shareholders of Yiwu City Life, other relevant third parties and/or governmental or regulatory authorities or bodies (including the relevant PRC and Hong Kong bodies), which are required for the execution and performance of the Acquisition Agreement or the Yiwu City Life Closing, having been obtained and not having been revoked prior to the Yiwu City Life Closing;
- (8) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that restricts or prohibits the implementation of the transaction contemplated under the Acquisition Agreement;
- (9) the warranties given by Bailian Group in the Acquisition Agreement remaining true and accurate and not misleading in any material respect as if they were repeated at any time prior to the Yiwu City Life Closing by reference to the facts and circumstances then existing;
- (10) no material adverse change in the business, operations or financial condition of Yiwu City Life having occurred since 31 December 2016;
- (11) Bailian Group having performed and complied with all agreements, obligations and conditions contained in the Acquisition Agreement that are required to be performed or complied with by it on or before the Yiwu City Life Closing;
- (12) Lianhua Huashang having conducted and completed due diligence on all business, legal and financial matters, and all such other matters as deemed necessary by Lianhua Huashang in its absolute discretion in relation to Yiwu City Life, and Lianhua Huashang being satisfied with the results of such due diligence in its absolute discretion;
- (13) Lianhua Huashang having performed and complied with all agreements, obligations and conditions contained in the Acquisition Agreement that are required to be performed or complied with by it on or before the Yiwu City Life Closing; and
- (14) the warranties given by Lianhua Huashang in the Acquisition Agreement remaining true and accurate and not misleading in any material respect as if they were repeated at any time prior to the Yiwu City Life Closing by reference to the facts and circumstances then existing.

Neither Bailian Group nor Lianhua Huashang has the right to waive the conditions (1) to (8) above. Lianhua Huashang may at its discretion waive any of the conditions (9) to (12) above, and Bailian Group may at its discretion waive any of the conditions (13) to (14) above.

LETTER FROM THE BOARD

If any of the conditions has not been fulfilled, or waived by Lianhua Huashang (in respect of paragraphs (9) to (12) above) or waived by Bailian Group (in respect of paragraphs (13) to (14) above) by 31 December 2017 (or such later date as the parties to the Acquisition Agreement may agree in writing), the Acquisition Agreement shall be terminated and no party shall have any claim against the other, except in respect of any antecedent breach of the terms thereof.

As at the Latest Practicable Date, the conditions set out in paragraphs (1), (2), (5) and (12) had been satisfied. If any of the other conditions is not fulfilled on or before Yiwu City Life Closing, the Company shall, with reference to the circumstances leading to and the extent of the non-fulfilment of such condition, assess its impact on the transaction structure, the business, financial position and valuation of Yiwu City Life, and the potential adverse impact on the Company after Yiwu City Life Closing. As at the Latest Practicable Date, the Company was not aware of any circumstance which will result in any of the conditions not being able to be fulfilled on or before Yiwu City Life Closing. Accordingly, the Company has no intention to waive any of such conditions.

Yiwu City Life Closing

Closing of the transactions under the Acquisition Agreement will take place on the Yiwu City Life Closing Date. Upon the Yiwu City Life Closing, Yiwu City Life will become an approximately 74.19% indirectly owned subsidiary of the Company. Since the main tangible asset of Yiwu City Life is Yiwu Property, the acquisition of which will be accounted for as acquisition of assets. Such transaction would not give rise to goodwill or bargain purchase gain. The parties further agreed that any profit or loss arising from operations of Yiwu City Life from 31 December 2016 to the Yiwu City Life Closing Date which causes the audited net asset value of Yiwu City Life to increase or decrease shall be attributed to or borne by Bailian Group.

Reasons for and benefits of the Acquisition

Yiwu is a key city in Zhejiang Province in the PRC, and the Yiwu market has high potential for the Company's sustainable development. The Yiwu Property is situated in a prime location in Yiwu with good infrastructure. Tiwer City is located in Yiwu Property and, is one of the largest hypermarkets in terms of the operating area and variety of goods for sale in Yiwu as well as Zhejiang Province. Tiwer City has a total gross floor area of approximately 78,000 sq.m. and almost 1,000 car parking spaces. It has attracted more than 200 popular brands and sells approximately 100,000 varieties of goods. The Company has maintained a leading position in the retail industry in Zhejiang Province with prevailing competitiveness in brands and products. As such, the Company possesses an incomparable advantage over other retail enterprises in the region. According to a market survey on the consumer groups of Tiwer City conducted by Tiwer City in 2015, young adults aged 18-45 accounted for 86.6% of the consumption value, families with children in elementary schools or younger accounted for 59.0% of the consumption value, and families with annual incomes above RMB96,000 accounted for 59.8% of the consumption value. The statistics showed that Tiwer City is a commercial hypermarket with a focus on middle-class families, and has become the place-of-choice for high-quality supermarket customers in Yiwu.

LETTER FROM THE BOARD

The Board considers that the Acquisition has, among others, the following benefits:

Firstly, the Acquisition will upgrade brands of Tiwer City. Before completion of the Acquisition, Yiwu Property is a leased property of the Company and the Company only had short-term cooperation with certain franchise stores due to the limitation of the lease period. After completion of the Acquisition, Yiwu Property will become a self-owned property of the Company. As such, the Company will be able to develop long-term cooperation with those food and beverages franchise brands, such as Starbucks and the Grandma's, which require long contract term. The introduction of more diversified franchise brands will attract more customers. As a result, the revenue to be generated by Yiwu Property and Tiwer City may be boosted, and the Company may be in a better position to further develop and upgrade Yiwu Property, with a view to achieve long-term return from its investment in Yiwu Property. The Company expects that the Yiwu Property will become a commercial landmark which will attract potential young and well-heeled customers, as well as popular brands to rent the retail spaces.

Secondly, the Company expects to obtain a larger market share in the Yiwu retail market through the Acquisition. Other than the Hangzhou market, the Yiwu region is currently one of the regions with most development potentials for the Company's development in Zhejiang Province. With decades of effort, the Company has maintained a rapid growth in Yiwu in the past few years. The Company currently operates two hypermarkets in Yiwu which recorded revenue in recent years. Upon completion of the Acquisition, Yiwu Property will become a self-owned property of the Company. The Company plans to take the advantage of such self-owned property to develop more franchise stores licensed by the Company in Yiwu. The Company proposes to promote and develop Yiwu Property so that it will become a distribution centre to supply goods to the new franchise stores licensed by the Company to be established in Yiwu. In the meanwhile, with the expected influx of food and beverages franchise brands, Tiwer City may also attract more customers and bring more revenue to the Company. As a result of the expanded geographic scope of operation and the expected increase of revenue, the Company expects to obtain a larger market share in the Yiwu retail market.

Thirdly, the Company expects that the rental costs will be decreased and the rental income will be increased after completion of the Acquisition. The Company used to pay a substantial amount of rent to Bailian Group for operating the Tiwer City. The reduction in the rental costs will increase cash flows for future operating activities and support the development of the principle activities of the Company. Furthermore, upon the completion of the Acquisition, the Yiwu Property will become a self-owned property of the Company, which will increase the rental income derived from leasing of shop premises, thereby further optimising the income structure of the Company.

LETTER FROM THE BOARD

Fourthly, the Acquisition is in line with the core business of the Company. The Company is principally engaged in retail chain business and the operation of hypermarkets, supermarkets and convenience stores in the PRC. Tiwer City is a comprehensive hypermarket, which combines supermarket, featured shops and entertainment facilities. As such, the Acquisition is consistent with the Company's strategy to strengthen its core business and its leading position in this field. Moreover, The Company directly-operates 152 hypermarkets around the country according to its 2016 annual report. It already has successful experience in the innovation of the business model of operating hypermarkets, which will facilitate the development plans of Yiwu Property as further delineated below.

Details of the Company's development plans for the Yiwu Property upon the completion of the Acquisition are set out as below:

1. To establish experience zones to promote the sale of goods. The Company plans to establish Premium Lifestyle Pavilion in Tiwer City where the Company will offer live and fresh products processed on the spot for customers to taste. The Company also plans to establish experience zones for infants and children with entertainment facilities. With the innovative experience zones, Tiwer City is expected to be distinguished from other hypermarkets in Yiwu.
2. To improve the marketing and sale strategy. The Company will utilise its expertise to in pricing strategy to offer favourable prices to attract customers, design more promotional activities and increase the loyalty of customers through membership programme. Furthermore, the Company plans to develop more group-buying activities to coordinate with retail sales.
3. To enhance the standards of services. After the Acquisition, the Company will focus on developing the relationship with customers to operate Tiwer City. On one hand, the Company will upgrade the facilities of the hypermarket to satisfy various customers' needs, such as expanding the area covered with free Wifi and establishing more electronic navigation platforms. On the other hand, the Company will give more trainings to its staff to offer more considerate services to customers.
4. To achieve business model innovation by adopting new technology. On the one hand, the Company plans to adopt the O2O e-commerce mode, by which the Company could attract customers' purchase online, following which the real consumption of services or goods by customers takes place offline. The Company will also establish the online shopping platform of the supermarket in Tiwer City. On the other hand, the Company plans to use the big data analysis to study the consumption patterns of different customers, apply the mobile payment, interact with customers on social networking platforms and use other artificial intelligence to enhance shopping experience.

LETTER FROM THE BOARD

Taking into consideration the reasons for and benefits of the Acquisition and the opinion and advice from the Independent Financial Adviser, the Directors (including the independent non-executive Directors) are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are also of the view that the terms of the Acquisition Agreement, including the Yiwu City Life Consideration, which have been reached after arm's length negotiations among the parties, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

III. THE DISPOSAL AGREEMENT

On 2 May 2017, the Company and Bailian Group entered into the Disposal Agreement in relation to the Disposal. Details of the Disposal Agreement are set out below:

Date

2 May 2017

Parties

- (1) Bailian Group (as the purchaser); and
- (2) the Company (as the vendor)

Subject matter

Bailian Group conditionally agreed to purchase, and the Company conditionally agreed to sell, 100% equity interest in Lianhua Live and Fresh, subject to the terms and conditions of the Disposal Agreement.

Lianhua Live and Fresh is a wholly-owned subsidiary of the Company as at the Latest Practicable Date. Lianhua Live and Fresh is principally engaged in the processing, distribution and trade of live and fresh food. Further details of Lianhua Live and Fresh are set out in the sub-paragraphs headed "Information on Lianhua Live and Fresh" below.

Lianhua Live and Fresh Consideration

The Lianhua Live and Fresh Consideration is RMB378,600,000 (equivalent to approximately HK\$427,410,251).

The Lianhua Live and Fresh Consideration shall be settled by way of a cash payment of RMB378,600,000 by Bailian Group to the Company within five Business Days from the Lianhua Live and Fresh Closing Date.

LETTER FROM THE BOARD

Basis of Lianhua Live and Fresh Consideration

The Lianhua Live and Fresh Consideration of RMB378,600,000 was determined after arm's length negotiation between the Company and Bailian Group on normal commercial terms after taking into account of, among other things, (i) the audited net asset value of Lianhua Live and Fresh as at 31 December 2016 of -RMB20,581,000; (ii) the valuation of the major assets held by Lianhua Live and Fresh (i.e. its logistic centre in Shanghai and the relevant land use rights) of RMB500,000,000 as at 31 March 2017 as set out in Appendix V to this circular; (iii) the net revaluation surplus of RMB398,833,000 arising from the valuation of its major assets as at 31 March 2017, which represents the revaluation surplus arising from the difference between the valuation of its major assets of RMB500,000,000 as at 31 March 2017 as set out in Appendix V to this circular and the aggregated sum of audited net book value of the property and building and the intangible asset (i.e. the land use rights) held by Lianhua Live and Fresh of approximately RMB101,167,000 based on the PRC audited financial statement of Lianhua Live and Fresh prepared under the relevant accounting principles and regulations applicable to enterprises established in the PRC; and (iv) the adjusted net asset value of Lianhua Live and Fresh of RMB378,252,000 by adding the net revaluation surplus to the audited net asset value of Lianhua Live and Fresh.

Having considered the above factors and that Lianhua Live and Fresh Consideration represents a slight premium of approximately 0.09% to the adjusted net asset value of Lianhua Live and Fresh, the Directors (including the independent non-executive Directors after taking into account the opinion and advice from the Independent Financial Adviser) are of the view that the Lianhua Live and Fresh Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions precedent to the Lianhua Live and Fresh Closing

Closing of the transactions under the Disposal Agreement is conditional upon the fulfilment or waiver (as the case may be) of the following conditions precedent:

- (1) approvals having been obtained from the board of directors of Bailian Group in accordance with the articles of association of Bailian Group for the Disposal Agreement and the transaction contemplated thereunder;
- (2) approvals having been obtained from the Independent Shareholders at the EGM in accordance with the Articles of Association and the Listing Rules for the Disposal Agreement and the transaction contemplated thereunder;
- (3) approval having been obtained from the shareholders of Shanghai Bailian, a controlling Shareholder, at a general meeting of Shanghai Bailian for the Disposal Agreement and the transaction contemplated thereunder;
- (4) the Disposal Agreement and the transaction contemplated thereunder having been approved by the state-owned assets regulatory body or its authorized entity, and the valuation report(s) in relation to the Disposal Agreement having been filed and registered with the state-owned assets regulatory body or its authorized entity;
- (5) pursuant to the PRC laws and regulations and the Disposal Agreement, the legal procedures and steps of the Disposal Agreement and the transaction contemplated thereunder having been completed through Shanghai United Assets and Equity Exchange;

LETTER FROM THE BOARD

- (6) all necessary licences, consents, approvals, authorisations, permissions, waivers, orders, exemptions or notifications of, among others, creditors and shareholders of Lianhua Live and Fresh, other relevant third parties and/or governmental or regulatory authorities or bodies (including the relevant PRC and Hong Kong bodies), which are required for the execution and performance of the Disposal Agreement or the Lianhua Live and Fresh Closing, having been obtained and not having been revoked prior to the Lianhua Live and Fresh Closing;
- (7) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that restricts or prohibits the implementation of the transaction contemplated under the Disposal Agreement;
- (8) the warranties given by the Company in the Disposal Agreement remaining true and accurate and not misleading in any material respect as if they were repeated at any time prior to the Lianhua Live and Fresh Closing by reference to the facts and circumstances then existing;
- (9) no material adverse change in the business, operations or financial condition of Lianhua Live and Fresh having occurred since 31 December 2016;
- (10) the Company having performed and complied with all agreements, obligations and conditions contained in the Disposal Agreement that are required to be performed or complied with by it on or before the Lianhua Live and Fresh Closing;
- (11) Bailian Group having conducted and completed due diligence on all business, legal and financial matters, and all such other matters as deemed necessary by Bailian Group in its absolute discretion in relation to Lianhua Live and Fresh, and Bailian Group being satisfied with the results of such due diligence in its absolute discretion;
- (12) Bailian Group having performed and complied with all agreements, obligations and conditions contained in the Disposal Agreement that are required to be performed or complied with by it on or before the Lianhua Live and Fresh Closing; and
- (13) the warranties given by Bailian Group in the Disposal Agreement remaining true and accurate and not misleading in any material respect as if they were repeated at any time prior to the Lianhua Live and Fresh Closing by reference to the facts and circumstances then existing.

Neither Bailian Group nor the Company has the right to waive the conditions (1) to (7) above. Bailian Group may at its discretion waive any of the conditions (8) to (11) above, and the Company may at its discretion waive any of the conditions (12) to (13) above.

LETTER FROM THE BOARD

If any of the conditions has not been fulfilled, or waived by the Company (in respect of paragraphs (12) to (13) above) or waived by Bailian Group (in respect of paragraphs (8) to (11) above) by 31 December 2017 (or such later date as the parties to the Disposal Agreement may agree in writing), the Disposal Agreement shall be terminated and no party shall have any claim against the other, except in respect of any antecedent breach of the terms thereof.

As at the Latest Practicable Date, the conditions set out in paragraphs (1), (4) and (11) had been satisfied. If any of the other conditions is not fulfilled on or before Lianhua Live and Fresh Closing, the Company shall, with reference to the circumstances leading to and the extent of the non-fulfilment of such condition, assess its impact on the transaction structure, the business, financial position and valuation of Lianhua Live and Fresh, and the potential adverse impact on the Company after Lianhua Live and Fresh Closing. As at the Latest Practicable Date, the Company was not aware of any circumstance which will result in any of the conditions not being able to be fulfilled on or before Lianhua Live and Fresh Closing. Accordingly, the Company has no intention to waive any of such conditions.

Lianhua Live and Fresh Closing

Closing of the transactions under the Disposal Agreement will take place on the Lianhua Live and Fresh Closing Date. Upon the Lianhua Live and Fresh Closing, Lianhua Live and Fresh will cease to be a subsidiary of the Company. As a result, the financial information of Lianhua Live and Fresh will no longer be consolidated in the consolidated financial statements of the Company upon the Lianhua Live and Fresh Closing. The parties further agreed that any profit or loss arising from operations of Lianhua Live and Fresh from 31 December 2016 to the Lianhua Live and Fresh Closing Date which causes the audited net asset value of Lianhua Live and Fresh to increase or decrease shall be attributed to or borne by the Company.

Based on the Lianhua Live and Fresh Consideration of approximately RMB378,600,000 for the Disposal, a net gain of approximately RMB399,181,000 is expected to accrue to the Company's consolidated financial statements as a result of the closing of the Disposal, and such gain to be recognised through profit and loss was determined by reference to the difference between the cash payment receivable from Bailian Group and the carrying value of the Group's equity interest in Lianhua Live and Fresh.

The actual gain to be recorded may be different as the above estimate is based on the net asset value of Lianhua Live and Fresh with reference to a PRC audited financial statement issued under the relevant accounting principles and regulations applicable to enterprises established in the PRC as at 31 December 2016, which may be different from that as at the Lianhua Live and Fresh Closing Date.

The Company intended to use the proceeds of the Disposal to supplement its working capital.

LETTER FROM THE BOARD

Reasons for and benefits of the Disposal

Pursuant to the terms of the Disposal Agreement, the Company will transfer 100% equity interest in Lianhua Live and Fresh to Bailian Group. The processing and distribution businesses of live and fresh food of Lianhua Live and Fresh have been relocated to Jiangqiao logistic center, which was invested and operated by the Company, resulting in vacancy of the original production area, facilities and equipment. As such, they were decided to be disposed of. The Disposal will improve the profit level of the Company and bring more working capital for the Company to support its stores transformation reform and daily operation.

Taking into consideration the reasons for and benefits of the Disposal, the Directors (including the independent non-executive Directors) are of the view that the Disposal is in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are also of the view that the terms of the Disposal Agreement, including the Lianhua Live and Fresh Consideration, which have been reached after arm's length negotiations among the parties, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IV. GENERAL INFORMATION

Information on the Company

The Company was incorporated in the PRC and the H Shares are listed on the Main Board of the Stock Exchange. The Company is principally engaged in retail chain business and the operation of hypermarkets, supermarkets and convenience stores in the PRC.

Information on Lianhua Huashang

Lianhua Huashang is a limited liability company incorporated in the PRC and an approximately 74.19% owned subsidiary of the Company as at the Latest Practicable Date. Lianhua Huashang is principally engaged in retail chain business and the operation of supermarkets and hypermarkets in Zhejiang Province.

Information on Bailian Group

Bailian Group was incorporated in the PRC with limited liability. Bailian Group is principally engaged in businesses relating to domestic trading, provision of production materials, logistics and development of commercial properties.

Information on Yiwu City Life

Yiwu City Life is a limited liability company incorporated in the PRC on 13 April 2011 and a wholly-owned subsidiary of Bailian Group as at the Latest Practicable Date. Yiwu City Life owns the Yiwu Property and is principally engaged in the development and operation of the Yiwu Property. The cost of establishment of Yiwu City Life by Bailian Group was approximately RMB830 million.

LETTER FROM THE BOARD

The Yiwu Property is located in Yiwu City, which is a key city of Zhejiang Province in the PRC. Prior to the Acquisition, Yiwu City Life entered into a leasing agreement in relation to Yiwu Property on 15 July 2016 with Zhejiang Century Lianhua, a subsidiary of the Company, pursuant to which Zhejiang Century Lianhua agreed to lease the Yiwu Property from Yiwu City Life commencing from 15 July 2016 to 14 July 2017 (both days inclusive).

The rent payable by Zhejiang Century Lianhua under the Zhejiang Yiwu Leasing Agreement for the period from 15 July 2016 to 14 July 2017 is RMB54,000,000 per annum. The rent is payable by Zhejiang Century Lianhua by way of cash on a monthly basis, which amounts to RMB4,500,000 per month. In the event that the shop of Zhejiang Century Lianhua at the Yiwu Property operates at a loss, Yiwu City Life agreed to provide a rental reduction of no more than one third of the annual rental payable by Zhejiang Century Lianhua under the Zhejiang Yiwu Leasing Agreement, i.e. the rental reduction shall be no more than RMB18,000,000 per annum. The actual amount to be paid by Zhejiang Century Lianhua to Yiwu City Life under the Zhejiang Yiwu Leasing Agreement shall therefore ranges between RMB36,000,000 to RMB54,000,000 per annum, depending on the amount of profit or loss generated by Zhejiang Century Lianhua each month. The annual rent under the Zhejiang Yiwu Leasing Agreement is determined after arm's length negotiation between the parties thereto and with reference to the market practice and prevailing market rate of similar properties in the relevant area. For further details, please refer to the announcement of the Company dated 15 July 2016.

The stores in the Yiwu Property are directly operated by Zhejiang Century Lianhua. The Yiwu Property consists of a hypermarket operated by the Company, as well as retail spaces and car parking spaces for leasing. The Yiwu Property is well-connected to Yiwu City's transportation network by its proximity to various bus stops.

The construction of the Yiwu Property was completed in July 2014, with a total gross floor area of approximately 78,978.26 sq.m., all of which has been leased out to Zhejiang Century Lianhua for rental income. The Yiwu Property comprises seven-storey which includes two underground floors and five floors above ground level. The two underground floors and the fourth and fifth floors are used as parking lots. The first, second and third floors include a hypermarket and other retail stores including home electrical appliances, fresh food and daily necessities. The hypermarket started business on 28 August 2014, becoming one of the largest flagship hypermarkets in Yiwu city and providing high-quality one-stop shopping convenience to the citizens of Yiwu city.

LETTER FROM THE BOARD

Particulars of the Yiwu Property are set out as follows:

Location	Floor area <i>(sq.m.)</i>	Usage
Two underground floors	26,011.04	Parking lots
First floor above ground	9,828.11	Retail stores
Second floor above ground	10,558.12	Hypermarket
Third floor above ground	10,886.81	Hypermarket
Fourth floor above ground	10,989.41	Parking lots
Fifth floor above ground	10,157.76	Parking lots
Top storey	547.01	
	<hr/>	
Total	78,978.26	
	<hr/> <hr/>	

As at 31 March 2017, the aggregate appraised market value of the Yiwu Property was approximately RMB949,000,000. Please refer to the property valuation report of Yiwu City Life set out in Appendix IV to this circular for further details.

Financial information of Yiwu City Life

Based on the audited accounts of Yiwu City Life, the net profits before and after taxation of Yiwu City Life for the year ended 31 December 2015 were approximately RMB3.54 million and RMB1.99 million, respectively; and the net profits before and after taxation of Yiwu City Life for the year ended 31 December 2016 were approximately RMB7.73 million and RMB5.76 million, respectively.

Based on the audited accounts of Yiwu City Life, the audited net asset value and total assets of Yiwu City Life as at 31 December 2016 were approximately RMB836.94 million and RMB839.98 million, respectively.

Please refer to the paragraph headed “Management discussion and analysis on Yiwu City Life” in this section below, and the audited report of Yiwu City Life for the three years ended 31 December 2016 set out in Appendix II to this circular for further details of the financial information of Yiwu City Life.

Information on Lianhua Live and Fresh

Lianhua Live and Fresh is a wholly-owned subsidiary of the Company as at the Latest Practicable Date. Lianhua Live and Fresh is principally engaged in the processing, distribution and trade of live and fresh food.

LETTER FROM THE BOARD

The assets of Lianhua Live and Fresh mainly consist of a property. The property held by Lianhua Live and Fresh comprises a parcel of land with a site area of approximately 21,846.00 sq.m.. Such property is located on No. 624 North Baoxing Road, Jing'an District, Shanghai, the PRC. Developments in the vicinity are dominated by high-rise residential developments and industrial complexes. It comprises ten blocks of single-to 7-storey buildings with a total gross floor area of approximately 44,426.71 sq.m..

As at 31 March 2017, the aggregate appraised market value of the property held by Lianhua Live and Fresh was approximately RMB500,000,000. Please refer to the property valuation report of Lianhua Live and Fresh set out in Appendix V to this circular for further details.

Financial information of Lianhua Live and Fresh

Based on the PRC audited financial statement of Lianhua Live and Fresh prepared under the relevant accounting principles and regulations applicable to enterprises established in the PRC, the net losses before and after taxation of Lianhua Live and Fresh for the year ended 31 December 2015 were approximately RMB14.74 million and RMB14.74 million, respectively; and the net losses before and after taxation of Lianhua Live and Fresh for the year ended 31 December 2016 were approximately RMB17.81 million and RMB17.81 million, respectively.

Based on the PRC audited financial statement of Lianhua Live and Fresh, the audited net assets and total assets of Lianhua Live and Fresh as at 31 December 2016 were approximately -RMB20.58 million and RMB112.06 million, respectively.

The Company confirms that there is no principal difference between the accounting standards of the Company (i.e. Hong Kong Financial Reporting Standards) and Lianhua Live and Fresh which may have a material impact on the financial information of Lianhua Live and Fresh disclosed in this circular.

V. MANAGEMENT DISCUSSION AND ANALYSIS ON YIWU CITY LIFE

Set out below is the key financial information of Yiwu City Life for the three years ended 31 December 2016.

Operating Results

Yiwu City Life is principally engaged in the development and operation of the Yiwu Property. It is wholly-owned by Bailian Group as at the Latest Practicable Date. The revenue of Yiwu City Life, which represented rental income from the lease of Yiwu Property to Zhejiang Century Lianhua, commencing from 15 July 2014, amounted to approximately RMB14.59 million, RMB32.80 million and RMB33.46 million for the three years ended 31 December 2016, respectively. Yiwu City Life recorded a net loss of approximately RMB0.81 million for the year ended 31 December 2014, a net profit of approximately RMB1.99 million for the year ended 31 December 2015, and a net profit of approximately RMB5.76 million for the year ended 31 December 2016. The increase in net profit for the two years from the year ended 31 December 2014 to the year ended 31 December 2016 was mainly attributable to the two-year rental income after the opening of the Yiwu Property.

LETTER FROM THE BOARD

Financing of Yiwu Property

Yiwu City Life generally financed its operation by an advance from its immediate holding company which was unsecured, payable on demand and carried interest rate of 4.32% per annum for the year ended 31 December 2013. The amount had been repaid in full by Yiwu City Life during the year ended 31 December 2014.

Major Assets

The major non-current assets of Yiwu City Life during the three years ended 31 December 2016 was the Yiwu Property, which was classified as investment property and measured using the cost model during the relevant period.

The value of the investment property of the Company decreased from RMB811.3 million as at 31 December 2014 to RMB789.4 million as at 31 December 2015, and then decreased to RMB767.4 million as at 31 December 2016 mainly due to the depreciation charge of the investment property.

The appraised market value of the Yiwu Property was RMB949,000,000 as at 31 March 2017 by Savills, an independent property valuer appointed by the Company.

Liquidity and Financial Resources

As at 31 December 2014, 2015 and 2016, Yiwu City Life had cash and cash equivalents in an amount of RMB19.6 million, RMB48.8 million and RMB71.9 million, respectively, of which the increase for the two years ended 31 December 2016 was mainly attributable to the increase in cash generated from operation as a result of the rental income for the two years ended 31 December 2016.

The carrying amounts of all cash and cash equivalents of Yiwu City Life are denominated in RMB.

Commitments

Yiwu City Life had no capital commitment as at 31 December 2014, 2015 and 2016 due to the completion of the construction of the Yiwu Property. The Yiwu Property is solely leased to Zhejiang Century Lianhua. The lease is subject to renewal on an annual basis and the current lease would be expired on 14 July 2017.

Save as disclosed in this circular, as at 31 December 2014, 2015 and 2016, Yiwu City Life had no other material capital or operating lease commitments.

Capital Structure

As at 31 December 2014, Yiwu City Life had a registered capital of RMB830 million and was mainly financed by an advance and capital injection from its immediate holding company. There was no change in the registered capital of Yiwu City Life in the two years ended 31 December 2016.

LETTER FROM THE BOARD

As at 31 December 2014, 2015 and 2016, the total assets of Yiwu City Life amounted to approximately RMB842.4 million, RMB838.3 million and RMB840.0 million, respectively; the total liabilities of Yiwu City Life amounted to approximately RMB13.2 million, RMB7.1 million and RMB3.0 million, respectively; and the total equity attributable to owners of Yiwu City Life amounted to approximately RMB829.2 million, RMB831.2 million and RMB836.9 million, respectively.

Since as at 31 December 2014, 2015 and 2016, Yiwu City Life did not have any bank loans or borrowings, the gearing ratio as at 31 December 2014, 2015 and 2016 was 0%, respectively.

Employees and Remuneration Policies

As at 31 December 2014, 2015 and 2016, Yiwu City Life had a total of 0, 0 and 0 employees, respectively. Yiwu City Life did not pay any remuneration in such period, as all remuneration have been borne by the fellow subsidiary of Yiwu City Life.

Contingent Liabilities

As at 31 December 2014, 2015 and 2016, Yiwu City Life did not have any contingent liabilities.

Foreign Exchange Exposure

As substantially all of Yiwu City Life's revenue, operating costs and expenses are denominated in RMB, Yiwu City Life's operation is not exposed to significant foreign currency risk.

Material Acquisition, Disposals, Significant Investment and Future Plans of Material Investments

For the years ended 31 December 2014, 2015 and 2016, Yiwu City Life did not have any material acquisition, disposals or significant investment. Yiwu City Life has no future plan of material investments or capital assets in the coming year after the Acquisition.

Pledge of and Charges over Assets

As at 31 December 2014, 2015 and 2016, Yiwu City Life did not have any pledge of and/or charges over assets.

Please refer to the audited report of Yiwu City Life for the three years ended 31 December 2016 set out in Appendix II to this circular for further details of the financial information of Yiwu City Life.

LETTER FROM THE BOARD

VI. FINANCIAL EFFECT OF THE ACQUISITION AND THE DISPOSAL

Upon Yiwu City Life Closing, Yiwu City Life will become an approximately 74.19% indirectly owned subsidiary of the Company and the profit or loss and assets and liabilities of Yiwu City Life will be accounted for in the consolidated financial statements of the Company. The Yiwu Property is used as a hypermarket site and is operated by Zhejiang Century Lianhua. The Group will continue to use it as a hypermarket site and it will be operated by the Group after the proposed Acquisition. Therefore, the Yiwu Property is held for use in the production or supply of goods or services rather than to earn rentals, so the acquisition of Yiwu City Life does not constitute a business and therefore the Acquisition is accounted for as acquisition of assets. As such, the purchase price was first allocated to the financial assets and financial liabilities at their respective fair values. The remaining balances of the purchase price was then allocated to the land use right and was therefore adjusted to its fair value by increasing RMB133,845,000 (including non-current portion of RMB129,937,000 and current portion of RMB3,908,000 included in deposits, prepayments and other receivables, respectively) when preparing the unaudited pro forma financial information.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, the unaudited pro forma consolidated total assets of the Enlarged Group increased RMB2,410,000 while the unaudited pro forma consolidated net assets of the Enlarged Group decreased RMB485,000 upon the completion of the proposed Acquisition.

Upon Lianhua Live and Fresh Closing, Lianhua Live and Fresh will cease to be a subsidiary of the Company and, as a result, the financial information of Lianhua Live and Fresh will no longer be consolidated in the consolidated financial statements of the Company. The unaudited pro forma financial information of the Enlarged Group is set out in Appendix III to this circular. After Lianhua Live and Fresh Closing, the unaudited pro forma consolidated total assets of the Enlarged Group as at 31 December 2016 would increase from approximately RMB17.46 billion to approximately RMB17.85 billion and the unaudited pro forma consolidated total liabilities of the Enlarged Group as at 31 December 2016 would decrease from approximately RMB14.71 billion to RMB14.70 billion as a result of the Disposal.

VII. IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Bailian Group, together with its subsidiary, Shanghai Bailian, collectively holds 42.73% of the total issued shares of the Company. Accordingly, Bailian Group is a connected person of the Company by virtue of it being a controlling Shareholder. As such, each of the Acquisition and the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

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

LETTER FROM THE BOARD

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

Each of the Acquisition and the Disposal is subject to the content requirements applicable to their respective transaction classification in this circular.

VIII. INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Independent Shareholders as to whether the terms of the Acquisition and the Disposal are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote (to the extent applicable), taking into account the recommendation of the Independent Financial Adviser. The Company has appointed Octal Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the Disposal.

IX. EGM

The Company will convene the EGM to, among other things, consider, and if thought fit, to approve the Acquisition Agreement, the Disposal Agreement and the transactions contemplated thereunder.

The EGM will be held at 10:00 a.m. on Monday, 17 July 2017 at the Conference Room, 13th Floor, Bailian Central Plaza, 1258 Zhen Guang Lu, Shanghai, the PRC. The notice of EGM, together with the reply slip and proxy form, are enclosed herein. If you are eligible, and intend, to attend the EGM, please complete and return the relevant reply slips for attendance in accordance with the instructions printed thereon as soon as possible and in any event not later than Tuesday, 27 June 2017. If you are not able to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for holding such meeting. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or at any adjourned meetings should you so wish.

LETTER FROM THE BOARD

X. VOTING AT THE EGM AND BOARD MEETINGS

As at the Latest Practicable Date, Bailian Group and its associates, including Shanghai Bailian, held approximately 478,368,000 Shares, representing 42.73% of the issued share capital of the Company. Bailian Group, being a party to each of the Acquisition Agreement and the Disposal Agreement, has material interests in the Acquisition and the Disposal, respectively. Therefore, Bailian Group and its associates, including Shanghai Bailian, are required to abstain from voting on the relevant resolutions to be proposed at the EGM to approve the Acquisition Agreement, the Disposal Agreement and the transactions contemplated thereunder. Saved as disclosed above, no other Shareholder would be required to abstain from voting to approve the Acquisition and the Disposal.

Mr. Ye Yong-ming, Ms. Qi Yue-hong, Mr. Zhou Jing-bo, Mr. Qian Jian-qiang and Ms. Zheng Xiao-yun are either holding senior positions or directors in the subsidiaries of Bailian Group, and have abstained from voting on the relevant written resolutions of the Board to approve the Acquisition Agreement, the Disposal Agreement and the transactions contemplated thereunder. Saved as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the other Directors was in any way materially interested in the Acquisition and the Disposal and therefore none of the other Directors had abstained from voting in the board meeting approving the Acquisition Agreement, the Disposal Agreement and the transactions contemplated thereunder.

XI. RECOMMENDATION

Your attention is drawn to the letter of the Independent Board Committee set out on pages 27 to 28 of this circular, and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 29 to 49 of this circular in respect of the terms of the Acquisition Agreement, the Disposal Agreement and the transactions contemplated thereunder.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the view that the terms of the Acquisition Agreement and the Disposal Agreement, including the Yiwu City Life Consideration and Lianhua Live and Fresh Consideration, which have been reached after arm's length negotiations among the parties, are on normal commercial terms, fair and reasonable, and the Acquisition and the Disposal are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed for approving the Acquisition Agreement, the Disposal Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

The Board (including the members of the Independent Board Committee) considers that the terms of the Acquisition Agreement and the Disposal Agreement, including the Yiwu City Life Consideration and Lianhua Live and Fresh Consideration, which have been reached after arm's length negotiations among the parties, are on normal commercial terms, fair and reasonable, and the Acquisition and the Disposal are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the members of the Independent Board Committee) recommends the Independent Shareholders to vote in favour of the resolutions approving the Acquisition Agreement, the Disposal Agreement and the transactions contemplated thereunder at the EGM.

XII. ADDITIONAL INFORMATION

Your attention is drawn to the additional information is also set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Lianhua Supermarket Holdings Co., Ltd
Ye Yong-ming
Chairman



(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 00980)

31 May 2017

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
THE ACQUISITION OF YIWU CITY LIFE;
AND
DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO
THE DISPOSAL OF LIANHUA LIVE AND FRESH**

We refer to the circular dated 31 May 2017 issued by the Company of which this letter forms part of (the “**Circular**”). Capitalised terms used in this letter shall have the same meaning as those defined in the Circular unless otherwise specified.

We have been authorized by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders in respect of the Acquisition and the Disposal, details of which are set out in the section headed “Letter from the Board” contained in the Circular.

We wish to draw your attention to the letter from the Board set out on pages 6 to 26 of the Circular and the letter of advice from Octal Capital Limited, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Acquisition Agreement, the Disposal Agreement and the transactions contemplated thereunder, set out on pages 29 to 49 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice, the terms and conditions of the Acquisition Agreement and the Disposal Agreement, the business and financial effects of the Acquisition and the Disposal on the Company, the quality and size of the property held by Yiwu City Life, we consider that the terms of the Acquisition Agreement and the Disposal Agreement, including the Yiwu City Life Consideration and the Lianhua Live and Fresh Consideration, which have been reached after arm’s length negotiations among the parties, are on normal commercial terms, fair and reasonable, and the Acquisition and the Disposal are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM in respect of the Acquisition Agreement, the Disposal Agreement and the transactions contemplated thereunder.

Yours faithfully,
for and on behalf of the
Independent Board Committee
Lianhua Supermarket Holdings Co., Limited
Xia Da-wei
Lee Kwok Ming, Don
Sheng Yan
Zhang Jun
Independent non-executive Directors

LETTER FROM OCTAL CAPITAL LIMITED

The following is the letter of advice from Octal Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement and the Disposal Agreement prepared for the purpose of inclusion in this circular.



802-805, 8/F, Nan Fung Tower,
88 Connaught Road Central,
Hong Kong

31 May 2017

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION IN RELATION TO
THE ACQUISITION OF YIWU CITY LIFE
AND
DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO
THE DISPOSAL OF LIANHUA LIVE AND FRESH**

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement and the Disposal Agreement, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the Shareholders dated 31 May 2017 (the “**Circular**”) and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As set out in the Letter from the Board, on 2 May 2017, Lianhua Huashang, a 74.19% owned subsidiary of the Company, entered into the Acquisition Agreement with Bailian Group, pursuant to which Lianhua Huashang conditionally agreed to purchase, and Bailian Group conditionally agreed to sell, 100% equity interest in Yiwu City Life for a cash consideration of RMB970,780,000 (equivalent to approximately HK\$1,095,935,877).

On the same day, the Company entered into the Disposal Agreement with Bailian Group, pursuant to which Bailian Group conditionally agreed to purchase, and the Company conditionally agreed to sell, 100% equity interest in Lianhua Live and Fresh for a cash consideration of RMB378,600,000 (equivalent to approximately HK\$427,410,251).

The Acquisition and the Disposal are not inter-conditional upon each other.

LETTER FROM OCTAL CAPITAL LIMITED

As at the Latest Practicable Date, Bailian Group, together with its subsidiaries, Shanghai Bailian, collectively held approximately 42.73% of the total issued Shares and thus a connected person of the Company by virtue of it being a controlling Shareholder. As such, each of the Acquisition and the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Since the highest applicable percentage ratio in respect of the Acquisition exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction and connected transaction of the Company, and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules. Since the highest applicable percentage ratio in respect of the Disposal exceeds 5% but is less than 25%, the Disposal constitutes a discloseable transaction and connected transaction of the Company, and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

In view of the foregoing, the Company will seek to obtain the approval of the Independent Shareholders on the Acquisition and the Disposal at the EGM. Bailian Group and its associates, including Shanghai Bailian, are required to abstain from voting on the relevant resolutions to be proposed at the EGM. In addition, Mr. Ye Yong-ming, Ms. Qi Yue-hong, Mr. Zhou Jing-bo, Mr. Qian Jian-qiang and Ms. Zheng Xiao-yun, all of whom being executive Directors or non-executive Directors of the Company, are either holding senior positions or acting as directors in the subsidiaries of Bailian Group, and have abstained from voting on the relevant written resolutions of the Board to approve the Acquisition Agreement, the Disposal Agreement and the transactions contemplated thereunder. The Independent Board Committee comprising Mr. Xia Da-wei, Mr. Lee Kwok Ming, Don, Ms. Sheng Yan and Mr. Zhang Jun has been established to advise the Independent Shareholders on whether (i) the terms of the Acquisition Agreement and the Disposal Agreement are on normal commercial terms and are fair and reasonable; and (ii) the Acquisition and the Disposal are in the ordinary and usual course of business and are in the interests of the Company and the Shareholders as a whole. In this regard, Octal Capital Limited has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders.

As at the Latest Practicable Date, we, Octal Capital Limited, are not connected with the Directors, chief executive and substantial shareholders of the Company, Lianhua Huashang, Bailian Group and its subsidiaries (including but not limited to Shanghai Bailian) or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, there was no engagement between the Company or Bailian Group and us. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company or Bailian Group or any of their respective subsidiaries or associates.

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In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and management of the Company regarding the Group, the Acquisition Agreement and the Disposal Agreement including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Lianhua Huashang, Lianhua Live and Fresh, Bailian Group, Yiwu City Life and their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied.

PRINCIPLE FACTORS AND REASONS CONSIDERED IN RELATION TO THE ACQUISITION AND THE DISPOSAL

In arriving at our opinion, we have considered the following principal factors and reasons:

A. THE ACQUISITION

I. Background of and reasons for the Acquisition

1. Principal activities and business of the Group

The Company is a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the main board of the Stock Exchange. The Group is principally engaged in the operation of chain stores including supermarkets, hypermarkets and convenience stores in the PRC. As at the Latest Practicable Date, the Group had a total of 3,618 outlets, comprising 152 hypermarkets, 1,513 convenience stores and 1,953 supermarkets, with approximately 82% of its stores located in eastern China region.

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Set out below is a summary of the audited consolidated financial information of the Company for the year ended 31 December 2014, 2015 and 2016 as extracted from the Company's annual report for the year ended 31 December 2015 (the "2015 Annual Report") and for the year ended 31 December 2016 (the "2016 Annual Report"):

	For the year ended 31 December		
	2014	2015	2016
	(audited)	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	29,152,454	27,222,699	26,666,069
Gross profit	4,241,145	4,021,565	3,937,505
Profit/(loss) for the year			
attributable to:			
Owners of the Company	31,033	(496,991)	(449,955)
Non-controlling interests	89,856	96,794	113,913
Profit/(loss) for the year	120,889	(400,197)	(336,042)
	As at 31 December		
	2014	2015	2016
	(audited)	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	18,428,359	17,604,856	17,458,012
Total liabilities	14,753,973	14,405,770	14,704,133
Net assets	3,674,386	3,199,086	2,753,879
Equity attributable to owners of			
the Company	3,402,361	2,915,171	2,462,837
Cash and cash equivalents	5,145,270	4,447,365	3,175,900

2016 compared to 2015

From the extracted financial information listed above, the revenue of the Group decreased by approximately RMB556.6 million or 2.0% for the year ended 31 December 2016 as compared to the previous year. In particular, same store sales fell by approximately 1.2% when comparing with corresponding period of last year, which was mainly attributable to: (i) total volume of offline sales kept shrinking while online sales grew rapidly; (ii) slow down expansion of new stores, while resources of network was streamlined and stores with unsatisfactory performance were closed, and total number of stores decreased by 265; (iii) 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 (iv) 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.

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The Group recorded a decrease in the net loss attributable to the owners of the Company by approximately RMB47.0 million for the year ended 31 December 2016 as compared to the previous year. Such decrease was mainly attributable to the optimization of the commodity category structure, the increased amount of customers coming back to buy fresh products, and the special projects for controlling 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.

With regards to the financial position of the Group, the net assets of the Group decreased from approximately RMB3,199.1 million as at 31 December 2015 to RMB2,753.9 million as at 31 December 2016 representing a decrease of approximately 13.9% which was mainly attributable to the loss for the period amounting to approximately RMB336.0 million, the dividend distributed to non-controlling interests amounting to approximately RMB106.3 million and the decrease in capital reserve by approximately RMB2.3 million.

2015 compared to 2014

The revenue of the Group decreased by approximately RMB1,929.8 million or 6.6% for the year ended 31 December 2015 as compared to the previous year. Such decrease was mainly attributable to the decrease in same store sales of approximately 6.5% resulting from the decline in the growth rate of gross domestic product, lower consumption from institutional groups, diversified consumption patterns and postponed development of new stores.

The Group recorded a net loss attributable to the owners of the Company of approximately RMB497.0 million for the year ended 31 December 2015 as compared to the net profit attributable to owners of the Company of approximately RMB31.0 million for the year ended 31 December 2014. This was primarily attributable to (i) the significant loss incurred in the Group's hypermarket segment of approximately RMB72.9 million for the year ended 31 December 2015 as compared to the segmental profit of approximately RMB98.0 million for the year ended 31 December 2014, which was mainly due to the rapid development of e-commerce, rising cross-border and overseas consumption, changes in consumption patterns of main consumer groups and increased competition in its offline counterpart hypermarket segment; and (ii) the significant decrease in profit of the Group's supermarket segment by approximately RMB161.1 million for the year ended 31 December 2015 as compared to that in the previous year, which was mainly due to the reduction in the number of stores and the substantial increase in rental and labour costs.

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With regards to the financial position of the Group, the net assets of the Group decreased from approximately RMB3,674.4 million as at 31 December 2014 to RMB3,199.1 million as at 31 December 2015 representing a decrease of approximately 12.9% which was mainly attributable to the loss for the period amounting to approximately RMB400.2 million, the dividend distributed to non-controlling interests amounting to approximately RMB84.9 million.

2. *Principal activities and business of Yiwu City Life*

As set out in the Letter from the Board, Yiwu City Life, a wholly-owned subsidiary of Bailian Group as at the Latest Practicable Date, is a limited liability company incorporated in the PRC on 13 April 2011 with registered capital of RMB830 million. Yiwu City Life owns the Yiwu Property and is principally engaged in the development and operation of the Yiwu Property.

The Yiwu Property is located in Yiwu City, which is a key city of Zhejiang Province in the PRC. Prior to the Acquisition, Yiwu City Life entered into a leasing agreement in relation to Yiwu Property on 15 July 2016 with Zhejiang Century Lianhua Supermarket Co., Ltd., a subsidiary of the Company, pursuant to which Zhejiang Century Lianhua agreed to lease the Yiwu Property from Yiwu City Life commencing from 15 July 2016 to 14 July 2017 (both days inclusive) at an annual rental of between RMB36,000,000 to RMB54,000,000 (subject to rental reduction adjustment based on the operating results of the shop of Zhejiang Century Lianhua at the Yiwu Property).

The stores in the Yiwu Property are directly operated by Zhejiang Century Lianhua. The Yiwu Property consists of a hypermarket operated by the Company, as well as retail spaces and car parking spaces for leasing. The Yiwu Property is well-connected to Yiwu City's transportation network by its proximity to various bus stops.

The construction of the Yiwu Property was completed in July 2014, with a total gross floor area of approximately 78,978.26 sq.m.. The Yiwu Property comprises seven-storey which includes two underground floors and five floors above ground level. The two underground floors and the fourth and fifth floors are used as parking lots. The first, second and third floors include a hypermarket and other retail stores including home electrical appliances, fresh food and daily necessities. The hypermarket started business on 28 August 2014, becoming one of the largest flagship hypermarkets in Yiwu city and providing high-quality one-stop shopping convenience to the citizens of Yiwu city.

As at 31 March 2017, the aggregate appraised market value of the Yiwu Property was approximately RMB949,000,000.

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Set out below is a summary of the audited consolidated statements of profit or loss and financial position of Yiwu City Life for the three years ended 31 December 2016 prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRS”), as extracted from Appendix IV to the Circular:

	For the year ended 31 December		
	2014	2015	2016
	(audited)	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	14,587	32,799	33,461
Profit/(loss) before tax	(1,081)	3,541	7,730
Profit/(loss) after tax	(811)	1,989	5,757

	As at 31 December		
	2014	2015	2016
	(audited)	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	842,406	838,269	839,976
Total liabilities	13,217	7,091	3,041
Total equity	829,189	831,178	836,935

2016 compared to 2015

The turnover of Yiwu City Life for the year ended 31 December 2016 was approximately RMB33.5 million, representing a slight increase by approximately 2.0% as compared to that of the previous year. Profit before and after tax of Yiwu City Life for the year ended 31 December 2016 were approximately RMB7.7 million and RMB5.8 million, representing an increase of approximately RMB4.2 million and RMB3.8 million as compared to the previous year, respectively. Such increase was mainly due to the significant cost reductions and expense control achieved by Yiwu City Life by means of rearranging operation plans, reasonably determining rental areas and rediscussing rental fees which subsequently reduced the administrative expenses and other operating expenses for the year.

With regards to the financial position of Yiwu City Life, the total equity of Yiwu City Life increased slightly by approximately 0.7% from approximately RMB831.2 million as of 31 December 2015 to approximately RMB836.9 million as of 31 December 2016. Such increase was mainly attributable to the increase in cash and cash equivalents by approximately RMB23.0 million offset by the decrease in the carrying value of the investment property (i.e. the Yiwu Property) by approximately 22.0 million due to annual depreciation.

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2015 compared to 2014

The turnover of Yiwu City Life for the year ended 31 December 2015 was approximately RMB32.8 million, representing a significant increase of approximately 124.9% as compared to that of 31 December 2014. Profit before and after tax of Yiwu City Life for the year ended 31 December 2015 were approximately RMB3.5 million and RMB2.0 million, as compared to loss before and after tax of approximately RMB1.1 million and RMB0.8 million for the year ended 31 December 2014, respectively. Such increase was mainly due to the full year rental income after the opening of the Yiwu Property in July 2014.

With regards to the financial position of Yiwu City Life, the total equity of Yiwu City Life increased slightly from approximately RMB829.2 million as at 31 December 2014 to RMB831.2 million as at 31 December 2015 representing a slight increase of approximately 0.2%.

II. Reasons for and benefits of the Acquisition

As set out in the Letter from the Board, the Company considered Yiwu City a key city in Zhejiang Province in the PRC, and the Yiwu market has high potential for the Company's sustainable development. Situated in a prime location in Yiwu City with good infrastructure, the Yiwu Property is expected to become a commercial landmark which will attract potential young and well-heeled customers, as well as popular brands to rent the retail spaces. By acquiring the entire equity interest in Yiwu City Life which operates the Yiwu Property, the Company plans to take advantage of such self-owned property to develop more franchise stores licensed by the Company in Yiwu City which may attract more customers and bring more revenue to the Company. The Company also proposes to promote and develop Yiwu Property so that it will become a distribution centre to supply goods to the new franchise stores licensed by the Company to be established in Yiwu City. As a result of the expanded geographic scope of operation and the expected increase of revenue, the Company expects to obtain a larger market share in the Yiwu retail market.

As disclosed in the 2016 Annual Report, the turnover of the Group's hypermarket segment were approximately RMB17,966.8 million and RMB17,836.6 million, which accounted for approximately 61.3% and 61.9% of the Group's total turnover for the two years ended 31 December 2016, respectively, representing the largest business segment of the Group.

Further, since Zhejiang Century Lianhua and Yiwu City Life has entered into the Zhejiang Yiwu Leasing Agreement in relation to the leasing of the Yiwu Property from Yiwu City Life at an annual rental of between RMB36,000,000 to RMB54,000,000 (subject to rental reduction adjustment based on the operating results of the shop of Zhejiang Century Lianhua at the Yiwu Property). The Acquisition will allow the Group to save the rental costs therein and the Company expects the leasing of the retail spaces (except for the hypermarket currently operated by the Company) and car parking spaces at the Yiwu Property will bring in stable and recurring rental income to the Group. The Company also expects to attract more customers to

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the Yiwu Property leveraging on the market influence of reputable tenants, which is constructive to the development of hypermarket businesses. As such, the Company considers the Acquisition to be advantageous and important for the Company to secure a leading position in the retail chain business in Yiwu City.

In this regard, we have discussed with the Company in relation to the existing tenancy structure of the leased area for retail stores in the Yiwu Property, we understand that most of the existing tenants of the Yiwu Property are operating in the form of branded-counters which are jointly-operated by Zhejiang Century Lianhua and the respective tenants. Under such joint-operation arrangement, Zhejiang Century Lianhua will analyze the business prospects of the tenants and decide the optimal mode of rental arrangement. For branded-counters that are considered by Zhejiang Century Lianhua with good business prospects (such as renowned brands and long-term tenants with growing business performances), their annual rent is calculated as a proportion of the annual turnover achieved by the respective tenants (“**Variable Rent**”), which may allow Zhejiang Century Lianhua to enjoy the potential growth in rental income as a result of the increase in their annual turnover. For branded-counters that are new or not familiar to Zhejiang Century Lianhua, their annual rent comprises a combination of Variable Turnover Rent and a fixed base rent portion (“**Variable and Fixed Rent**”), which can ensure the stability in rental income to Zhejiang Century Lianhua. Since the annual rental income to be received by Zhejiang Century Lianhua is directly correlated to the financial performance of these branded-counters, Zhejiang Century Lianhua will monitor the business operation of these branded-counters with respect to their product categories, market acceptances of their products, their sales performances upon implementation of promotional activities, and the professionalism of their staff, etc. during the term of their tenancies. Also, the business performances of these branded-counters are subject to annual review by Zhejiang Century Lianhua in determining the renewal of their lease in the forthcoming year. Under the annual review process, Zhejiang Century Lianhua analyzes the financial performance and business prospect of these branded-counters by assessing as to whether they are under-performing tenants (i.e. not able to achieve annual sales target as agreed by Zhejiang Century Lianhua and the respective tenant). Based on the annual review results, Zhejiang Century Lianhua may consider to: (i) adjust the rental rates under each of Variable Rent and Variable and Fixed Rent for these branded-counters; or (ii) to alter the mode of rental arrangement between Variable Rent and Variable and Fixed Rent for these branded-counters; or (iii) to eliminate under-performing tenants where their market is static or even receding. As confirmed by the Company, the tenancy composition for branded-counters were largely similar for the two years ended 31 December 2016 under full year operation of the Yiwu Property since its completion in July 2014. With the annual review process performed by Zhejiang Century Lianhua as stated above, we are of the view that Zhejiang Century Lianhua may take an active role in monitoring the business performance of its tenants, which in turn can ensure the quality of the tenants in the Yiwu Property and thereby enhancing the stability and the potential growth of rental income which is in line with the expected benefits of the Acquisition.

Furthermore, the Yiwu Property has been operated by Zhejiang Century Lianhua for the past three financial years ended 31 December 2016 under the Zhejiang Yiwu Leasing Agreement and, as advised by the Company, Zhejiang Century Lianhua will continue to operate

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Yiwu Property upon Yiwu City Life Closing. The Acquisition would result in more flexibility in terms of the operation of Yiwu Property by Zhejiang Century Lianhua in upgrading and modifying the overall tenancy structure and the designated leasing spaces in favor of the operation of the hypermarket business of the Group within the Yiwu Property.

Based on the above, we have discussed and concurred with the Directors that the Acquisition is in line with the core business of the Group and would enhance and supplement the existing business portfolio of the Group.

As further set out in the Letter from the Board, the Group intends to launch various development plans upon the Yiwu City Life Closing in enhancing and expanding its market share in the hypermarket business in Yiwu City, which include: 1) establishing experience zones in promoting the sale of goods to offer on-spot tasting of products and entertainment facilities for customers; 2) improving the marketing and sale strategy by employing pricing strategies to offer favourable prices to attract customers and offering various promotional activities and customer programs to enhance customer loyalty; 3) enhancing the standards of services to satisfy various customers' needs by upgrading the facilities of the hypermarket and giving service trainings to its staff; 4) achieving business model innovation by adopting new technologies such as O2O e-commerce mode, online shopping platform for the hypermarket in the Yiwu Property and big data analysis which could attract online purchases from customers and enhance shopping experience.

Based on our independent research, the Yiwu Property, situated at the core region of the Yiwu City, is close to the Yiwu Domestic Airport and the Yiwu High-speed Railway Station at a distance of approximately 10.4 km and 11.9 km, respectively. Further, according to the 2016 Yiwu Economic Operation Analysis (“2016年義烏市經濟運行情況分析”) (the “**2016 Yiwu Economic Operation Analysis**”) published by the Survey Office of the National Bureau of Statistics in Yiwu on 6 March 2017, infrastructure investment of Yiwu City reached approximately RMB17.6 billion, representing an increase of approximately 30.9% as compared to the previous year. In particular, we note from the notice dated 18 April 2017 issued by the Zhejiang Provincial Development and Reform Commission in relation to the approval of the preliminary design on the construction project of Jinhua-Yiwu-Dongyang city railway transit* (省發展改革委關於金華-義烏-東陽市域軌道交通工程初步設計的批覆), a new cross-city high speed railway transit named Jinhua-Yiwu-Dongyang city railway transit* (“金華-義烏-東陽市域軌道”), which passes through 31 stations in-between the Jinhua City, the Yiwu City and the Dongyang City, the PRC, has been approved by the Zhejiang Provincial Development and Reform Commission and construction is expected to commence in mid-2017 and complete by year 2021. Since the total length of this newly established cross-city railway is 107.17 km with a target speed of 120 km per hour, the total travel time from Jinhua City to Dongyang City (which passes through several stations within Yiwu City) is estimated to be within 60 minutes. Accordingly, we consider the population flow for Yiwu City will be enhanced while driving the visitor flowrates of the Yiwu Property at the same time. Moreover, with reference to the circular of the Company dated 25 April 2016 in relation to, among other things, the acquisition of Yiwu City Life, we note that the valuation of the major property owned by Yiwu City Life (being identical to the Yiwu Property as defined in this Circular) as at 31 January 2016 was

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RMB943 million, and when compared to the Yiwu Valuation of RMB949 million as at 31 March 2017, the Yiwu Property has shown an appreciation in its fair value by approximately 0.6% over the past year. As such, we are of the view that the Yiwu Property has good potential for appreciation in property value because of its geographical location and the prospective upgrade on infrastructure in Yiwu City and its surrounding region.

Also, as set out in the 2016 Yiwu Economic Operation Analysis, Yiwu GDP reached approximately RMB111.8 billion, representing an increase of approximately RMB7.2 billion or 6.9% for the year ended 31 December 2016, which exceeded the average national growth of GDP of 6.7% for the same year. The consumer goods market of Yiwu maintained a steady growth momentum. In 2016, the total retail sales of consumer goods of Yiwu reached RMB58.6 billion, with a year-on-year growth of 11.6%. The units above designated size in retail industry achieved retail sales of consumer goods of RMB17.3 billion, with a year-on-year growth of 14.5%. Growth in the hypermarket business, as well as the leasing business of the retail spaces and car parking spaces in the Yiwu Property is expected to benefit from the growing consuming power of Yiwu citizens. Leveraging on the overall development of Yiwu City and its prospective business environment as set out above, we consider the Group's development plans on Yiwu Property upon Yiwu City Life Closing will help differentiate the Yiwu Property from other similar shopping complex in the Yiwu City and enhance the overall competitiveness of the Yiwu Property (including the hypermarket currently operated by the Group). Therefore, we consider the Acquisition, as supplemented by the Group's development plans on Yiwu Property upon Yiwu City Life Closing, a growth-oriented investment in terms of expanding the market share of the Group in the Yiwu retail market and capturing the potential for property appreciation in Yiwu City which may in turn enhance the revenue stream and the total asset value of the Group.

III. Principal terms of the Acquisition Agreement

1. *Consideration*

Pursuant to the Acquisition Agreement, the Yiwu City Life Consideration is RMB970,780,000 (equivalent to approximately HK\$1,095,935,877), which shall be settled by way of a cash payment of RMB970,780,000 by Lianhua Huashang to Bailian Group within five Business Days from the Yiwu City Life Closing Date. As set out in the Letter from the Board, the Yiwu City Life Consideration was determined based on arm's length negotiations between Lianhua Huashang and Bailian Group on normal commercial terms after taking into account of, among other things, the audited net asset value of Yiwu City Life as at 31 December 2016 of RMB836,935,000 and the property valuation of the Yiwu Property held by Yiwu City Life of RMB949,000,000 as at 31 March 2017.

Based on the audited consolidated financial statements of Yiwu City life in Appendix II to the Circular, we note that Yiwu City Life derives its turnover solely from the rental income generated from the lease of its sole investment property, i.e. the Yiwu Property, to Zhejiang Century Lianhua. In view of the Yiwu Property represents more than 90% of the total assets and the net assets of Yiwu City Life and is the largest asset held by Yiwu City Life, we consider that it is appropriate to assess the Yiwu City Life Consideration for the Acquisition from the net asset perspective.

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According to the accounting policies of Yiwu City Life as set out in Appendix II to the Circular, the investment property of Yiwu City Life is stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Accordingly, we consider it did not reflect the fair value of the Yiwu Property and we consider it is relevant and meaningful to compare and assess the Yiwu City Life Consideration using the adjusted net asset value (the “Adjusted NAV”). The Adjusted NAV of Yiwu City Life reflects its underlying net asset backing after taking into account the valuation of the Yiwu Property performed by Savills, an independent property valuer appointed by the Company:

	<i>RMB'000</i>
Audited net asset value of Yiwu City Life (<i>Note 1</i>)	836,935
Add: Net revaluation surplus arising from the valuation of the Yiwu Property as at 31 March 2017 (<i>Note 2</i>)	<u>181,592</u>
Adjusted NAV of Yiwu City Life	1,018,527
Yiwu City Life Consideration	970,780
Discount of the Yiwu City Life Consideration to the Adjusted NAV of Yiwu City life	4.69%

Notes:

1. The figure is set out in Appendix II to the Circular.
2. This represents the revaluation surplus arising from the difference between the valuation of the investment property of Yiwu City Life of RMB949,000,000 as at 31 March 2017 as set out in Appendix IV to the Circular and the audited net book value of the investment property of Yiwu City Life of approximately RMB767,408,000 as extracted from Appendix II to the Circular.

Based on the above table, we note that the Yiwu City Life Consideration represents a discount of approximately 4.69% to the Adjusted NAV of Yiwu City Life which is calculated based on the valuation of the Yiwu Property performed by Savills.

2. Valuation of the Yiwu Property under the Acquisition

In compliance with the requirements of Rule 13.80 of the Listing Rules, we have reviewed and enquired the qualification and experience of the Valuer in charge of the valuation. We understand from our enquiry with Savills that it is a third party independent of the Group, Bailian Group and their core connected persons. Meanwhile, we have also reviewed the scope of services provided under the engagement of Savills and we note that the scope of work is appropriate to the opinion given and, as confirmed by Savills during our enquiry, there were no limitations on the scope of work. Thus, we consider that Savills is qualified and possesses sufficient relevant experience in performing the valuation of the Yiwu Property.

We have reviewed the property valuation report of Yiwu City Life and enquired with Savills on the methodology adopted and the basis and assumptions used in arriving at the

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valuation of market value as at 31 March 2017 as set out in Appendix IV to the Circular (the “**Yiwu Valuation**”). In the course of our enquiry, we understand that Savills carried out a site inspection on the Yiwu Property at Yiwu City, Zhejiang Province, the PRC in March 2017 to research the necessary information in determining the market value of the Yiwu Property and no irregularities were noted during the course of the valuation. Since the Yiwu Property has been deriving its income solely from its lease to Zhejiang Century Lianhua during the three years ended 31 December 2016, Savills considered that the income capitalisation approach would furnish a reliable indication of the value for the Yiwu Property.

Accordingly, Savills has adopted the income capitalisation approach as the primary approach for the Yiwu Valuation and cross-referenced to the direct comparison approach. The appraised value of the Yiwu Property under the income capitalisation approach is determined based on the aggregated sum of the capitalised income to be derived from the existing tenancies for the retail portion, the reversionary income potential derived from the retail portion of the Yiwu Property upon expiry of the existing tenancies, the vacant retail portion of the Yiwu Property and the parking lots of the Yiwu Property. In particular, the use of income capitalisation approach involves the determination of capitalisation rates. In this regard, Savills firstly determined the capitalization rate for the reversionary income from the market comparables (the “**Capitalisation Rate 1**”). Subsequently Savills determined the capitalisation rate for income derived from existing tenancies by applying a slight discount to the Capitalisation Rate 1 due to the higher security of rental income to be realised from existing rental agreements (the “**Capitalisation Rate 2**”). Accordingly, the existing rental incomes of all lettable units of Yiwu Property are capitalised under the capitalisation rate 2 for the respective unexpired terms of contractual tenancies. Upon expiry of the existing tenancies, each unit is assumed to be leased at its market rent as at the valuation date, which is in turn capitalised under the capitalisation rate 1 for the unexpired term of the land use rights. Vacant units of the retail portion are assumed to be leased at their respective market rents as at the valuation date. Whereas the income stream adopted in arriving at the valuation for the parking lots is based on the hourly parking fee, which is capitalised for the unexpired term of the land use rights. As we further enquired with Savills, their selection criteria for determining market comparables for the income capitalisation includes a number of factors such as location, nature of use, size and quality of the property.

In order to assess the reasonableness of the Yiwu Valuation, Savills has adopted the direct comparison approach for cross-checking purpose. The direct comparison approach has taken reference to asking prices for retail stores located in sizable commercial properties in the same region which ranged from approximately RMB41,600 per sq.m. to RMB58,000 per sq.m. of gross floor area. The average of such asking prices which amount to approximately RMB47,900 per sq.m. will then be subject to adjustments including but not limited to level, size and quality of the property to reflect the differences between Yiwu Property and the comparables. The value determined by Savills using the direct comparison approach is RMB957,000,000. Accordingly, Savills considers the Yiwu Valuation as derived from income capitalisation approach is reliable.

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We have reviewed the comparables and concur with the selection criteria, bases for compiling such comparables which we consider to be fair and representative samples and we consider the methodology used in the Yiwu Valuation is appropriate.

Overall comment

Based on the foregoing, we consider the property valuation report from Savills to be an appropriate source of information (in the calculation of the Adjusted NAV above) for the purpose of our assessment on the fairness and reasonableness of the Yiwu City Life Consideration. We are of the view that the Yiwu City Life Consideration, which is set at a discount to the Adjusted NAV of Yiwu City Life, is fair and reasonable.

IV. Financial effects of the Acquisition

1. Earnings

Upon Yiwu City Life Closing, Yiwu City Life will become an approximately 74.19% owned subsidiary of the Company and the consolidated profit or loss and assets and liabilities of Yiwu City Life will be accounted for in the consolidated financial statements of the Company. No gain or loss is expected to be recognised in the consolidated statement of profit or loss and other comprehensive income for the Acquisition. However, given that 1) the Acquisition would enhance and supplement the hypermarket business segment of the Group; and 2) Yiwu City Life recorded profit before and after tax of approximately RMB7.7 million and RMB5.8 million for the year ended 31 December 2016 as set out in accountants' report of Yiwu City Life in Appendix II to the Circular it is expected that Yiwu City Life would contribute to the results of the Enlarged Group upon Yiwu City Life Closing.

2. Net asset value

Based on the unaudited pro forma financial information of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") as set out in Appendix III to this Circular, assuming the Acquisition was completed at 31 December 2016, the unaudited pro forma consolidated total assets of the Group as at 31 December 2016 would remain virtually the same at approximately RMB17.46 billion and the unaudited pro forma consolidated total liabilities of the Group as at 31 December 2016 would increase slightly to RMB14.71 billion as a result of the Acquisition. As such, it is expected that there will be a slight decrease in the net asset value of the Enlarged Group.

It should be noted that the aforementioned analysis are for illustrative purpose only and do not purport to represent how the financial performance and position of the Group will be upon Yiwu City Life Closing.

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3. Working capital

According to the Unaudited Pro Forma Financial Information set out in Appendix III to this Circular, assuming the Acquisition was completed at 31 December 2016, cash and cash equivalents would decrease from approximately RMB3,175.9 million to approximately RMB2,277.0 million and the net current liabilities would increase from approximately RMB3,138.2 million to RMB4,022.6 million as the Yiwu City Life Consideration will be fully settled in cash consideration of approximately RMB970.8 million.

The Directors are of the opinion that, after taking into account of the Group's internal resources, cash flow from operations, the present facilities available and also the effect of the Acquisition and the Disposal, the Enlarged Group will have sufficient working capital to satisfy its present requirements, that is, for at least the next twelve months from the date of this circular in the absence of unforeseen circumstances.

4. Gearing position

According to the Unaudited Pro Forma Financial Information set out in Appendix III to this Circular, assuming the Acquisition was completed at 31 December 2016, the gearing ratio remained at approximately 0.01% which was derived by dividing the total balance of bank borrowings of the Enlarged Group of approximately RMB2.0 million by the total assets of the Enlarged Group of approximately RMB17,460.4 million.

Based on the above analysis, it is expected that the Acquisition would have positive impact on the earnings of the Group and a neutral effect on the Group's net asset value and gearing position, albeit it will have a negative effect on the working capital to the Group. On such basis, we are of the view that the Acquisition is, on balance, in the interests of the Company and the Shareholders as a whole.

V. Recommendation

After considering (i) the Acquisition (as supplemented by the Group's development plans on Yiwu Property upon Yiwu City Life Closing) allows the Group to further develop and upgrade Yiwu Property which helps differentiate Yiwu Property and enhance its overall competitiveness in order to attract more customers and lead to an increase in its market share in the hypermarket business segment in the prime location of Yiwu City with high potential for sustainable development of the Group; (ii) the Acquisition is in line with the core business of the Group and serves to enhance and supplement the existing businesses of the Group; (iii) the Yiwu City Life Consideration represents a discount to the Adjusted NAV of Yiwu City life calculated based on the Yiwu Valuation prepared by Savills, we consider that despite the Acquisition is not conducted in the ordinary and usual course of business of the Group, terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition contemplated thereunder.

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B. THE DISPOSAL

I. Background of and reasons for the Disposal

1. Principal activities and business of the Group

Please refer to the sub-section A.I.1 above for details.

2. Principal activities and business of Lianhua Live and Fresh

Lianhua Live and Fresh is a wholly-owned subsidiary of the Company with registered capital of RMB5 million as at the Latest Practicable Date. Lianhua Live and Fresh is principally engaged in the processing, distribution and trade of live and fresh food.

The assets of Lianhua Live and Fresh consist mainly of a property. The property held by Lianhua Live and Fresh comprises a parcel of land with a site area of approximately 21,846.00 sq.m.. Such property is located on No. 624 North Baoxing Road, Jing'an District, Shanghai, the PRC. Developments in the vicinity are dominated by high-rise residential developments and industrial complexes. It comprises ten blocks of single-to 7-storey buildings with a total gross floor area of approximately 44,426.71 sq.m..

As at 31 March 2017, the aggregate appraised market value of the property held by Lianhua Live and Fresh was approximately RMB500,000,000.

Based on the PRC audited financial statement of Lianhua Live and Fresh prepared under the relevant accounting principles and regulations applicable to enterprises established in the PRC, the net losses before and after taxation of Lianhua Live and Fresh for the year ended 31 December 2015 were approximately RMB14.7 million and RMB14.7 million, respectively; and the net losses before and after taxation of Lianhua Live and Fresh for the year ended 31 December 2016 were approximately RMB17.8 million and RMB17.8 million, respectively.

Based on the PRC audited financial statement of Lianhua Live and Fresh, the audited net liability position and total assets of Lianhua Live and Fresh as at 31 December 2016 were approximately RMB20.6 million and RMB112.1 million, respectively.

II. Reasons for and benefits of the Disposal

As set out in the Letter from the Board, the processing and distribution businesses of live and fresh food of Lianhua Live and Fresh have been relocated to Jiangqiao logistic centre, which was invested and operated by the Company, resulting in vacancy of the original production area, facilities and equipment for Lianhua Live and Fresh. The Company intended to use the proceeds of the Disposal to supplement its working capital.

With reference to the 2015 Annual Report, we note that the Group has set out in its core business strategies to deepen its regional reform and focus on supply chain improvements on

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the basis of intensification, professionalization and redundancy reduction, such strategy has been carried on and re-highlighted in the 2016 Annual Report with various measures taken and planned to take by the Group in controlling expenses and reducing cost with a goal of further reducing losses and increasing profits. During the year ended 31 December 2016, the Group has proactively established the industrial chain and optimized the supply chain; continued realizing growth of benefits through establishing interior and exterior supply chain system and workflow system; nationwide commodity resources were shared and continuous efforts were made to reduce the overall distribution cost of the Group's products (including live and fresh products). As advised by the Company, it is the intention of the Group to continue streamlining the operation of its associates by downsizing the operation of under-performing units and integrating its internal structure and resources to enhance the overall functionality and production efficiency which in turn will further reduce the operating costs and allow re-allocation of available resources and working capital to support the reform of the core businesses of the Group.

Moreover, as set out in the sub-section headed "Principal activities and business of Lianhua Live and Fresh" above, we note that Lianhua Live and Fresh has been loss-making for the two years ended 31 December 2016 and it was in a net liability position as of 31 December 2016. In view of the entire business operation of Lianhua Live and Fresh have been relocated and continued to carry on elsewhere, the Disposal will not affect the Group's daily operation but rather serve as part of the supply chain integration for the Group.

As such, we consider that the Disposal is commercially justified for which will release the fair value of the vacant production area, facilities and equipment owned by Lianhua Live and Fresh and improve the profit level of the Company and bring more working capital for the Company to support its stores transformation reform and daily operation.

III. Principal terms of the Disposal Agreement

1. Consideration

Pursuant to the terms of the Disposal Agreement, the Company will transfer 100% equity interest in Lianhua Live and Fresh to Bailian Group. The Lianhua Live and Fresh Consideration of RMB378,600,000 was determined after arm's length negotiation between the Company and Bailian Group on normal commercial terms after taking into account of, among other things, the audited net liability position of Lianhua Live and Fresh as at 31 December 2016 with amount of RMB20,581,000 and the property valuation of the property held by Lianhua Live and Fresh of RMB500,000,000 as at 31 March 2017. The Lianhua Live and Fresh Consideration shall be settled by way of a cash payment of RMB378,600,000 by Bailian Group to the Company within five Business Days from the Lianhua Live and Fresh Closing Date. Upon Lianhua Live and Fresh Closing, the Group is expected to realise a gain on disposal of approximately RMB399,181,000 to the Company's consolidated financial statements and such gain to be recognised through profit and loss by reference to the difference between the cash payment receivable from Bailian Group and the carrying value of the Group's equity interest in Lianhua Live and Fresh.

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According to the PRC audited financial statement of Lianhua Live and Fresh prepared under the relevant accounting principles and regulations applicable to enterprises established in the PRC (the “**LLF Audited Financial Statement**”), the major asset of Lianhua Live and Fresh is its logistic centre in Shanghai and the relevant land use rights (collectively, the “**Disposal Assets**”). As stated in the accounting policies under the LLF Audited Financial Statement, the fixed assets of Lianhua Live and Fresh are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses where the useful live, residual values and the depreciation basis are subject to annual review taking into account changes in circumstances; whereas the intangible assets with finite lives (which include land use rights) are measured on initial recognition at cost and are subsequently amortised over the useful life and assessed annually for impairment when necessary. Accordingly, we consider it did not reflect the fair value of the Disposal Assets and we consider it is relevant and meaningful to compare and assess the Lianhua Live and Fresh Consideration using the Adjusted NAV. The Adjusted NAV of Lianhua Live and Fresh reflects its underlying net asset backing after taking into account the valuation of the Disposal Assets performed by Savills:

	<i>RMB'000</i>
Audited consolidated net (liability) value of Lianhua Live and Fresh (<i>Note 1</i>)	(20,581)
Add: Net revaluation surplus arising from the valuation of the Disposal Assets as at 31 March 2017 (<i>Note 2</i>)	<u>398,833</u>
Adjusted NAV of Lianhua Live and Fresh	378,252
Lianhua Live and Fresh Consideration	378,600
Premium of the Lianhua Live and Fresh Consideration to the Adjusted NAV of Lianhua Live and Fresh	0.09%

Notes:

1. The figure is extracted from the LLF Audited Financial Statement.
2. This represents the revaluation surplus arising from the difference between the valuation of the Disposal Assets of RMB500,000,000 as at 31 March 2017 as extracted from Appendix V to the Circular and the aggregated sum of audited net book value of the property and building and the intangible asset (i.e. the land use rights) held by Lianhua Live and Fresh of approximately RMB101,167,000 as set out in the LLF Audited Financial Statement.

Based on the above table, we note that the Lianhua Live and Fresh Consideration represents a slight premium of approximately 0.09% to the Adjusted NAV of Lianhua Live and Fresh which is calculated based on the valuation of the Disposal Assets performed by Savills.

2. *Valuation of the Disposal Assets under the Disposal*

We have reviewed the valuation report of the Disposal Assets and enquired with Savills on the methodology adopted and the basis and assumptions used in arriving at the valuation of market value as at 31 March 2017 as set out in Appendix V to the Circular (the “**LLF Valuation**”). In the course of our enquiry, we understand that Savills carried out a site inspection on the Disposal Assets in Shanghai, the PRC in March 2017 to research the necessary information in determining the market value of the Disposal Assets and no irregularities were noted during the course of the valuation. Savills has advised that it has adopted the direct comparison approach assuming sale with the benefit of vacant possession in its existing state by making reference to market evidence of transaction prices for a list of lands with transacted price per sq.m. of gross floor area ranged from approximately RMB12,400 to RMB21,800 in the same region under public tender and has also taken into account the estimated land premium to be payable to the government. The average of such transaction prices was approximately RMB17,700 per sq.m. of gross floor area and Savills has made adjustments including but not limited to location, size and plot ratio of the land to reflect the differences between the Disposal Assets and the comparables. After adjustment, the price per sq.m. of gross floor area was approximately RMB16,100. By multiplying such adjusted price per sq.m. of gross floor area with the total gross floor area of the Disposal Assets, the appraised value of the Disposal Assets (after deducting the estimated land premium being 30%) was RMB500,000,000. Based on our enquiry with Savills, the selection of land transactions as comparables has taken into account that the buildings and structures erected on the respective land under the Disposal Assets were not in-use and no economic benefits were derived from those buildings and structures at the time of valuation, therefore they consider the land portion under the Disposal Assets should represent the majority of the LLF Valuation. Further, since there is a well-established property market in Shanghai where sufficient number of samples in the similar locality had been obtained for making a meaningful comparison according to the general industry practice, Savills considered that the direct comparison approach would furnish a reliable indication of the value for the Disposal Assets and the market comparable transactions acquired for reference are fair and representative for the overall evaluation of the Disposal Assets. We have reviewed the comparables selected by Savills and we noted that the comparables are commercial lands located in Hongkou District, Jing’an District and Yangpu District in Shanghai (all of which are within approximately 10 kilometre distance from the logistic centre of Lianhua Live and Fresh) transacted in 2015 and 2016. Also, we note that the aforesaid transactions were conducted under public tender and we consider to be an open channel to all qualified bidders for fair and competitive biddings on the target, therefore we are of the view that such comparables are representative for the use of direct comparison approach. Hence, we consider the selection criteria, bases for compiling the list of comparables are fair and reasonable. Based on the above, we consider the methodology used in the LLF Valuation is appropriate and the valuation report of the Disposal Assets from Savills to be an appropriate source of information for the purpose of our assessment on the fairness and reasonableness of the terms under the Disposal Agreement.

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Overall comment

Based on the foregoing, we consider the valuation report from Savills to be an appropriate source of information (in the calculation of the Adjusted NAV above) for the purpose of our assessment on the fairness and reasonableness of the Lianhua Live and Fresh Consideration. We are of the view that the Lianhua Live and Fresh Consideration, which is set at a slight premium to the Adjusted NAV of Lianhua Live and Fresh, is fair and reasonable.

VI. Financial effects of the Disposal

1. *Earnings*

Upon completion of the Disposal, the Group shall not have any interest in Lianhua Live and Fresh and the financial performance and position of Lianhua Live and Fresh will cease to be consolidated in the accounts of the Group. The Group recorded consolidated audited net profit attributable to the Shareholders of approximately RMB451.3 million for the year ended 31 December 2016. Lianhua Live and Fresh has been loss-making for the years ended 31 December 2015 and 2016. Upon completion of the Disposal, the Group will cease to bear the losses of Lianhua Live and Fresh. Furthermore, as set out in the Letter from the Board, upon Lianhua Live and Fresh Closing, the Group is expected to realise a gain on disposal of approximately RMB399.2 million to the Company's consolidated financial statements and such gain to be recognised through profit and loss. The actual gain to be recorded may be different as the above estimate is based on the net asset value of Lianhua Live and Fresh with reference to a PRC audited financial statement issued under the relevant accounting principles and regulations applicable to enterprises established in the PRC as at 31 December 2016, which may be different from that as at the Lianhua Live and Fresh Closing Date. Accordingly, it is expected that the earnings of the Group will improve significantly.

2. *Net asset value*

Based on the Unaudited Pro Forma Financial Information as set out in Appendix III to this Circular, assuming the Disposal was completed at 31 December 2016, the unaudited pro forma consolidated total assets of the Group as at 31 December 2016 would increase by approximately 2.2% to approximately RMB17.85 billion and the unaudited pro forma consolidated total liabilities of the Group as at 31 December 2016 would decrease slightly to approximately RMB14.70 billion as a result of the Disposal. As such, it is expected that there will be an increase in the net asset value of the Enlarged Group.

It should be noted that the aforementioned analysis are for illustrative purpose only and do not purport to represent how the financial performance and position of the Group will be upon Lianhua Live and Fresh Closing.

3. *Working Capital*

The Group had consolidated audited bank balance and cash of approximately RMB3,175.9 million as at 31 December 2016. As set out in the Unaudited Pro Forma Financial Information in Appendix III to this Circular, assuming the Disposal was completed at 31 December 2016, the Group's cash and cash equivalents would increase by approximately RMB376.7 million.

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4. *Gearing Position*

According to the Unaudited Pro Forma Financial Information set out in Appendix III to this Circular, assuming the Disposal was completed at 31 December 2016, the gearing ratio remained at approximately 0.01% which was derived by dividing the total balance of bank borrowings of the Enlarged Group of approximately RMB2.0 million by the total assets of the Enlarged Group of approximately RMB17,852.3 million.

Based on the above analysis, it is expected that the Disposal would have positive impact on the earnings, net asset value and working capital of the Group and a neutral effect on the Group's gearing position. On such basis, we are of the view that the Disposal is in the interests of the Company and the Shareholders as a whole.

V. **Recommendation**

After considering (i) the Disposal is in line with the core business strategies of the Group to control expenses and reduce cost which has been constantly carried out by the Group in the past few years; (ii) Lianhua Live and Fresh has been loss-making for the two years ended 31 December 2015 and will not contribute to the earnings of the Group at its existing state; (iii) the Disposal allows the Group to release the fair value of the Disposal Assets without affect the daily operation of the Group; and (iv) the Lianhua Live and Fresh Consideration represents a slight premium to the Adjusted NAV of Lianhua Live and Fresh calculated based on the LLF Valuation prepared by Savills, we consider that despite the Disposal is not conducted in the ordinary and usual course of business of the Group, terms of the Disposal Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Disposal contemplated thereunder.

For and on behalf of
Octal Capital Limited

Alan Fung **Louis Chan**
Managing Director *Director*

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 25 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong. Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 15 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2014, 2015 and 2016 are disclosed in the annual reports of the Company for the years ended 31 December 2014, 2015 and 2016, respectively. Together with the relevant notes thereto are disclosed in the following documents which have been published and are available on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (<http://lianhua.todayir.com/en/reports.php>):

- The Annual Report 2014 of the Company for the year ended 31 December 2014 published on 20 April 2015 (pages 99 to 176) (available on: <http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0420/LTN20150420824.pdf>)
- The Annual Report 2015 of the Company for the year ended 31 December 2015 published on 25 April 2016 (pages 105 to 112) (available on: <http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0425/LTN20160425747.pdf>)
- The Annual Report 2016 of the Company for the year ended 31 December 2016 published on 24 April 2017 (pages 105 to 180) (available on: <http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0424/LTN201704241119.pdf>)

2. INDEBTEDNESS

As at the close of business on 31 March 2017, being the latest practicable date for the purpose of ascertaining the indebtedness of the Enlarged Group prior to the printing of this circular, the Enlarged Group had total outstanding borrowings of approximately RMB2,000,000 which was unsecured, unguaranteed and repayable within one year.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the close of business on 31 March 2017, the Enlarged Group did not have other outstanding mortgages, charges, debentures or other loan capital issued and outstanding, and authorised or otherwise created but unissued, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account of the Group's internal resources, cash flow from operations, the present facilities available and also the effect of the Acquisition, the Enlarged Group will have sufficient working capital to satisfy its present requirements, that is, for at least the next twelve months from the date of this circular in the absence of unforeseen circumstances.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

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. The Group 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, the Group will go into districts and actively plan and organize marketing and promotion activities with clear goals. The Group will thoughtfully organize marketing in festivals and holidays, theme marketing and other large marketing activities. The Group 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, the Group will explore new ways of upgrading and diversify the purpose of upgrading stores. At the same time, the Group 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. The Group 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”, the Group 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. The Group will speed up construction of a central kitchen and push forward the comprehensive upgrading of our fresh produce operation from raw to cooked products. The Group will adopt product category management technology to improve output and accelerate survival-of-the-fittest in order to improve sound cycling of commodities. The Group will accelerate the transformation of self-made operations to OEM production in order to improve independent operation capability and realize differential competitiveness. The Group 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. The Group will actively promote the role of the Sales Promotion Department, guide procurement personnel to face markets demand and enhance coordination of marketing and procurement. The Group will adapt to the transformation of our fresh produce from raw to cooked products. The Group will focus on various sections in fresh produce operation and improve the operation quality of fresh produce. The Group 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. The Group 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. The Group 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. The Group will reduce consumption through improving our management and will reduce our rental costs through active negotiations. Also, the Group will reduce inventory costs through accelerating cycling of commodities. The Group will control investment costs through a careful budget and will reduce transportation expenses through a detailed plan. The Group 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. The Group 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. The Group 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. The Group will push forward enterprise resource planning and office automation 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.

Upon Yiwu City Life Closing, the Group shall own 100% equity interest in Yiwu City Life, which in turn owns the Yiwu Property. Situated in a prime location in Yiwu City with good infrastructure, the Yiwu Property is expected to become a commercial landmark which will attract potential young and well-heeled customers, as well as popular brands to rent the retail spaces. By acquiring the Yiwu Property which is expected to become one of the largest flagship hypermarkets in Yiwu City, the Company expects to obtain a larger market share in the Yiwu retail market. The Company expects the leasing of the retail spaces at the Yiwu Property will bring in stable monthly income. The Company also expects to attract more customers to the Yiwu Property leveraging on the market influence of reputable tenants, which is constructive to the development of hypermarket businesses.

5. RECONCILIATION STATEMENT

The Yiwu Property has been valued by Savills, an independent property valuer. The text of the letter in relation to the valuation report, summary of valuation and valuation certificates in connection with the valuation of the Yiwu Property as at 31 March 2017 are set out in Appendix IV to this circular.

The statement below shows the reconciliation of the above property interests from 31 December 2016, being the date to which the latest published audited financial statements of Yiwu City Life were made up, to 31 March 2017. The statement below was prepared in accordance with Rule 5.07 of the Listing Rules.

	Yiwu Property <i>RMB in million</i>
Net book value as at 31 December 2016	767
Movement from 31 December 2016 to 31 March 2017	
Additions	0
Adjustments	0
Depreciation	5
Net book value as at 31 March 2017	762
Valuation surplus	187
Valuation of Yiwu Property as of 31 March 2017 as set out in Appendix V	949

The following is the text of a report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the Company's reporting accountants, for the purpose of incorporation in this Circular.

Deloitte.**德勤****ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF LIANHUA SUPERMARKET HOLDINGS COMPANY LIMITED****Introduction**

We report on the historical financial information of Yiwu City Life Supermarket Co., Ltd. (義烏都市生活超市有限公司) ("Yiwu City Life") set out on pages II-3 to II-22, which comprises the statements of financial position as at 31 December 2014, 31 December 2015 and 31 December 2016, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the years then ended (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-3 to II-22 forms an integral part of this report, which has been prepared for inclusion in the circular of the Company dated 31 May 2017 (the "Circular") in connection with the proposed acquisition of Yiwu City Life.

Directors' responsibility for the Historical Financial Information

The directors of Yiwu City Life are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of Yiwu City Life determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of Yiwu City Life, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of Yiwu City Life's financial position as at 31 December 2014, 31 December 2015 and 31 December 2016, and of Yiwu City Life's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-3 have been made.

Dividends

We refer to note 10 to the Historical Financial Information which states that no dividends have been paid by Yiwu City Life in respect of the Relevant Periods.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
31 May 2017

A. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of Yiwu City Life for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in RMB and all values are rounded to the nearest thousand RMB'000 except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December		
		2014 RMB'000	2015 RMB'000	2016 RMB'000
Turnover	5	14,587	32,799	33,461
Cost of sales		<u>(10,335)</u>	<u>(21,989)</u>	<u>(21,968)</u>
Gross profit		4,252	10,810	11,493
Other income		526	1,396	703
Selling and distribution expenses		(77)	(30)	(26)
Administrative expenses		(5,782)	(7,110)	(4,390)
Other operating expenses		–	(1,525)	(50)
Finance costs	6	<u>–</u>	<u>–</u>	<u>–</u>
(Loss) profit before tax	7	(1,081)	3,541	7,730
Income tax credit (expense)	8	<u>270</u>	<u>(1,552)</u>	<u>(1,973)</u>
(Loss) profit and total comprehensive (expense) income for the year		<u><u>(811)</u></u>	<u><u>1,989</u></u>	<u><u>5,757</u></u>

STATEMENTS OF FINANCIAL POSITION

	<i>Notes</i>	At 31 December		
		2014	2015	2016
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Plant and equipment		59	50	42
Investment property	<i>11</i>	811,348	789,368	767,408
Deferred tax asset	<i>12</i>	<u>270</u>	<u>–</u>	<u>–</u>
		<u>811,677</u>	<u>789,418</u>	<u>767,450</u>
Current assets				
Deposits, prepayments and other receivables	<i>13</i>	1,306	40	37
Amount due from a fellow subsidiary	<i>14</i>	9,844	–	631
Cash and cash equivalents	<i>15</i>	<u>19,579</u>	<u>48,811</u>	<u>71,858</u>
		<u>30,729</u>	<u>48,851</u>	<u>72,526</u>
Current liabilities				
Other payables	<i>16</i>	13,217	6,982	2,524
Tax payables		<u>–</u>	<u>109</u>	<u>359</u>
		<u>13,217</u>	<u>7,091</u>	<u>2,883</u>
Net current assets		<u>17,512</u>	<u>41,760</u>	<u>69,643</u>
Total assets less current liabilities		<u>829,189</u>	<u>831,178</u>	<u>837,093</u>
Capital and reserves				
Paid in capital	<i>17</i>	830,000	830,000	830,000
Reserves		<u>(811)</u>	<u>1,178</u>	<u>6,935</u>
Total equity		<u>829,189</u>	<u>831,178</u>	<u>836,935</u>
Non-current liability				
Deferred tax liability	<i>12</i>	<u>–</u>	<u>–</u>	<u>158</u>
		<u>829,189</u>	<u>831,178</u>	<u>837,093</u>

STATEMENTS OF CHANGES IN EQUITY

	Paid in capital <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	(Accumulated loss) retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2014	10,000	–	–	10,000
Loss and total comprehensive expense for the year	–	–	(811)	(811)
Capital injection (<i>Note 17</i>)	820,000	–	–	820,000
At 31 December 2014	<u>830,000</u>	<u>–</u>	<u>(811)</u>	<u>829,189</u>
Profit and total comprehensive income for the year	–	–	1,989	1,989
Transfer to statutory surplus reserve	–	118	(118)	–
At 31 December 2015	<u>830,000</u>	<u>118</u>	<u>1,060</u>	<u>831,178</u>
Profit and total comprehensive income for the year	–	–	5,757	5,757
Transfer to statutory surplus reserve	–	575	(575)	–
At 31 December 2016	<u>830,000</u>	<u>693</u>	<u>6,242</u>	<u>836,935</u>

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

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

STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
(Loss) profit before tax	(1,081)	3,541	7,730
Adjustments for:			
Interest income	(126)	(396)	(592)
Depreciation of plant and equipment	7	9	8
Depreciation of investment property	10,329	21,980	21,960
Operating cash flows before movements in working capital	9,129	25,134	29,106
Decrease (increase) in deposits, prepayments and other receivables	1,455	(40)	3
(Increase) decrease in amount due from a fellow subsidiary	(9,844)	9,844	(631)
Increase (decrease) in other payables	2,169	(1,641)	546
Cash generated from operations	2,909	33,297	29,024
Income tax paid	–	(1,173)	(1,565)
Net cash from operating activities	2,909	32,124	27,459
Investing activities			
Interest received	126	396	592
Repayment from a fellow subsidiary	371	–	–
Purchase of plant and equipment	(61)	–	–
Additions of investment property	(36,799)	(2,846)	(5,004)
Repayment of deposits to contractors	(1,590)	(442)	–
Net cash used in investing activities	(37,953)	(2,892)	(4,412)
Financing activities			
Advance from the immediate holding company	48,929	–	–
Repayment to the immediate holding company	(836,272)	–	–
Receipt of paid-in capital	820,000	–	–
Net cash from financing activities	32,657	–	–
Net (decrease) increase in cash and cash equivalents	(2,387)	29,232	23,047
Cash and cash equivalents at beginning of the year	21,966	19,579	48,811
Cash and cash equivalents at end of the year	19,579	48,811	71,858

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL

Yiwu City Life is established in the PRC with limited liability. The address of its registered office is No. 128 Cheng Zhong Zhong Road, Yiwu, Zhejiang Province, the PRC. In the opinion of the directors of Yiwu City Life, the immediate holding company which is also the ultimate holding company of Yiwu City Life is Bailian Group Co., Ltd. ("Bailian Group"), a company established in the PRC with limited liability throughout the Relevant Periods. Yiwu City Life is principally engaged in the development and operation of a shopping mall located at No. 168 Wang Dao Road, Yiwu, Zhejiang Province, the PRC.

The statutory financial statements of Yiwu City Life for the Relevant Periods were prepared in accordance with the relevant accounting principles and regulations applicable to enterprises established in the PRC and were audited by ZhongHui Certified Public Accountants LLP (English name translated for identification purpose only) (中匯會計師事務所 (特殊普通合伙)), certified public accountants registered in the PRC.

The Historical Financial Information is presented in Renminbi (the "RMB"), which is the same as the functional currency of Yiwu City Life.

2. ADOPTION OF NEW AND REVISED HKFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, Yiwu City Life has consistently applied the HKFRSs, which are effective for the accounting period beginning on 1 January 2016 throughout the Relevant Periods.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	<i>Financial Instruments</i> ¹
HKFRS 15	<i>Revenue from Contracts with Customers and the related Amendments</i> ¹
HKFRS 16	<i>Leases</i> ²
Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> ¹
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i> ¹
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKAS 7	<i>Disclosure Initiative</i> ⁴
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ⁴
Amendments to HKAS 40	<i>Transfers of Investment Property</i> ¹
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2014-2016 Cycle</i> ⁵

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

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

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

⁴ Effective for annual periods beginning on or after 1 January 2017.

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

HKFRS 16 Leases

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

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, Yiwu City Life currently presents upfront prepaid lease payments as investing cash flows in relation to those classified as investment properties. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

Except as described above, the directors of Yiwu City Life anticipate that the application of other new and amendments to HKFRSs in issue but not effective will have no material effect on Yiwu City Life's financial performance and positions and/or the disclosures.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of 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, Yiwu City Life 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 the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "*Share-based Payment*", leasing transactions that are within the scope of HKAS 17 "*Leases*", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "*Inventories*" or value in use in HKAS 36 "*Impairment of Assets*".

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

In addition, for financial reporting purposes, fair value measurements are categorized 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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Yiwu City Life's accounting policy for the recognition of revenue from operating leases is described in the accounting policy for leasing below.

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

Leasing

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

Yiwu City Life as lessor

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

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.

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

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 tax" as reported in the statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Yiwu City Life's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits 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 rates (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 Yiwu City Life expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

Plant and equipment

Plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

The items of plant and equipment are depreciated on a straight-line basis over the following estimated useful lives after taking into account the residual values as follow:

Office equipment	3-5 years
Motor vehicles	3-5 years

An item of 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 the disposal or retirement of an item of 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.

Investment property

Investment property is a property held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment property includes land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment property is initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction costs incurred for investment property under construction are capitalised as part of the carrying amount of the investment property under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Impairment on tangible assets

At the end of each reporting period, Yiwu City Life reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, Yiwu City Life estimates the

recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

Financial instruments

Financial assets and financial liabilities are recognised in the statements of financial position when Yiwu City Life becomes a party to the contractual provisions of the instrument.

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

Financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition loans and receivables (including other receivables, amount due from a fellow subsidiary and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Yiwu City Life's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by an 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 an entity after deducting all of its liabilities. Equity instruments issued by the Yiwu City Life are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities (including other payables) are subsequently measured at amortised cost using the effective interest method.

Derecognition

Yiwu City Life 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 Yiwu City Life neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, Yiwu City Life 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 Yiwu City Life retains substantially all the risks and rewards of ownership of a transferred financial asset, Yiwu City Life continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Yiwu City Life derecognises financial liabilities when, and only when, Yiwu City Life's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Yiwu City Life's accounting policies, which are described in note 3, the director of Yiwu City Life is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of investment property

Yiwu City Life regularly reviews whether there are any indications of impairment and recognises an impairment loss if the carrying amount of an asset is lower than its recoverable amount. The recoverable amounts have been determined based on the higher of the fair value less costs of disposal and value in use calculations. These calculations require the use of estimates, such as discount rates and reversionary income. During the course of the impairment assessment, management will also make reference to property valuations conducted by independent qualified professional valuer based on comparable market prices. Management are required to revise these estimates if there is a change in market condition or demand. If actual market conditions are less favourable than those projected by management, impairment of investment property may be required.

5. REVENUE

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Rental income	14,587	32,799	33,461

Rental income solely arisen from the lease of Yiwu City Life's shopping mall situated in Yiwu, Zhejiang Province, the PRC to Zhejiang Century Lianhua Supermarket Co., Ltd. (浙江世紀聯華超市有限公司) ("Zhejiang Century Lianhua"), a fellow subsidiary of Yiwu City Life and a subsidiary of the Company, commencing from 15 July 2014.

6. FINANCE COSTS

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Interest on amount due to the immediate holding company	17,168	–	–
Less: amount capitalised	(17,168)	–	–
Total	–	–	–

Borrowing costs capitalised during the year ended 31 December 2014 were all arising from the amount due to the immediate holding company, which represents specific borrowing and all the finance costs were incurred on the expenditure on qualifying asset and was fully repaid by Yiwu City Life in 2014.

7. (LOSS) PROFIT BEFORE TAX

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
(Loss) profit before tax has been arrived at after charging (crediting):			
Depreciation for:			
Plant and equipment	7	9	8
Investment property	10,329	21,980	21,960
Total depreciation	10,336	21,989	21,968
Government grant (included in other income) (note i)	–	(1,000)	–
Director's remuneration (note ii)	–	–	–
Interest income	(126)	(396)	(592)
Auditor's remuneration (note ii)	–	–	–
Gross rental income from investment property	(14,587)	(32,799)	(33,461)
Less: Rental outgoings	10,335	21,989	21,968
	(4,252)	(10,810)	(11,493)

Notes:

- (i) Yiwu City Life received unconditional government subsidy from the PRC local government in 2015 as an encouragement for the operation in Yiwu, Zhejiang Province, the PRC.
- (ii) The staff cost, auditor's remuneration and director's remuneration were borne by the fellow subsidiary of Yiwu City Life throughout the Relevant Periods. The directors and staff of Yiwu City Life received remuneration from entities in the Group headed by Bailian Group. No appointment has been made as the directors of Yiwu City Life are of the opinion that it is impracticable to apportion such remuneration between their services provided to Yiwu City Life and other group companies of Bailian Group.

8. INCOME TAX EXPENSE

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Current tax on PRC Enterprise Income Tax ("EIT")	–	1,282	1,815
Deferred tax (credit) charge (<i>Note 12</i>)	(270)	270	158
	<u>(270)</u>	<u>1,552</u>	<u>1,973</u>

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate is 25%.

The income tax (credit) expense for the year can be reconciled to the (loss) profit before tax per statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
(Loss) profit before tax	<u>(1,081)</u>	<u>3,541</u>	<u>7,730</u>
Tax (credit) charge at the EIT rate of 25%	(270)	885	1,933
Tax effect of expense not deductible for tax purpose	–	667	40
Income tax (credit) expense	<u>(270)</u>	<u>1,552</u>	<u>1,973</u>

Details of deferred taxation for the Relevant Periods are set out in Note 12.

9. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion is not considered meaningful for the purpose of the Accountants' Report.

10. DIVIDENDS

No dividend was paid or declared by Yiwu City Life since its establishment.

11. INVESTMENT PROPERTY

	Investment property under construction <i>RMB'000</i>	Completed investment property <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2014	776,115	–	776,115
Additions	45,562	–	45,562
Transfer	(821,677)	821,677	–
	<u>–</u>	<u>821,677</u>	<u>821,677</u>
At 31 December 2014, 31 December 2015 and 31 December 2016	<u>–</u>	<u>821,677</u>	<u>821,677</u>
DEPRECIATION			
At 1 January 2014	–	–	–
Provided for the year	–	(10,329)	(10,329)
	<u>–</u>	<u>(10,329)</u>	<u>(10,329)</u>
At 31 December 2014	–	(10,329)	(10,329)
Provided for the year	–	(21,980)	(21,980)
	<u>–</u>	<u>(21,980)</u>	<u>(21,980)</u>
At 31 December 2015	–	(32,309)	(32,309)
Provided for the year	–	(21,960)	(21,960)
	<u>–</u>	<u>(21,960)</u>	<u>(21,960)</u>
At 31 December 2016	<u>–</u>	<u>(54,269)</u>	<u>(54,269)</u>
CARRYING VALUE			
At 31 December 2014	<u>–</u>	<u>811,348</u>	<u>811,348</u>
At 31 December 2015	<u>–</u>	<u>789,368</u>	<u>789,368</u>
At 31 December 2016	<u>–</u>	<u>767,408</u>	<u>767,408</u>

The fair value of Yiwu City Life's investment property at 31 December 2015 and 2016 was RMB943,000,000 and RMB949,000,000, respectively. The fair value has been arrived at based on a valuation estimated by the directors of Yiwu City Life with the assistance of Savills Valuation and Professional Services Limited, a member of the Hong Kong Institute of Surveyors, which is located at 23/F, Two Exchange Square, Central, Hong Kong.

The fair value was determined based on the income capitalisation approach and was arrived at by reference to market evidence of transaction prices for similar properties in the same location and conditions or where appropriate by considering the capitalised income to be derived from the existing tenancies and the reversionary potential of the property.

In estimating the fair value of the property, the highest and best use of the properties is their current use.

Details of the Yiwu City Life's investment property and information about the fair value hierarchy as at 31 December 2015 and 2016 are as follows:

	Level 3 <i>RMB'000</i>	Fair value as at 31 December 2015 <i>RMB'000</i>
Commercial property units located in Yiwu, Zhejiang Province, the PRC	943,000	943,000
	<u>943,000</u>	<u>943,000</u>
	Level 3 <i>RMB'000</i>	Fair value as at 31 December 2016 <i>RMB'000</i>
Commercial property units located in Yiwu, Zhejiang Province, the PRC	949,000	949,000
	<u>949,000</u>	<u>949,000</u>

The above investment property is depreciated on a straight-line basis at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	Over the shorter of the term of the lease and 40 years

The investment property shown above comprises a property situated on a land in the PRC on a medium term lease.

12. DEFERRED TAXATION

The following is the analysis of deferred tax assets (liabilities) presented in the statements of financial position:

	At 31 December		
	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
Deferred tax asset	270	–	–
Deferred tax liability	–	–	(158)
	<u>270</u>	<u>–</u>	<u>(158)</u>

The following are the major deferred tax liability and asset recognised and movements thereon during the current and prior years:

	Accrued rental income <i>RMB'000</i>	Tax loss <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2014	–	–	–
(Charge) credit to profit or loss	(2,461)	2,731	270
	<u>(2,461)</u>	<u>2,731</u>	<u>270</u>
At 31 December 2014	(2,461)	2,731	270
Credit (charge) to profit or loss	2,461	(2,731)	(270)
	<u>2,461</u>	<u>(2,731)</u>	<u>(270)</u>
At 31 December 2015	–	–	–
Charge to profit or loss	(158)	–	(158)
	<u>(158)</u>	<u>–</u>	<u>(158)</u>
At 31 December 2016	<u>(158)</u>	<u>–</u>	<u>(158)</u>

13. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepaid expenses	–	40	37
Other receivables	1,306	–	–
	<u>1,306</u>	<u>–</u>	<u>–</u>
Total	<u>1,306</u>	<u>40</u>	<u>37</u>

14. AMOUNT DUE FROM A FELLOW SUBSIDIARY

	At 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Rental income receivables	9,844	–	631
	<u>9,844</u>	<u>–</u>	<u>631</u>

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprising cash on hand and cash placed with banks in the PRC are denominated in RMB.

Bank balances carry interest at prevailing market rates ranging from 0.35% to 1.44% per annum, 0.35% to 1.42% per annum and 0.35% to 1.00% per annum for each the three years ended 31 December 2016.

16. OTHER PAYABLES

	At 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Construction cost payables	10,604	6,451	1,447
Deposits received from contractors	442	–	–
Other taxes payables	2,171	531	1,077
	<u>13,217</u>	<u>6,982</u>	<u>2,524</u>

17. PAID-IN CAPITAL

The amount in the statements of financial position as at 1 January 2014 represented initial the paid-in capital of Yiwu City Life. During the year ended 31 December 2014, the owner of Yiwu City Life had contributed the remaining balance of RMB820,000,000, and the registered capital of Yiwu City Life had been fully paid up totalling RMB830,000,000 since then.

18. OPERATING LEASE**The Company as lessor**

The Yiwu City Life's investment property was solely leased to Zhejiang Century Lianhua. The lease term with Zhejiang Century Lianhua is subject to the renewal of the leasing agreement on an annual basis. The current leasing agreement would be expired on 14 July 2017.

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

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Rental income earned during the year	<u>14,587</u>	<u>32,799</u>	<u>33,461</u>

At the end of each reporting period, Yiwu City Life had contracted with tenant for the following future minimum lease payments:

	At 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	<u>18,281</u>	<u>19,500</u>	<u>19,625</u>

19. CAPITAL RISK MANAGEMENT

Yiwu City Life manages its capital to ensure Yiwu City Life will be able to continue as a going concern while maximising the return to the owner of Yiwu City Life through the optimisation of the debt and equity balance. Yiwu City Life's overall strategy remains unchanged from the date of establishment.

The capital structure of Yiwu City Life consists of equity attributable to equity holders of Yiwu City Life, comprising paid-in capital, reserves and retained profits.

The directors of Yiwu City Life review the capital structure on a continuous basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, Yiwu City Life will balance its overall capital structure through the payment of dividends, new share issues as well as issue of new debts or redemption of existing debts.

20. FINANCIAL INSTRUMENTS**20a. Categories of financial instruments**

	At 31 December		
	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
<i>Financial assets</i>			
Loans and receivables (including cash and cash equivalents)	30,729	48,811	72,489
<i>Financial liabilities</i>			
Amortised cost	11,046	6,451	1,447

20b. Financial risk management objectives and policies

Yiwu City Life's major financial instruments include other receivables, amount due from a fellow subsidiary, cash and cash equivalents and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate 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

Yiwu City Life's exposure to cash flow interest rate risk relates to its variable-rate bank balances. No sensitivity analysis has been presented because Yiwu City Life's exposure to cash flow interest rate risk is not significant.

Credit risk

At the end of each Relevant Period, Yiwu City Life's maximum exposure to credit risk which will cause a financial loss to Yiwu City Life is due to failure to discharge an obligation by the counterparties.

The credit risk of Yiwu City Life is concentrated on bank balance and amount due from a fellow subsidiary. In order to minimise the credit risk, the management continuously monitor the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its counterparties to ensure that prompt actions will be taken to lower exposure.

The management of Yiwu City Life considers that the credit risk on liquid funds is low as counterparties are banks with good reputation.

Liquidity risk

In the management of the liquidity risk, Yiwu City Life monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance Yiwu City Life's operations and mitigate the effects of fluctuations in cash flows.

The following table details Yiwu City Life's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Yiwu City Life can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of each reporting period.

	Weighted average effective interest rate %	On demand or less than 6 months RMB'000	Total undiscounted cash flows RMB'000	Total RMB'000
At 31 December 2014				
Financial liabilities				
Other payables	–	11,046	11,046	11,046
At 31 December 2015				
Financial liabilities				
Other payables	–	6,451	6,451	6,451
At 31 December 2016				
Financial liabilities				
Other payables	–	1,447	1,447	1,447

20c. Fair value measurements of financial instruments

The director considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

21. RELATED PARTY DISCLOSURES

Other than disclosed elsewhere in the Historical Financial Information, during the Relevant Periods, Yiwu City Life entered into the following significant transactions with related parties:

(a) Related party transactions

	Year ended 31 December		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
Rental income earned from Zhejiang Century Lianhua, a fellow subsidiary	14,587	32,799	33,461

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

Yiwu City Life operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government including Bailian Group.

The directors of Yiwu City Life consider the transactions of various deposits with state-owned banks and financial institutions as well as other government related entities are normal business operations and are carried out on market terms.

(c) Compensation of key management

There was no compensation of key management personnel of Yiwu City Life throughout the Relevant Periods. Details of the compensation are set out in note 7.

B. EVENT AFTER THE END OF THE REPORTING PERIOD

Subsequent to the year ended 31 December 2016, Yiwu City Life renews the tenancy agreement with Zhejiang Century Lianhua, pursuant to which the expiry date of the leasing of the Yiwu Property to Zhejiang Century Lianhua has been extended from 14 July 2017 to 31 August 2017, while other terms remain unchanged.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Yiwu City Life have been prepared in respect of any period subsequent to 31 December 2016.

The information set out in this Appendix does not form part of the Accountants' Report of Yiwu City Life from Deloitte Touche Tohmatsu, the Company's reporting accountants, as set out in "Appendix II – Accountants' Report of Yiwu City Life" and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the Accountants' Report set out in "Appendix II – Accountants' Report of Yiwu City Life".

A. BASIS OF PREPARATION OF THE PRO FORMA FINANCIAL INFORMATION

The pro forma financial information presented below is prepared to illustrate the financial position of the Enlarged Group as if the proposed Acquisition had been completed on 31 December 2016.

The pro forma financial information is prepared based on the consolidated statement of financial position of the Group as at 31 December 2016 extracted from the Company's annual report of the Group for the year ended 31 December 2016 after giving effect to the pro forma adjustments described in the accompanying notes which are directly attributable to the proposed Acquisition and factually supportable and was prepared in accordance with Rules 4.29 and 14.67(6)(a)(ii) of the Listing Rules.

This pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 December 2016 or at any future date had the proposed Acquisition been completed on 31 December 2016.

B. PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Pro Forma Statement of Assets and Liabilities of the Enlarged Group as at 31 December 2016

	The Group		Pro forma adjustment in respect of the proposed acquisition of Yiwu City Life				The Enlarged Group
	As at 31 December 2016	Yiwu City Life as at 31 December 2016	Reclassifications	Adjustment to land use rights	Payment of consideration	Pro forma adjustment on resulting stamp duty	Total pro forma adjustments
	(Note 1) RMB'000	(Note 1) RMB'000	(Note 2) RMB'000	(Note 3) RMB'000	(Note 4) RMB'000	(Note 5) RMB'000	RMB'000
Non-current assets							
Property, plant and equipment	3,082,366	42	318,226	318,268			318,268
Construction in progress	221,066	-	-	-			-
Land use rights	329,348	-	435,981	435,981	129,937		565,918
Intangible assets	198,783	-	-	-			-
Investment property	-	767,408	(767,408)	-			-
Interests in associates	500,793	-	-	-			-
Available-for-sale financial assets	73,967	-	-	-			-
Term deposits							
- restricted	270,000	-	-	-			-
- unrestricted	1,185,000	-	-	-			-
Prepaid rental	33,190	-	-	-			-
Deferred tax assets	68,222	-	-	-			-
Other non-current assets	15,751	-	-	-			-
	5,978,486	767,450		754,249			884,186
							6,862,672

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP

	The Group		Pro forma adjustment in respect of the proposed acquisition of Yiwu City Life				The Enlarged Group
	As at 31 December 2016	Yiwu City Life as at 31 December 2016	Reclassifications	Sub-total	Adjustment to land use rights consideration	Payment of stamp duty	
	(Note 1) RMB'000	(Note 1) RMB'000	(Note 2) RMB'000	(Note 3) RMB'000	(Note 4) RMB'000	(Note 5) RMB'000	RMB'000
Current assets							
Inventories	3,065,232	-	-	-	-	-	3,065,232
Trade receivables	82,633	-	-	-	-	-	82,633
Deposits, prepayments and other receivables	904,210	37	13,201	13,238	3,908	17,146	921,356
Amounts due from fellow subsidiaries	15,768	631	(631)	-	-	-	15,768
Amounts due from associates	58	-	-	-	-	-	58
VAT refundable	203,980	-	-	-	-	-	203,980
Financial assets at fair value through profit or loss	1,977,894	-	-	-	-	-	1,977,894
Term deposits	1,101,000	-	-	-	-	-	1,101,000
- restricted	952,851	-	-	-	-	-	952,851
- unrestricted	3,175,900	71,858	-	71,858	(970,780)	(898,922)	2,276,978
Cash and cash equivalents							
	11,479,526	72,526		85,096		(881,776)	10,597,750
Total assets	17,458,012	839,976		839,345		2,410	17,460,422
Non-current liability							
Deferred tax liabilities	86,455	158		158		158	86,613

	The Group		Pro forma adjustment in respect of the proposed acquisition of Yiwu City Life				The Enlarged Group
	As at 31 December 2016	Yiwu City Life as at 31 December 2016	Reclassifications	Sub-total	Adjustment to land use rights consideration	Payment of stamp duty	
	(Note 1) RMB'000	(Note 1) RMB'000	(Note 2) RMB'000	(Note 3) RMB'000	(Note 4) RMB'000	(Note 5) RMB'000	RMB'000
Current liabilities							
Trade payables	4,117,867	-	-	-	-	-	4,117,867
Other payables and accruals	2,365,021	2,524	2,524	2,524	485	3,009	2,368,030
Coupon liabilities	7,941,014	-	-	-	-	-	7,941,014
Deferred income	23,008	-	-	-	-	-	23,008
Amounts due to fellow subsidiaries	62,708	-	(631)	(631)	-	(631)	62,077
Amounts due to associates	1,417	-	-	-	-	-	1,417
Bank borrowing	2,000	-	-	-	-	-	2,000
Tax payable	104,643	359	359	359	-	359	105,002
	14,617,678	2,883	2,883	2,252	485	2,737	14,620,415
Total liabilities	14,704,133	3,041	3,041	2,410	2,895	2,895	14,707,028
Net assets	2,753,879	836,935	836,935	836,935	-	5,305	2,753,394

C. NOTES TO THE PRO FORMA FINANCIAL INFORMATION

1. The financial information of the Group is extracted from the annual report of the Company for the year ended 31 December 2016. The financial information of Yiwu City Life (the “Target Company”) is extracted from the accountants’ report as set out in Appendix II to this Circular.
2. This adjustment represents the reclassification adjustments of the Yiwu City Life as to conform with the presentation of the Group’s financial information.

The adjustments include the reclassification of the shopping mall located at No. 168 Wang Dao Lu, Yiwu, Zhejiang Province, the People’s Republic of China (the “PRC”), which is owned by Yiwu City Life (the “Yiwu Property”) from investment property to property, plant and equipment and land use rights. Pursuant to the leasing agreement dated 15 July 2016 entered into between Zhejiang Century Lianhua Supermarket Co., Ltd. (“Zhejiang Century Lianhua”), a subsidiary of the Company and Yiwu City Life, the Yiwu Property is leased to Zhejiang Century Lianhua for a term of one year till 14 July 2017, and has been extended to 31 August 2017.

The Yiwu Property is used as a hypermarket site and is operated by Zhejiang Century Lianhua. The Group will continue to use as a hypermarket site and to be operated by the Group after the proposed Acquisition. Therefore, the Yiwu Property is held for use in the production or supply of goods or services rather than to earn rentals and/or for capital appreciation of the Group. Since Yiwu City Life adopted cost method to account for its investment property, the carrying amount of Yiwu Property is reclassified from investment property to property, plant and equipment, land use rights and deposits, prepayments and other receivables (representing the current portion of land use rights), accordingly.

In addition, the amount due from fellow subsidiary in respect of the rental receivables of RMB631,000 outstanding as at 31 December 2016 arising from the leasing of Yiwu Property by Yiwu City Life to the Group are eliminated assuming the Proposed Acquisition had been completed on 31 December 2016.

3. This group of assets acquired does not constitute a business and therefore Acquisition is accounted for as acquisition of assets.

For the purpose of the preparation of pro-forma statement of assets and liabilities of the Enlarged Group, assuming the proposed Acquisition had been completed on 31 December 2016, the purchase price was first allocated to the financial assets and financial liabilities at their respective fair values. The remaining balances of the purchase price was then allocated to the land use right and was therefore adjusted to its fair value by increasing RMB133,845,000 (including non-current portion of RMB129,937,000 and current portion of RMB3,908,000 included in deposits, prepayments and other receivables, respectively).

The Directors estimated the fair value of the other assets and liabilities of Yiwu City Life would approximate their corresponding carrying amounts.

Since the proposed Acquisition was assumed to be completed on 31 December 2016, there was no adjustment to the depreciation of property, plant and equipment and release of land use rights accordingly.

4. This represents the payment of the cash consideration amounting to RMB970,780,000 to Bailian Group as stipulated in the Agreement.
5. This represents the recognition of the stamp duty of RMB485,000 which will be imposed on the Group upon the completion of the proposed Acquisition. The stamp duty in respect of proposed Acquisition would be determined based on 0.05% of the consideration according to the relevant tax rule in the PRC.
6. No adjustments have been made to reflect any trading results or other transaction of the Group or Yiwu City Life entered into subsequent to 31 December 2016.
7. In addition, on the same day of entering into the proposed Acquisition, the Company also entered into a disposal agreement (the “Disposal Agreement”) with Bailian Group which was not directly attributable to the proposed Acquisition, pursuant to which Bailian Group conditionally agreed to purchase, and the Company conditionally agreed to sell, 100% equity interest in Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. (上海聯華生鮮食品加工配送中心有限公司) (“Lianhua Live and Fresh”), a subsidiary of the Company, for a cash consideration of RMB378,600,000.

The below is the additional financial information, for illustrative purpose, of the Enlarged Group after taking into account the proposal disposal of Lianhua Live and Fresh.

The unaudited Pro Forma Financial Information of the Enlarged Group after taking into account the proposed disposal of Lianhua Live and Fresh, which was not directly attributable to the proposed Acquisition, is served as additional information for illustrative purpose only.

	The Enlarged Group	Pro forma adjustment in respect of the proposed disposal of Lianhua Live and Fresh				The Enlarged Group after completion of the proposed disposal
	As at 31 December 2016	Net liabilities of Lianhua Live and Fresh as at 31 December 2016 disposed of	Reclassifications	Receipt of consideration	Pro forma adjustment on resulting stamp duty	Total pro forma adjustments
	(Note 7(a)) RMB'000	(Note 7(a)) RMB'000	(Note 7(b)) RMB'000	(Note 7(c)) RMB'000	(Note 7(d)) RMB'000	RMB'000
Non-current assets						
Property, plant and equipment	3,400,634	(61,895)	(61,895)	(61,895)	(61,895)	3,338,739
Construction in progress	221,066	-	-	-	-	221,066
Land use rights	895,266	(45,790)	(45,790)	(45,790)	(45,790)	849,476
Intangible assets	198,783	-	-	-	-	198,783
Investment property	500,793	-	-	-	-	500,793
Interests in associates	73,967	-	-	-	-	73,967
Available-for-sale financial assets						
Term deposits						
- restricted	270,000	-	-	-	-	270,000
- unrestricted	1,185,000	-	-	-	-	1,185,000
Prepaid rental	33,190	-	-	-	-	33,190
Deferred tax assets	68,222	-	-	-	-	68,222
Other non-current assets	15,751	-	-	-	-	15,751
	6,862,672	(109,049)	(107,685)	(107,685)	(107,685)	6,754,987

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP

	The Enlarged Group As at 31 December 2016	Pro forma adjustment in respect of the proposed disposal of Lianhua Live and Fresh				The Enlarged Group after completion of the proposed disposal
	(Note 7(a)) RMB'000	Net liabilities of Lianhua Live and Fresh as at 31 December 2016 disposed of	Reclassifications (Note 7(b)) RMB'000	Receipt of consideration (Note 7(c)) RMB'000	Pro forma adjustment on resulting stamp duty (Note 7(d)) RMB'000	Total pro forma adjustments
		(Note 7(a)) RMB'000	(Note 7(b)) RMB'000	(Note 7(c)) RMB'000	(Note 7(d)) RMB'000	RMB'000
Current assets						
Inventories	3,065,232	(6)				3,065,226
Trade receivables	82,633	(508)		(6)		82,125
Deposits, prepayments and other receivables	921,356	(1,917)		(1,917)		919,439
Amounts due from fellow subsidiaries	15,768	-		-		15,768
Amount due from Lianhua Live and Fresh	-	-	125,343			125,343
Amounts due from associates VAT refundable	58	-				58
Financial assets at fair value	203,980	(16)		(16)		203,964
through profit or loss						
Term deposits	1,977,894	-		-		1,977,894
- restricted	1,101,000	-		-		1,101,000
- unrestricted	952,851	-		-		952,851
Cash and cash equivalents	2,276,978	(1,926)		378,600		2,653,652
	10,597,750	(4,373)		120,970		11,097,320
Total assets	17,460,422	(112,058)		13,285		17,852,307
Non-current liability						
Deferred tax liabilities	86,613	-		-		86,613

	Pro forma adjustment in respect of the proposed disposal of Lianhua Live and Fresh					The Enlarged Group after completion of the proposed disposal
The Enlarged Group	As at 31 December 2016	Net liabilities of Lianhua Live and Fresh as at 31 December 2016 disposed of	Reclassifications	Receipt of consideration	Pro forma adjustment on resulting stamp duty	Total pro forma adjustments
	(Note 7(a)) RMB'000	(Note 7(a)) RMB'000	(Note 7(b)) RMB'000	(Note 7(c)) RMB'000	(Note 7(d)) RMB'000	RMB'000
Current liabilities				Sub-total		
Trade payables	4,117,867	(2,082)		(2,082)		4,115,785
Other payables and accruals	2,368,030	(5,214)		(5,214)	189	2,363,006
Coupon liabilities	7,941,014	-		-		7,941,014
Deferred income	23,008	-		-		23,008
Amounts due to fellow subsidiaries	62,077	-		-		62,077
Amount due to the Enlarged Group	-	(125,343)	125,343	-		-
Amounts due to associates	1,417	-		-		1,417
Bank borrowing	2,000	-		-		2,000
Tax payable	105,002	-		-		105,002
	14,620,415	(132,639)		(7,296)		14,613,309
Total liabilities	14,707,028	(132,639)		(7,296)		14,699,922
Net assets	2,753,394	20,581		5,989		384,778
						3,152,385

Notes:

- 7a. The financial information of the Enlarged Group is extracted from the unaudited pro forma financial information on pages III-2 to III-4. The financial information in relation to the carrying amounts of assets and liabilities of Lianhua Live and Fresh is extracted from its unaudited management account provided by the management of the Group.
- 7b. The adjustments include the recognition of amount due from Lianhua Live and Fresh by the Enlarged Group since such amount has been eliminated prior to the proposed disposal at the consolidated financial information of the Enlarged Group, and would therefore be reversed since Lianhua Live and Fresh was no longer a subsidiary of the Company, assuming the proposed disposal had been completed on 31 December 2016. The directors of the Company expect that the amount due from Lianhua Live and Fresh will be recovered before 31 December 2017 and therefore it is classified as current assets.
- 7c. This represents the receipt of the cash consideration amounting to RMB378,600,000 from Bailian Group as stipulated in the Disposal Agreement.
- 7d. This represents the recognition of the stamp duty of RMB189,000 which will be imposed on the Group upon the completion of the proposed disposal. The stamp duty in respect of proposed disposal would be determined based on 0.05% of the consideration according to the relevant tax rule in the PRC.
- 7e. No adjustments have been made to reflect any trading results or other transaction of the Group or Lianhua Live and Fresh entered into subsequent to 31 December 2016.

**D. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION OF
THE ENLARGED GROUP**

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the Company's reporting accountants, Deloitte Touche Tohmatsu.

Deloitte.**德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

TO THE DIRECTORS OF LIANHUA SUPERMARKET HOLDINGS CO., LTD.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 31 December 2016 and related notes as set out on pages III-1 to III-10 of the circular issued by the Company dated 31 May 2017 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages III-1 to III-10 in Appendix III of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 100% equity interest in Yiwu City Life Supermarket Co., Ltd. (義烏都市生活超市有限公司) (the "Proposed Acquisition") on the Group's financial position as at 31 December 2016 as if the Proposed Acquisition had been taken place at 31 December 2016. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2016, on which an auditor's report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or these transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

31 May 2017

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular received from Savills Valuation and Professional Services Limited, an independent valuer, in connection with its opinion of value of the Property as at 31 March 2017 held by Yiwu City Life, which is to be acquired by the Company.



The Directors
Lianhua Supermarket Holdings Co., Ltd.
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Putuo District
Shanghai
The People's Republic of China

Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

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F: (852) 2530 0756

EA Licence: C-023750
savills.com

31 May 2017

Dear Sirs,

RE: TIWER CENTURY CITY (天華世紀城), NO. 168 WANGDAO ROAD, YIWU, ZHEJIANG PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA (THE "PROPERTY")

Instructions

In accordance with your instructions for us to value the Property situated in the People's Republic of China (the "PRC") which is held by Yiwu City Life Supermarket Co., Ltd. (義烏都市生活超市有限公司) (hereinafter referred to as the "Yiwu City Life") and to be acquired by Lianhua Supermarket Holdings Co., Ltd. (hereinafter referred to as the "Company"), we confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 March 2017 (the "valuation date") for inclusion in a circular.

Basis of Valuation

Our valuation of the Property is our opinion of its market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

Our valuation is prepared in compliance with the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in accordance with The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

Valuation Methodology

In valuing the Property, which is held by Yiwu City Life for investment, we have made reference to the comparable market transactions as available in the market and where appropriate, on the basis of capitalisation of income as shown on the schedules handed to us with due allowance for reversionary income potential of the Property.

Title Investigation

We have been provided with copies of extracts of title documents relating to the Property. However, we have not searched the original documents to verify ownership or to ascertain the existence of any amendments which may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given by the Company and the legal opinion issued by the PRC legal adviser to the Company, Grandall Law Firm (Shanghai) (國浩律師(上海)事務所), regarding the title to the Property.

Source of Information

In the course of our valuation, we have relied to a very considerable extent on information by the Company and accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, particulars of occupancy, tenancy details, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on the information provided to us and are therefore only approximations. No on-site measurements have been taken. We have no reason to doubt the truth and accuracy of the information provided to us by the Company, which is material to our valuation. We have also sought confirmation by the Company that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view.

Valuation Assumptions

In the course of our valuation, unless otherwise stated, we have assumed that transferable land use rights of the Property for its specific term at nominal annual land use fee have been granted and that any land grant premium payable has already been fully paid. We have also assumed that, unless otherwise stated, the owner of the Property has a proper legal title to the Property and has free and uninterrupted rights to use, occupy, lease and assign the Property for the whole of the unexpired term as granted.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Site Inspection

We have inspected the exterior and, where possible, the interior of the Property. Site inspection of the Property was carried out in March 2017 by our Ms. Toma Yang (Manager). Ms. Toma Yang is a China Registered Real Estate Appraiser. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report that the Property is free from rot, infestation and any other defects. No tests were carried out on any of the services.

Currency

Unless otherwise stated, all money amounts stated are in Renminbi (“RMB”).

We enclose herewith our valuation certificate.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Anthony C K Lau
MRICS MHKIS RPS (GP)
Director

Note: Mr. Anthony C K Lau is a professional surveyor who has over 24 years’ experience in the valuation of properties in Hong Kong and the PRC.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2017
<p>Tiwer Century City (天華世紀城), No. 168 Wangdao Road, Yiwu, Zhejiang Province, PRC</p>	<p>Tiwer Century City comprises a 5-storey building (retail and car park uses) over a 2-storey car park basement and is erected on a parcel of land with a site area of approximately 19,151.66 sq.m. The Property was completed in 2014.</p> <p>The Property is located to the west of Wangdao Road of Yiwu. Developments in the vicinity are dominated by medium-rise residential developments. It is located at about 10 minutes' drive to the city centre and at about 20 minutes' drive to Yiwu Railway Station.</p> <p>The total gross floor area of the Property is approximately 78,978.26 sq.m. (including the underground floor area of approximately 26,011.04 sq.m.). The Property also accommodates 967 car parking spaces located at Levels 4 and 5, the roof and the basement of the Property.</p> <p>As advised, the total lettable floor area of the retail portion of the Property is approximately 20,410.00 sq.m., which occupies Level 1 to 3 of the Property.</p> <p>The land use rights of the Property have been granted for a term due to expire on 17 April 2051 for wholesale and retail uses.</p>	<p>As at the valuation date, the Property was subject to a lease entered into between Yiwu City Life and Zhejiang Century Lianhua Supermarket Co., Ltd. (浙江世紀聯華超市有限公司) ("Zhejiang Century Lianhua"), a subsidiary of the Company, for a term commencing on 15 July 2016 and expiring on 14 July 2017 at a total annual rental of approximately RMB54,000,000 and Yiwu City Life agreed to provide a rental reduction of no more than one third of the annual rental payable in the event that Zhejiang Century Lianhua operates the Property at a loss.</p> <p>We are instructed by the Company to value the Property disregarding the aforesaid lease as the Company will become the owner of the Property after the acquisition. In addition, in undertaking our valuation, we have taken into account the existing leases entered into with various independent third parties as instructed.</p> <p>Portion of the retail portion of the Property with a total lettable floor area of approximately 2,676.50 sq.m. was let to various independent third parties under various tenancies with the latest one due to expire on 14 September 2024 at a total monthly rental of approximately RMB440,000 whilst the remaining portion of the Property was occupied by Zhejiang Century Lianhua for supermarket use.</p>	<p>RMB949,000,000 (Reminbi Nine Hundred and Forty Nine Million)</p>

Notes:

1. Pursuant to the State-owned Land Use Rights Certificate – Yi Wu Guo Yong (2014) No. 004-06786 dated 21 April 2014, the land use rights of a parcel of land of the Property with a site area of 19,151.66 sq.m. have been granted to Yiwu City Life for a term due to expire on 17 April 2051 for wholesale and retail uses.
2. Pursuant to the Building Ownership Certificate – Yi Wu Fang Quan Zheng Bei Yuan Zi No. c00183716 dated 10 July 2014, the building ownership of the Property with a total gross floor area of 78,978.26 sq.m. is vested in Yiwu City Life.
3. We have been provided with a legal opinion on the title to the Property issued by the Company's PRC legal adviser, which contains, inter alia, the following information:
 - i. Yiwu City Life has legally obtained the State-owned Land Use Rights Certificate and the Building Ownership Certificate of the Property;
 - ii. Yiwu City Life is entitled to use, transfer, lease and mortgage the Property within the land use term; and
 - iii. as confirmed by Yiwu City Life, the Property is free from any judicial or administrative compulsory measures such as seizure, freeze, mortgage or auction or any other forms of third party rights.

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular received from Savills Valuation and Professional Services Limited, an independent valuer, in connection with its opinion of value of the Property as at 31 March 2017 held by Lianhua Live and Fresh, which is to be disposed of by the Company.



The Directors
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F: (852) 2530 0756

EA Licence: C-023750
savills.com

31 May 2017

Dear Sirs,

RE: NO. 624 NORTH BAOXING ROAD, ZHABEI DISTRICT, SHANGHAI, THE PEOPLE'S REPUBLIC OF CHINA (THE "PROPERTY")

Instructions

In accordance with your instructions for us to value the Property situated in the People's Republic of China (the "PRC") which is held by Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. (上海聯華生鮮食品加工配送中心有限公司) (hereinafter referred to as the "Lianhua Live and Fresh") and is to be disposed of by Lianhua Supermarket Holdings Co., Ltd. (hereinafter referred to as the "Company"), we confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 March 2017 (the "valuation date") for inclusion in a circular.

Basis of Valuation

Our valuation of the Property is our opinion of its market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase(or transaction) and without offset for any associated taxes or potential taxes.

Our valuation is prepared in compliance with the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in accordance with The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

Valuation Methodology

The Property is mainly held by Lianhua Live and Fresh for owner-occupation. In valuing the Property, we have adopted the direct comparison approach by making reference to comparable market transactions as available in the market and have taken into account the estimated land premium to be payable to the government.

Title Investigation

We have been provided with copies of extracts of title documents relating to the Property. However, we have not searched the original documents to verify ownership or to ascertain the existence of any amendments which may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given by the Company and the legal opinion issued by the PRC legal adviser to the Company, Grandall Law Firm (Shanghai) (國浩律師(上海)事務所), regarding the title to the Property.

Source of Information

In the course of our valuation, we have relied to a very considerable extent on information by the Company and accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, particulars of occupancy, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on the information provided to us and are therefore only approximations. No on-site measurements have been taken. We have no reason to doubt the truth and accuracy of the information provided to us by the Company, which is material to our valuation. We have also sought confirmation from the Company that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view.

Valuation Assumptions

In the course of our valuation, unless otherwise stated, we have assumed that transferable land use rights of the Property for its specific term at nominal annual land use fee have been granted and that any land grant premium payable has already been fully paid. We have also assumed that, unless otherwise stated, the owner of the Property has a proper legal title to the Property and has free and uninterrupted rights to use, occupy, lease and assign the Property for the whole of the unexpired term as granted.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Site Inspection

We have inspected the exterior and, wherever possible, the interior of the Property. Site inspection of the Property was carried out in March 2017 by our Ms. Toma Yang (Manager). Ms. Toma Yang is a China Registered Real Estate Appraiser. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report that the Property is free from rot, infestation and any other defects. No tests were carried out on any of the services.

Currency

Unless otherwise stated, all money amounts stated are in Renminbi (“RMB”).

We enclose herewith our valuation certificate.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Anthony C K Lau
MRICS MHKIS RPS (GP)
Director

Note: Mr. Anthony C K Lau is a professional surveyor who has over 24 years’ experience in valuation of properties in Hong Kong and the PRC.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2017
No. 624 North Baoxing Road, Zhabei District, Shanghai PRC	<p>The Property comprises a parcel of land with a site area of approximately 21,846.00 sq.m..</p> <p>The Property is located to the east of North Baoxing Road of Zhabei District, Shanghai. Developments in the vicinity are dominated by high-rise residential developments and industrial complexes. It is located at about 20 minutes' drive to the city centre of Puxi and at about 50 minutes' drive to Shanghai Hongqiao International Airport.</p> <p>The Property comprises ten blocks of single- to 7-storey buildings with a total gross floor area of approximately 44,426.71 sq.m.. Breakdown uses and gross floor areas of the Property are as follows:</p>	As at the valuation date, the Property was vacant.	RMB500,000,000 (Renminbi Five Hundred Million)

Use	Approximate Gross Floor Area (sq.m.)
Cold storage	15,187.00
Workshop	19,196.53
Warehouse	2,240.00
Office	2,325.64
Plant room	999.00
Ancillary facilities	4,478.54
Total:	44,426.71

The Property was completed in about 2001.

The land use rights of the Property have been granted for a term due to expire on 5 January 2042 for commercial use.

Notes:

1. Pursuant to the Shanghai Certificate of Real Estate Ownership – Hu Fang Di Zha Zi (2002) No. 018463 dated 6 November 2002, the building ownership of the Property with a total gross floor area of 44,426.71 sq.m. together with its relevant land use rights of a parcel of land with a site area of 21,846.00 sq.m. have been granted to Lianhua Live and Fresh, for a term due to expire on 5 January 2042 for commercial use.
2. Pursuant to the State-owned Land Use Rights Contract – Hu Fang Di Zi (2001) Chu Rang He Tong Pan Zi No. 22 dated 29 December 2001, a land premium is required to be paid to the government for either a change of land use or a transfer of the Property.
3. We have been provided with a legal opinion on the title to the Property issued by the Company's PRC legal adviser, which contains, inter alia, the following information:
 - i. Lianhua Live and Fresh has legally obtained the Shanghai Certificate of Real Estate Ownership, which is under the protection of the PRC laws;
 - ii. as confirmed by Lianhua Live and Fresh, the Property is free from any judicial or administrative compulsory measures such as seizure, freeze, mortgage or auction or any forms of third-party rights; and
 - iii. Lianhua Live and Fresh has legally obtained the building ownership and the land use rights of the Property and is entitled to use, transfer, let and mortgage the Property within the land use term in accordance with the stipulations and limitations as stated in the State-owned Land Use Rights Grant Contract and Agreement for the Land Use Rights.

A. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

B. DISCLOSURE OF INTERESTS

1. Interests of Directors

As at the Latest Practicable Date, save and except that Mr. Xia Da-wei, an independent non-executive director, who held 8,694 shares of Shanghai Bailian (representing approximately 0.0005% of the total issued shares of the Shanghai Bailian), none of the Directors, supervisors and chief executive of the Company had interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of 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 any such Director, supervisor or chief executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules (“**Model Code**”).

2. Directors’ positions in the substantial Shareholders

As at the Latest Practicable Date, each of Bailian Group, Shanghai Bailian and Shanghai Yiguo was a company with interests which fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, (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, a candidate for the non-executive Director, was the president and director of Bailian Group; (iii) Mr. Zhang Ye, a non-executive Director, was the chairman and chief executive officer of Shanghai Yiguo; (iv) Mr. Zhou Jing-bo, a non-executive Director, was deputy executive director of strategic investment department in Bailian Group; (v) Mr. Qian Jian-qiang, a non-executive Director, was a director and the general manager of Shanghai Bailian; (vi) Ms. Zheng Xiao-yun, a non-executive Director, was the financial director and secretary of the board of Shanghai Bailian; (vii) Mr. Lv Yong, a supervisor of the Company, was the chief financial officer of Bailian Group; and (viii) Ms. Tao Qing, a supervisor of the Company, was the director of the auditing center of Bailian Group.

Save as disclosed above, none of the Directors, proposed Director or supervisors or proposed supervisors of the Company was a director or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

C. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)).

D. DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors or supervisors of the Company has any direct or indirect interest in any assets which have since 31 December 2016 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors were materially interested, directly or indirectly, in any subsisting contract or arrangement entered into by any member of the Enlarged Group which was significant in relation to the business of the Enlarged Group.

E. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors had interests in any businesses which are considered to compete or are likely to compete, either directly or indirectly, with the business of the Group other than those business where the Directors were appointed as directors to represent the interests of the Company and/or the Group pursuant to the Listing Rules.

F. EXPERT'S CONSENT AND QUALIFICATIONS

Each of Octal Capital Limited, Deloitte Touche Tohmatsu and Savills has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter(s) and/or report(s) and/or valuation certificate(s) and/or opinion(s) and the references to their names included herein in the form and context in which it is respectively included.

The following are the qualifications of the experts who have given opinions or advices which are contained in this circular:

Name	Qualifications
Octal Capital Limited	a corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance
Deloitte Touche Tohmatsu	Certified Public Accountants
Savills	independent property valuer

Each of the experts named above confirmed that as at the Latest Practicable Date, it did not have any beneficial shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interests in any assets which have since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

G. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest audited consolidated financial statements of the Group were made up.

H. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at Eversheds, 21/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours, Monday to Friday (other than public holidays) for a period of 14 days from the date of this circular:

- (a) the Acquisition Agreement;
- (b) the Disposal Agreement;
- (c) the Articles and Association of the Company;
- (d) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 27 to 28 of this circular;
- (e) the letter from Octal Capital Limited, the text of which is set out on pages 29 to 49 of this circular;

- (f) the annual reports of the Company for the years ended 31 December 2014, 2015 and 2016;
- (g) the accountants' reports on Yiwu City Life prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this circular;
- (h) the independent reporting accountants' assurance report on the compilation of pro forma financial information of the Enlarged Group after completion of the proposed transaction issued by Deloitte Touche Tohmatsu, the text of which is set out in Appendix III to this circular;
- (i) the property valuation reports from Savills, the texts of which are set out in Appendix IV and V to this circular;
- (j) the consent letters referred to in the paragraph headed "Expert's Consent and Qualifications" in this Appendix;
- (k) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix; and
- (l) this circular.

I. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group or to which any member of the Enlarged Group may become a party.

J. VOTING ARRANGEMENTS

- (a) As at the Latest Practicable Date, no person had, prior to the posting of this circular, irrevocably committed himself/herself/itself to vote for or against the Acquisition or the Disposal.
- (b) Bailian Group, being a party to the Acquisition Agreement and the Disposal Agreement, has material interests in the Acquisition and the Disposal, respectively. Therefore, Bailian Group and its associates, including Shanghai Bailian, are required to abstain from voting on the relevant resolutions to be proposed at the EGM to approve the Acquisition Agreement, the Disposal Agreement and the transactions contemplated thereunder. Saved as disclosed above, no other Shareholder would be required to abstain from voting to approve the Acquisition and the Disposal.

K. MATERIAL CONTRACTS

In the two years immediately preceding the date of this circular and up to the Latest Practicable Date, the following contract, not being contracts entered into the ordinary course of business, were entered into by the Enlarged Group which are or may be material:

- (1) the agreement dated 19 April 2017 entered into by Lianhua Huashang and Hangzhou branch of China Zheshang Bank Co., Ltd. (“**CZB**”), in respect of the subscription of wealth management product, details of which please refer to the announcement of the Company dated 19 April 2017;
- (2) the agreement dated 16 February 2017 entered into by Lianhua Huashang with Hangzhou branch of Bank of Wenzhou Co., Ltd. (“**Wenzhou Bank**”), Huanbei branch of Bank of Hangzhou Co., Ltd. (“**Bank of Hangzhou**”), Hangzhou branch of Bank of Shanghai Co., Ltd. (“**Shanghai Bank**”) and Hangzhou branch of China Merchants Bank Co., Ltd. (“**China Merchants Bank**”), respectively, in respect of the subscription of wealth management products, details of which please refer to the announcement of the Company dated 16 February 2017;
- (3) the agreement dated 24 January 2017 entered into between Lianhua Huashang and Wenzhou Bank in respect of the subscription of wealth management product, details of which please refer to the announcement of the Company dated 24 January 2017;
- (4) the agreement dated 13 January 2017 entered into by Lianhua Huashang and Bank of Hangzhou in respect of the subscription of wealth management products, details of which please refer to the announcements of the Company dated 13 January 2017;
- (5) the agreement dated 13 January 2017 entered into by Lianhua Huashang and CZB, respectively, in respect of the subscription of wealth management products, details of which please refer to the announcements of the Company dated 13 January 2017;
- (6) the agreements dated from 16 September 2015 to 24 March 2016 entered into by Lianhua Huashang with CZB, Wenzhou Bank, Bank of Hangzhou, Hangzhou branch of Shanghai Pudong Development Bank Co., Ltd., respectively, in respect of the subscription of wealth management products, details of which please refer to the announcement of the Company dated 5 October 2016;
- (7) the agreement dated 30 March 2016 entered into between Bailian Group and the Company in respect of a share swap transaction, details of which please refer to the announcement of the Company dated 30 March 2016;
- (8) the sales agency framework agreement dated 29 January 2016 entered into between the Company and Bailian Omni-channel E-Commerce Co., Ltd., details of which please refer to the announcement of the Company dated 29 January 2016; and

- (9) the financial services agreement dated 17 November 2015 entered into between the Company, Bailian Group and Bailian Group Finance Co., Ltd., details of which please refer to the announcement of the Company dated 17 November 2015. Such agreement and the transaction thereunder were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 28 December 2015.

L. GENERAL

- (a) The registered office of the Company is at Room 713, 7th Floor, No. 1258 Zhen Guang Road, Shanghai, the PRC.
- (b) The principal place of business of the Company in Hong Kong is at 26th to 27th Floors, Harcourt Building, 39 Gloucester Road, Wanchai, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Ltd. at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (d) The joint company secretary are Ms. Hu Li-ping, who is an accountant and secretary of the Board, and Mr. Mok Chung Kwan, Stephen, who is a solicitor as defined in the Legal Practitioners Ordinance.

M. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text, in the event of inconsistency.

NOTICE OF EGM

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(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 00980)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “EGM”) of Lianhua Supermarket Holdings Co., Ltd. (the “**Company**”) will be held at 10:00 a.m. on Monday, 17 July 2017 at the Conference Room, 13th Floor, Bailian Central Plaza, 1258 Zhen Guang Lu, Shanghai, the People’s Republic of China (the “**PRC**”), to consider and, if thought fit, pass the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. To approve, confirm and ratify the equity transfer agreement dated 2 May 2017 entered into between Bailian Group Co., Ltd. and Hangzhou Lianhua Huashang Group Co., Ltd. in respect of the acquisition of 100% equity interest in Yiwu City Life Supermarket Co., Ltd. by Hangzhou Lianhua Huashang Group Co., Ltd. to Bailian Group Co., Ltd. and all transactions contemplated thereunder and in connection therewith.
2. To approve, confirm and ratify the equity transfer agreement dated 2 May 2017 entered into between the Company and Bailian Group Co., Ltd. in respect of the disposal of 100% equity interest in Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. by the Company to Bailian Group Co., Ltd. and all transactions contemplated thereunder and in connection therewith.

By order of the Board,
Ye Yong-ming
Chairman

Shanghai, the PRC, 31 May 2017

NOTICE OF EGM

Notes:

1. The H Shares share register of the Company will be closed from Saturday, 17 June 2017 to Monday, 17 July 2017 (both days inclusive), during which no transfer of H Shares of the Company will be effected. Any holders of H Shares, whose names appear on the Company's Register of Members on Monday, 17 July 2017, are entitled to attend and vote at the EGM after completing the registration procedures for attending the meeting. In order to be entitled to attend and vote at the EGM, persons holding H Shares shall lodge share transfer documents and the relevant share certificates with the H Shares share registrar not later than 4:30 p.m. on Friday, 16 June 2017.

2. The address of the Company's share registrar for share transfer of H Shares in Hong Kong is as follow:

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

3. Holders of H Shares and domestic shares of the Company, who intend to attend the EGM, must complete the reply slips for attending the EGM and return them to the Office of the secretary to the board of directors of the Company not later than 20 days before the date of the EGM (i.e. before Tuesday, 27 June 2017). Details of the office of the secretary to the Board is as follow:

13th Floors
Bailian Central Plaza
1258 Zhen Guang Lu
Shanghai
The PRC
Tel: (8621) 5278 9576
Fax: (8621) 5279 7976

4. Each holder of H Shares who has the right to attend and vote at the EGM is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on his behalf at the EGM. A proxy of a shareholder of the Company who has appointed more than one proxy may only vote on a poll.
5. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorized in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified.
6. To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.
7. Each holder of domestic shares of nominal value of RMB1.00 each in the share capital of the Company which are subscribed for or credited as paid up in Renminbi (the "Domestic Shares") and of unlisted foreign shares of nominal value of RMB1.00 each in the share capital of the Company which are subscribed for or credited as paid up in foreign currency (the "Unlisted Foreign Shares") is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on its behalf at the EGM. Notes (5) to (6) also apply to holders of Domestic Shares and Unlisted Foreign Shares, except that the proxy form or other documents of authority must be delivered to the office of the secretary to the Board, the address of which is set out in Note (3) above, not less than 24 hours before the time for holding the EGM or any adjournment, thereof in order for such documents to be valid.

NOTICE OF EGM

8. Shareholders shall produce their identity documents when attending the meeting. If a proxy attends the EGM on behalf of a shareholder of the Company, he should produce his identity card and the instrument signed by the shareholder or his legal representative, which specifies the date of its issuance. If the legal representative of a legal person share shareholder attends the EGM, such legal representative should produce his identity card and valid documents evidencing his capacity as such legal representative. If a legal person share shareholder appoints a representative of the company other than its legal representative to attend the EGM, such representative should produce his identity card and an authorization instrument affixed with the seal of the legal person share shareholder and duly signed by its legal representative.
9. The EGM is expected to last for an hour. Shareholders of the Company attending the EGM are responsible for their own transportation and accommodation expenses.
10. Unless otherwise defined, capitalized terms used in this notice shall have the same meanings as defined in the circular of the Company dated 31 May 2017.

As at the date of this notice, the directors of the Company are:

Executive Director: *Qi Yue-hong*

Non-executive Directors: *Ye Yong-ming, Zhang Ye, Zhou Jing-bo,
Qian Jian-qiang, Zheng Xiao-yun, Wong Tak Hung*

*Independent Non-executive
Directors:* *Xia Da-wei, Lee Kwok Ming, Don, Sheng Yan, Zhang Jun*