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

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 AND RESIGNATION AND APPOINTMENT OF DIRECTOR AND MEMBER OF STRATEGIC COMMITTEE

FINANCIAL HIGHLIGHTS

As at 30 June 2017, the Group recorded the following:

- Turnover amounted to approximately RMB13,238 million, representing a decrease of approximately 6.0% year on year. The same store sales of the Group decreased by approximately 3.80% year on year, in which the hypermarket segment decreased by approximately 3.67%, the supermarket segment decreased by approximately 3.60% and the convenience store segment decrease by approximately 5.71%.

- Gross profit amounted to approximately RMB2,006 million, representing a decrease of 0.8% year on year. Gross profit margin was approximately 15.15%. Consolidated income margin was approximately 25.28%.

- Operating profit amounted to approximately RMB165 million and operating profit margin was 1.24%. Net loss attributable to shareholders of the Company amounted to approximately RMB4.82 million. Basic loss per share amounted to RMB0.004.

- The total number of outlets reached 3,595. During the period under review, the Group opened 115 new outlets, including, 2 newly-opened hypermarket, 63 newly-opened supermarkets (including 13 directly operated stores and 50 franchised stores), 50 newly-opened convenience stores (including 17 directly operated stores and 33 franchised stores). The Group maintained its No. 1 position in number of outlets and further solidified outlet quality.

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

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

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

Note 4: Operating profit margin = (Profit before tax – Share of profits of associates)/Turnover

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

		Six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	NOTES	***RMB'000***	*RMB'000*
Turnover	*2&3*	**13,237,885**	14,083,485
Cost of sales		**(11,232,272)**	(12,062,668)
Gross profit		**2,005,613**	2,020,817
Other revenue	*2&3*	**1,054,150**	1,153,741
Other income and gains	*4*	**286,761**	230,094
Selling and distribution expenses		**(2,750,690)**	(2,904,896)
Administrative expenses		**(360,748)**	(312,841)
Other operating expenses		**(70,439)**	(13,861)
Share of profits of associates		**19,781**	12,423
Finance costs		**(62)**	(61)
Profit before taxation	*5*	**184,366**	185,416
Income tax expense	*6*	**(107,877)**	(110,856)
Profit for the period		**76,489**	74,560
Other comprehensive income (expenses)			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain (loss) on available-for-sale financial assets		**20,309**	(1,863)
Income tax relating to items that may be reclassified subsequently		**(5,077)**	466
Share of other comprehensive income of associates		**–**	50
Other comprehensive income (expense) for the period, net of income tax		**15,232**	(1,347)
Total comprehensive income for the period		**91,721**	73,213
(Loss) Profit for the period attribute to:			
Owners of the Company		**(4,820)**	2,944
Non-controlling interests		**81,309**	71,616
		76,489	74,560
Total comprehensive income for the period attributable to:			
Owners of the Company		**8,977**	1,597
Non-controlling interests		**82,744**	71,616
		91,721	73,213
(Loss) earnings per share – basic and diluted	*7*	**RMB(0.004)**	RMB0.003

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2016

	NOTES	**30 June 2017 (Unaudited) *RMB'000***	31 December 2016 (Audited) *RMB'000*
Non-current assets			
Property, plant and equipment		**2,975,642**	3,082,366
Construction in progress		**258,122**	221,066
Land use rights		**322,474**	329,348
Intangible assets		**199,997**	198,783
Interests in associates		**520,574**	500,793
Available-for-sale financial assets		**94,276**	73,967
Term deposits			
– restricted		**843,000**	270,000
– unrestricted		**459,000**	1,185,000
Prepaid rental		**33,580**	33,190
Deferred tax assets		**71,119**	68,222
Other non-current assets		**15,022**	15,751
		5,792,806	5,978,486
Current assets			
Inventories		**2,257,119**	3,065,232
Trade receivables	*8*	**130,272**	82,633
Deposits, prepayments and other receivables		**734,281**	904,210
Amounts due from fellow subsidiaries		**23,751**	15,768
Amounts due from associates		**143**	58
VAT refundable		**360,747**	203,980
Financial assets at fair value through profit or loss		**2,342,368**	1,977,894
Term deposits			
– restricted		**470,000**	1,101,000
– unrestricted		**1,484,000**	952,851
Bank balances and cash		**2,837,171**	3,175,900
		10,639,852	11,479,526
Total assets		**16,432,658**	17,458,012

(Continued)

	NOTES	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Capital and reserves			
Share capital		**1,119,600**	1,119,600
Reserves		**1,352,214**	1,343,237
Equity attributable to owners of the Company		**2,471,814**	2,462,837
Non-controlling interests		**259,916**	291,042
Total equity		**2,731,730**	2,753,879
Non-current liability			
Deferred tax liabilities		**62,643**	86,455
Current liabilities			
Trade payables	9	**3,447,698**	4,117,867
Other payables and accruals		**2,284,511**	2,365,021
Coupon liabilities		**7,656,526**	7,941,014
Deferred income		**44,424**	23,008
Amounts due to fellow subsidiaries		**65,101**	62,708
Amounts due to associates		**850**	1,417
Bank borrowing		**2,000**	2,000
Tax payable		**137,175**	104,643
		13,638,285	14,617,678
Total liabilities		**13,700,928**	14,704,133
Total equity and liabilities		**16,432,658**	17,458,012
Net current liabilities		**(2,998,433)**	(3,138,152)
Total assets less current liabilities		**2,794,373**	2,840,334

1. PRINCIPAL ACTIVITIES

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

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

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

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

2. TURNOVER AND OTHER REVENUE

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Turnover		
Sales of merchandises	**13,237,885**	14,083,485
Other revenue		
Income from suppliers	**699,055**	803,041
Gross rental income from leasing of shop premises	**331,375**	326,019
Royalty income from franchised stores	**21,515**	21,595
Commission income from coupon redemption at other retailers	**2,205**	3,086
	1,054,150	1,153,741
Total revenue	**14,292,035**	15,237,226

3. SEGMENT INFORMATION

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

The reportable operating segments of the Group are as follows:

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

There are no significant sales or other transactions between the segments. Other operations of the Group principally comprise sales of merchandise to wholesalers, provision of logistic services for wholesale business, and sales through internet. Other operations of the Group are aggregated when the information is reported to the Group's general manager.

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

	Segment revenue *(note)*		**Segment results**	
	Six months ended 30 June		**Six months ended 30 June**	
	2017	2016	**2017**	2016
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hypermarkets	**8,886,810**	9,578,708	**112,344**	77,475
Supermarkets	**4,364,797**	4,572,238	**137,929**	151,158
Convenience stores	**993,317**	1,063,857	**(63,461)**	(31,914)
Other operations	**47,111**	22,423	**10,579**	1,007
	14,292,035	15,237,226	**197,391**	197,726

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

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Segment results	**197,391**	197,726
Unallocated interest income	**35,019**	31,221
Unallocated income	**–**	2,809
Unallocated expenses	**(67,825)**	(58,763)
Share of profits of associates	**19,781**	12,423
Profit before taxation	**184,366**	185,416

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

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

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

4. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest income on bank balances and term deposits	**97,067**	121,037
Government subsidies *(Note i)*	**44,879**	28,240
Change in fair value of financial assets at FVTPL	**48,490**	43,308
Gain on disposal of an associate *(Note ii)*	**–**	2,809
Dividend from unlisted equity investments	**–**	11
Gain on redemption of available-for-sale financial assets	**–**	509
Gain on disposal of property, plant and equipment	**3,580**	–
Salvage sales	**13,703**	13,849
Early termination of an operating lease contract by lessor *(Note iii)*	**54,830**	–
Others	**24,212**	20,331
Total	**286,761**	230,094

Notes:

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

(ii) During the prior interim period, the Group completed the disposed of its 43% equity interest in Lianhua Mei Ri Ling Commercial (Shanghai) Co., Ltd. ("Lianhua Mei Ri Ling") to the existing shareholders Lianhua Mei Ri Ling for a cash consideration of RMB8,476,000. On the date of disposal, the Group's interest in Lianhua Mei Ri Ling was amounted to RMB5,667,000, resulting in a gain on disposal of an associate of RMB2,809,000 credited to profit or loss.

(iii) On 28 March 2017, a subsidiary of the Group entered into an agreement with its lessor on early termination of the lease contract at the request of lessor. According to the agreement, the lessor would pay RMB54,830,000 as compensation, which is based on the valuation report from an independent valuer. The compensation has been received during the period.

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
After charging:		
Amortisation and depreciation		
Amortisation of other non-current assets	**730**	730
Amortisation of intangible assets – software (included in selling and distribution expenses/administrative expense) *(Note 10)*	**5,387**	4,977
Amortisation of land use rights *(Note 10)*	**4,375**	3,116
Depreciation of property, plant and equipment *(Note 10)*	**191,775**	207,016
	202,267	215,839
Cost of inventories recognised as an expense	**11,232,272**	12,062,668
Minimum lease payments in respect of rented premises	**783,875**	861,918
Staff costs	**1,435,785**	1,461,976
After crediting:		
Share of profits of associates		
Share of profit before taxation	**20,906**	14,654
Less: Share of taxation	**1,125**	2,231
	19,781	12,423

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current tax on PRC Enterprise Income Tax ("EIT")	**139,663**	116,560
Deferred tax credit	**(31,786)**	(5,704)
	107,877	110,856

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

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%.

As of 30 June 2017, the Group had unused tax losses for which no deferred tax asset had been recognised due to the unpredictability of future profit streams.

7. EARNINGS PER SHARE – BASIC AND DILUTED

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
(Loss) Profit for the period attributable to owners of the Company	**(4,820)**	2,944

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**1,119,600,000**	1,119,600,000

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

8. TRADE RECEIVABLES

The aging analysis of the trade receivables net of allowance for doubtful debts at the end of the reporting period, arising principally from sales of merchandise to franchised stores and wholesalers with credit terms ranging from 30 to 60 days (31 December 2016: 30 to 60 days), is as follows:

	30 June 2017	31 December 2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Within 30 days	**127,663**	77,159
31 – 60 days	**1,781**	1,981
61 – 90 days	**11**	290
91 days – one year	**817**	3,203
	130,272	82,633

9. TRADE PAYABLES

The aging analysis of trade payables at the end of the reporting period, arising mainly from purchase of merchandise with credit terms ranging from 30 to 60 days (31 December 2016: 30 to 60 days), is as follows:

	30 June 2017	31 December 2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Within 30 days	**1,358,272**	2,065,618
31 – 60 days	**706,520**	757,589
61 – 90 days	**317,905**	367,604
91 days – one year	**1,065,001**	927,056
	3,447,698	4,117,867

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

Based on the data from the National Bureau of Statistics of the People's Republic of China, in the first half of 2017, China's gross domestic product (GDP) achieved a year-on-year growth of 6.9%, representing an increase of 0.2 percentage point compared to the same period of last year. China's economy operated within a reasonable range, which had seen a stable performance with a good momentum for growth. The stability, coordination and sustainability of the economic development were strengthened, and the operating efficiency of real economic enterprises rebounded significantly. However, judging from data from various sources, the foundation for short-term economic recovery is still not solid enough.

Based on the data from the National bureau of Statistics of the People's Republic of China, in the first half of 2017, total retail sales of consumer goods nationwide had a nominal year-on-year growth of 10.4%, representing an increase of 0.1 percentage point compared to the same period of last year, of which the retail sales of consumer goods of enterprises above a designated size had a year-on-year growth of 8.7%, representing an increase of 2.2 percentage points compared to the same period of last year.

Due to the steady development of the economy, the growth of residents' income increased. Based on the data from the National Bureau of Statistics of the People's Republic of China, nationwide disposable income per capita had an actual growth of 7.3% in the first half of 2017, representing a year-on-year increase of 0.8 percentage point, and it was 0.4 percentage point higher than the GDP growth rate compared to the same period of last year. In the first half of 2017, nationwide consumption expenditure per capita had a real increase of 6.1%, representing a decrease of 0.4 percentage point compared to the same period last year. As shown in the "Interim Report of Analyses and Projections on the Macroeconomic Situation of China" published by Shanghai University of Finance and Economics on 6 July 2017, the expanding household debts had become heavy burdens on the residents. For young families, housing mortgages had become the main cause for their liquidity deterioration, and the household liquidity tightening had brought forth important impacts on the real economy.

In the first half of 2017, the sales situation of large-scale retail enterprises improved significantly and the physical retailing sales showed signs of structural recovery. The deep integration of online and offline business had become a norm of the physical retail sector; the cross-sector development of multiple business segments had become the mainstream, and the information technology had taken the lead in driving the development. Based on the monitoring data from the China National Commercial Information Centre, the retail sales of the 50 key retail enterprises in the first half of 2017 had a year-on-year cumulative growth of 2.8%, representing an increase of 5.9 percentage points compared to the same period of last year. The buying behavior of major young consumer groups was shifting continuously to online platforms, and the growth of online retail sales also accelerated. Based on the data from the National Bureau of Statistics of the People's Republic of China, in the first half of 2017, online retail sales had a year-on-year growth of 33.4%, representing an increase of 5.2 percentage points when compared with 28.2% in the corresponding period of last year.

To keep up the consumption upgrades and increasingly personalized demands of consumers, China's physical retail sector sped up explorative practices in new retail model during the first half of 2017. With the support of data and technology, and through integration of online and offline operation, speedy distribution, provision of omni-channel membership services, reduction of customers acquisition cost, enhancement of the supply of commodities supplied and operation efficiency, providing consumers with a more efficient, convenient and interesting consumption experience, the retail sector attracted increasing customer flows and expanded sales.

Financial Review

Turnover and consolidated income

During the period under review, the Group's turnover was approximately RMB13,238 million, decreased by RMB845 million when comparing with the same period of last year (a decrease of approximately 6.0% year over year). It was mainly due to: 1) a decrease in sales of approximately RMB331 million arising from shutting down stores; and 2) a decrease in same store sales by 3.80% year over year as a result of online sales competition and a decrease in the sales retail area of the transformed stores. Despite the Group had made continuous efforts in optimizing the supply chain resources and advancing the integration of omni-channel online and offline sales business, however, under the situations that domestic retail sales increased by 10.4%, and on-line sales still had a two-digit growth, the same store sales, which were mainly offline sales, continued to show a downward trend.

During the period under review, affected by the year-on-year drop of turnover, the Group's gross profit amounted to approximately RMB2,006 million, representing a decrease of approximately 0.8%, while the gross margin increased by approximately 0.80 percentage point year on year.

During the period under review, consolidated income of the Group was approximately RMB3,347 million, representing a decrease of approximately 1.7% year over year. The decrease was mainly attributable to decrease in supplier channel income as a result of decrease in sales.

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

Operating cost and net profit

During the period under review, the total distribution cost and administrative expenses of the Group amounted to approximately RMB3,111,438 thousand, decreased by approximately 3.3% or RMB106,299 thousand year on year. The decrease was mainly attributable to: (1) the headquarters and Shanghai operation center adjusted organization structures to reduce management hierarchy and achieved a good result, which led to a decrease in labor cost of approximately RMB26,191 thousand; (2) the rental expense decreased by approximately RMB44,225 thousand year over year due to store closures; and (3) the Group's further reduction efforts in energy consumption which led to a decrease in water and electricity charges by approximately RMB25,825 thousand.

During the period under review, the Group recorded an operating profit of approximately RMB164,585 thousand, with a year-on-year decrease of approximately 4.9% and an operating profit margin is 1.24%, roughly remained flat over the same period of last year of 1.23%.

During the period under review, associates' revenue attributable to the Group was RMB19,781 thousand, with a year-on-year growth of 59.2%. As of 30 June 2017, Shanghai Carhua Supermarket Company Limited ("Shanghai Carhua") recorded an operating profit of approximately RMB24,906 thousand, with a year-on-year growth of 35.3%, and had a total of 30 outlets.

During the period under review, the tax expenses of the Group was approximately RMB108 million, representing a year-on-year decrease of approximately 2.7%. The Group undertook various initiatives to minimize the impact of the latest taxation policy on enterprise, pay close attention to the government's financial support policy and sought to obtain financial support funds from various local governments in order to further lower the tax rate of the Group.

During the period under review, the Group recorded a net profit of approximately RMB76,489 thousand, representing an increase of 2.6% year over year. During the period under review, the Group recorded a net loss attributable to the shareholders of approximately RMB4,820 thousand. The turning point for turning the profit attributable to shareholders from profit to loss was mainly because the profit of the Group mainly came from its non-wholly-owned subsidiaries in Zhejiang and Guangxi province, however its wholly-owned subsidiaries outside Shanghai suffered bigger losses. On one hand, the Group promoted the integration of online and offline retail sales channels according to its strategic plan, and on the other hand, the Group, based on organic growth, reduced costs and controlled expenses. During the period under review, the Group reduced expenditure by approximately RMB106,299 thousand. During the period under review, the Group's net profit margin attributable to the shareholders was -0.04%. Based on the 11,196 million shares issued by the Group, the basic loss per share was approximately RMB0.004.

Cash flow

During the period under review, the net cash outflow of the Group was RMB338,729 thousand. It was mainly due to the increase in term deposit and purchase of financial assets at fair value through profit or loss. Cash and various balance at bank as of the end of the period was RMB6,093,171 thousand, representing a decrease of RMB592 million compared with the beginning of the year. It was mainly due to decrease in debt certificates and increase in purchase of financial assets at fair value through profit or loss.

As of 30 June 2017, the accounts payable turnover period of the Group was 62 days and the inventory turnover period was approximately 42 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 30 June 2017, there were not arbitrage financial instruments in issue.

Retail businesses operations

Hypermarkets

During the period under review, the hypermarket segment of the Group recorded a turnover of approximately RMB8,185,786 thousand, accounting for approximately 61.8% of the Group's turnover, representing a decrease of approximately 7.1% year over year. Same store sales had a year-on-year decrease of 3.67%. The hypermarket segment was focused on structural optimization of its commodity categories to attract customers and advancing the integration of the online and offline business to increase the sales. The hypermarket segment of the Group recorded a gross profit of approximately RMB1,191,672 thousand. The gross profit margin increased by 0.83 percentage point year over year to 14.56%. The consolidated income margin increased by 1.72 percentage points year over year to 25.29%, which was mainly attributable to the effect of the decrease in sales on the operating profit mitigated by the gross profit margin growth. This segment recorded an operating profit of approximately RMB112,344 thousand, representing a year-on-year increase of approximately 45.0%. The operating profit margin increased by 0.49 percentage point year over year to 1.37%. This was mainly due to: 1) the transformed stores optimized the profitability structures and their profitability was improved; meanwhile, the transformed stores in Shanghai recorded a decrease in operating loss of approximately RMB22,950 thousand compared to that of last year; 2) organic growth through controlling expenses, of which, water and electricity charges decreased by approximately RMB16,872 thousand year over year; 3) initial success was achieved with respect to the merchants solicitation business, and income increased by approximately RMB11,723 thousand year over year; and 4) streamlined product inventory system, improved the quality of inventories and sped up the turnover of the products.

As of 30 June	**2017**	2016
Gross Profit Margin (%)	**14.56**	13.73
Consolidated Income Margin (%)	**25.29**	23.57
Operating Profit Margin (%)	**1.37**	0.88

Supermarkets

During the period under review, the turnover of the Group's supermarket segment reached approximately RMB4,061,937 thousand with a year-on-year decrease of approximately 4.4%, accounting for approximately 30.7% of the Group's turnover. Same store sales decreased by 3.60%. The gross profit of the supermarket segment was approximately RMB647,825 thousand, with a year-on-year increase of approximately 0.9%. The gross profit margin was 15.95%, with a year-on-year increase of 0.83 percentage point, which was the main reason for the increase in gross profit. The consolidated income margin of the supermarket segment was 24.66%, with a year-on-year decrease of 0.19 percentage point. The operating profit of the segment was approximately RMB137,929 thousand. The operating profit margin was 3.40%. During the period under review, the supermarket segment followed the Group's strategic plans to: 1) expedited the store transformation and updated to increase profitability; 2) utilize the advantages of outlets to promote integration of online and offline business to boost sales growth, of which, the "Bailian To Home" business recorded a year-on-year growth; and 3) strengthened fresh produce, optimized the structure of product categories, improved the marketing and sales promoting approach orders, led to an improvement in consolidated results.

As of 30 June	**2017**	2016
Gross Profit Margin (%)	**15.95**	15.12
Consolidated Income Margin (%)	**24.66**	24.85
Operating Profit Margin (%)	**3.40**	3.56

Convenience Stores

During the period under review, the turnover of the Group's convenience store segment recorded a year-on-year decrease of approximately 6.2% to RMB945,756 thousand, which accounted for approximately 7.1% of the Group's turnover. In particular, same store sales had a year-on-year decrease of 5.71%. During the period under review, the convenience store segment reinforced the reform of existing stores, increased investment in the facilities of convenience services, vigorously promoted core commodities and core services, and utilized the advantages of outlets to promote value-added services. The Group's convenience store segment recorded a gross profit of approximately RMB160,129 thousand, with a year-on-year decrease of RMB3,243 thousand. The gross profit margin increased by 0.73 percentage point year over year to 16.93%. The consolidated income margin increased by 0.70 percentage point year over year to 23.35%. Due to rigid growth of labor cost and high rental cost, the segment witnessed a decrease in revenue and an increased in cost and expenditure, and recorded an operating loss of approximately RMB63,461 thousand. Its operating profitability remained at a relatively low level.

As of 30 June	**2017**	2016
Gross Profit Margin (%)	**16.93**	16.20
Consolidated Income Margin (%)	**23.35**	22.65
Operating Profit Margin (%)	**-6.71**	-3.17

Financial results analysis

	Six months ended 30 June *RMB million*		
	2017	2016	Year-on-year change *(%)*
Turnover	**13,238**	14,083	-6.0
Gross profit	**2,006**	2,021	-0.8
Consolidated income	**3,347**	3,405	-1.7
Operating profit	**165**	173	-4.9
Taxation	**108**	111	-2.7
Profit attributable to shareholders of the Company for the period	**-5**	3	-263.7
Basic earnings per share (RMB)	**-0.004**	0.003	-263.7
Interim dividend per share (RMB)	**–**	–	N/A

Capital structure

As at 30 June 2017, the Group's cash equivalents were mainly held in Renminbi. Except for the bank borrowings of RMB2,000 thousand by a non-wholly-owned subsidiary of the Group, there were no other bank borrowings.

During the period under review, shareholders' equity of the Group decreased from approximately RMB2,753,879 thousand to approximately RMB2,731,730 thousand, which was mainly due to the profit for the period of approximately RMB76,489 thousand, dividend payment to non-controlling interests amounting to approximately RMB113,870 thousand.

Details of the Group's pledged assets

As of 30 June 2017, the Group did not pledge any assets.

Exposure to foreign exchange risks

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

Share capital

As of 30 June 2017, the issued share capital of the Company was as follows:

Class of shares	**Number of shares in issue**	**Percentage**
Domestic shares	715,397,400	63.90
Unlisted foreign shares	31,602,600	2.82
H shares	372,600,000	33.28
Total	1,119,600,000	100.00

Contingent liabilities

As of 30 June 2017, the Group did not have any material contingent liabilities.

Outlet Development

During the period under review, the Group continued to adhere to its quality-focused development strategy. On one hand, the Group actively established new outlets in key development areas to consolidate its market position. In the first half of 2017, the Group opened 115 new stores, of which 83 were new franchised stores, and 32 new directly operated stores. Among the new stores, 61 stores were located in the Yangtze River Delta, accounting for 53.0% thereof. On the other hand, 138 loss-making stores were shut down so as to adapt to the changes in the market environment and improve the quality of the overall physical network of stores. Among the closed stores, 39 directly operated stores were closed down with a net reduction of 7 stores, and 99 franchised stores were closed down with a net reduction of 16 stores. The main reasons for their closures were the expiration of their tenancy agreements and/or operational difficulties.

During the period under review, the Group improved the operation quality and economic benefits of hypermarkets by means of making adjustment, optimization upgrading as well as sorting out those stores with comparatively bigger losses. During the period under review, two hypermarkets were opened, while three were closed.

During the period under review, the Group focused on transforming and upgrading the operation of the directly-operated supermarket. The franchised supermarkets focused primarily on accelerating the construction of the supporting system, and committed to the sustainable business development. During the period under review, 63 new supermarkets were opened, including 13 directly operated stores and 50 franchised stores. The supermarket business continued to take the lead in the markets of Shanghai, Hangzhou and Liuzhou.

During the period under review, the convenience store segment focused mainly on the adjustment of the outlet structure, and optimization of commodity structure, continually extended the sales of fresh food, imported commodities and branded commodities, accelerated introduction of new products, and adopted innovative marketing. During the period under review, 50 new convenience stores were opened, including 17 directly operated stores and 33 franchised stores.

As of 30 June 2017, the Group has owned 3,595 stores in total, a decrease of 23 outlets compared to the end of 2016. Approximately 81.6% of the Group's stores are located in eastern China.

	Hypermarkets	**Supermarkets**	**Convenience Stores**	**Total**
Direct operation	151	563	805	1,519
Franchised operation	–	1,392	684	2,076
Total	151	1,955	1,489	3,595

Note: The data above-mentioned were as of 30 June 2017.

People-oriented Concept

During the period under review, the Group continued to adhere to its people-oriented concept, and adopt innovative incentives to strengthen the capabilities of its organization. The Group implemented vigorously the reform of the store incentive mechanism, conducted pilot trials of a store partner system in hypermarkets to promote the stores to carry out their business activities with profits as a core target, and promoted store manager and store assistant joint-contracting models in supermarkets to incentivize stores to decrease costs and increase profit, the effects of which were remarkable.

During the period under review, the Group strengthened its evaluation and incentives for its operation and management departments, conducted detailed analysis on personnel expenses, input and output against the key performance indicators for each department, and simulated profit for evaluation. In addition, the overall profit target were set for each department. The logistics department was also included in the evaluation, which shared benefits with other departments. In the benefit-sharing design, the front-line staff's income were linked to their performance. The reform of the evaluation method stimulated the enthusiasm of every employee, through which satisfactory results were achieved.

During the period under review, the Group focused on optimizing the allocation of human resources, and giving full play to the initiative of its employees. With its strategies as a guide, the Group improved both of its evaluation system and market-oriented professional selection mechanism to select young, excellent professionals with outstanding performances and development potentials. The Group also developed the evaluation criteria for professionals of different types at different levels for different jobs. The Group perfected its two-dimensional "Performance plus ability" evaluation system, under which evaluations were conducted reasonably and scientifically according to job values, work performances and work attitudes so as to effectively stimulate its personnel's initiatives, and strengthen the training of its professionals. Around its core business team, the Group's "Hundred-Professional" Plan was implemented for the development of the Lianhua professional team, so as to create an innovative management team, build a professional team with strong competitiveness, and develop a competitive professional team, and a team of store managers with high qualifications and adequate innovative spirits. In addition, the Group enhanced its talent building, through horizontal, inter-platform internal communication.

Innovative Reform

During the period under review, guided by customers' demands, the Group continued to focus on traditional poster marketing and differentiated marketing, carefully planned and organized festival marketing and theme marketing, and other large-scale marketing and promoting activities. The Group also actively highlighted cost-effective commodity sources to enhance consumers' loyalty and satisfaction. For hypermarkets, a variety of discount-day and theme marketing and promotional activities were carried out actively. For supermarkets, with promoting level 1 DM commodities as starting point, through strengthening promotion and exhibition of, and stocking up on major commodities, the sales volume of experienced growth. For convenience stores, festival seasons were used to organize various marketing and promotional activities. Inventories were stocked up in advance to ensure successful sales on holidays and festivals.

During the period under review, the Group steadily upgraded its stores. For hypermarkets, adjustment and upgrades were carried out. For hypermarkets with growth potentials, well-known brands were introduced, new and fashionable baby and children zones, personalized children's entertainment zones, premium imported foods zones and premium wine and alcohol zones were set up. At the same time, customer routes were re-designed, and props and equipment for fresh produce business were upgraded. Community service functions were also enhanced. To improve the operating conditions of stores with losses, various measures were adopted, such as optimizing operating structures through narrowing self-operated spaces and extending spaces of merchants solicitation, and through optimizing resource allocations, significant effects were achieved in reduction costs. As for supermarkets, through enhancing fresh produce operations, and introducing brand owners for cooperation, efforts were put into building "community kitchens", thus improving the quality of the fresh food business, as well as boosting the ability to attract new customers. Through upgrading brands and introducing new suppliers, commodity categories and varieties were improved, and through innovating System VI, a new brand image was established, and operating costs were effectively controlled by rational allocation of resources.

During the period under review, the Group actively accelerated the integration of the online and offline business operations to build the omni-channel. Based on its physical stores, the Group actively expanded its online channels by using e-commerce technology, focusing on the development of the "direct delivery to home" business, as well as the concept of "Place orders on the internet, and take commodities away from physical stores". The Group actively look for breakthrough points of online fresh food operation. Fresh food suppliers was introduced, new SKUs were expanded, and quantities, channels and exhibition of online commodities were optimized. In addition, operation supporting systems were improved, and business promotion approaches were innovated. Online sales volume of the "Handpicked Commodity Basket was promoted. In addition, specific criteria were set for evaluation and motivation of "To home" business. The Group actively and effectively carried out activities to expand memberships, and accelerated connecting of physical stores in the Zhejiang province with the internet, in order to realize rapid growth in both the number of orders and sales volume of the "Bailian To Home" business.

During the period under review, the Group promoted innovative development. To better cater to the trend of consumption upgrading and meet the demands of young consumer groups, the Group took the lead in establishing the Green & Health store, a new operation format, in Hangzhou. The Green & Health store promotes the concept of healthy lifestyle through selling healthy and quality food and packaged products The Group made full use of the existing merchandise resources and newly introduced supplier resources, prepared and sold foods on the spot, explored processes of on the spot cooking, and developed one-stop services from farms to dining tables, so as to combine fresh food processing and dining on the spot, thus enhancing the quality of supermarket and customers' experience.

Refinement and Pragmatism

During the period under review, the Group proactively implemented supply chain development, developed compliance bases, optimized existing bases, sped up construction of local bases, established long-term stable supply relationships with the bases, and optimized the base structures to build a stable base network of supplying high quality fresh foods. Regional companies also sped up their supply chain development. On one hand, they procured jointly with the procurement department of the headquarters to strive for preferential negotiation conditions; on the other hand, they proactively built localized procurement chain to expand local procurement scales, sped up introduction of new products and commodities with local characteristics, and constructed fresh food distribution centers to expand and strengthen the local fresh business.

During the period under review, the Group energetically optimized its structure to enhance its commodity management level. This included implementing innovative modes to cooperate with branded suppliers, pursuing the Joint Business Plan (JBP) with nationwide suppliers, reasonably planning shelf resources, implementing new product introduction and introducing marketing plans to raise the rate of new product contributions to the Group's operation performance. The Group expanded sales of individual brands' pivotal line of products to gain stable commodity benefits, and also expedited the transformation of its own brand operation from OEM to self-development. With quality lives as a guide, the Group optimized the division of "Superior life" so as to achieve differentiated competitive advantages and expand the proportion of branded sales. For convenience stores, with core commodity categories of fresh foods, imported and branded commodities etc. as a handle, the Group enhanced its abilities to develop new commodities, integrated its purchase channels, raised its distribution efficiency, and expanded the core category sales proportion, and its overall contributions to the total gains.

During the period under review, the Group endeavored to raise the standard of foundation management. The administrative levels were reduced, and the business model in the Shanghai region was flattened. The Group also comprehensively sorted out, adjusted and optimized system processes, straightened out the responsibility relationships between the operation centers and headquarters to further clarify the relationships of rights, responsibilities and benefits. To consolidate the reform results, the Group unified data standards and data sources to initiate the trial run of the store sales reporting online, and it also paid close attention to lifting the basic information management level for better business services. The Group attached great importance to safety work and strictly safeguarded food safety. The Group efforts in checking new commodities and on-the-spot inspections of suppliers were stepped up, which were effectively in preventing substandard goods from being sold. The Group made great efforts to strengthen fire safety, increased security checks, and identified potential risks. Follow-up actions and rectification measures were taken.

Turning Loss to Gain

During the period under review, the Group made great efforts to optimize its positions, and reasonably allocated its human resources to strictly control its labor costs. The Group strictly controlled, streamlined and improved efficiency of its headquarters. For hypermarkets, its architecture was re-evaluated and adjusted, screening of stores' personnel was completed so that labor costs were cut down year on year. For supermarket, an on-the-spot employment mode was actively explored and innovated. For certain jobs of stores, whose responsibilities are simple with high repeatability and substitutability, the Group trialed an on-hour basic part-time employment system on hour basis so as to achieve the objectives of lowering labor costs and raising labor efficiency.

During the period under review, the Group continued to control fees and reduce costs, and commodity losses were lessened through better management. Lease costs were cut down through negotiations, while the stock costs were lowered through accelerating commodity circulation. Investment costs were controlled through careful plans and calculations, while operating expenditures were decreased at each specific procedure and IT development costs were reduced by combing and optimizing the current information management system.

Employment, Training and Development

As of 30 June 2017, the Group had a total of 42,067 employees, a decrease of 1,966 employees during the period under review. Total employment expenses amounted to approximately RMB1,435,785 thousand.

During the period under review, the Group continued to push forward and improve reforms on the incentive mechanism to fully motivate employees' enthusiasm and creativity, thus promoting sales and enhancing efficiency.

During the period under review, the Group focused on the implementation of establishing a "learning organization". The setup of the company's training organization, division of functions and responsibilities, refinement of institutional and other line integration work were completed. The training level of the senior management, professional at management level and front-line store employees were determined according to the new enterprise organization structure. According to the class-hour evaluation system, the number of training hour per year required at each level was specified, and evaluation results were regarded as one of the important bases for deciding promotion, transfer, and contract renewal, etc. of the cadres and staff. In addition, the training courses for each level, which had to meet the needs of different jobs, were laid down. A curriculum system was being developed step by step. The Group also produced a whole-year training plan catered for the senior management, commodity procurement department, administrative office and frontline staff etc. The Group had set down an annual plan for rotational training in line with practical job related needs. Training courses for professionals covered new theories, new knowledge and new technology.

Strategy and Planning

In the context of deepening the implementation of the supply-side structural reform and accelerating the execution of the innovation-driven development strategy, China's economic operation will continue to have positive change which will increase in the second half of 2017. And the Chinese economy's development momentum, which is in positive progress while maintaining stable performance, will be further consolidated and expanded. As predicted by many institutions, the Chinese economy will continue maintain a steady growth in the second half of this year, and annual economic growth will be approximately 6.8%. Accordingly, the Group believes that the consumer market situation in the second half of 2017 will be similar to the first half this year, and economic growth will be within a reasonable range.

Thus, in the second half of 2017, while continuing to focus on its working policy of "people-oriented concept, innovative reform, refinement and pragmatism, and turning loss to gain", with customers' demands as a guide, and with controlling upstream resources, strengthening channels and broadening channels as the growth points, the Group will promote the upgrade of brands, merchandise categories and channels, expand sales and profits, cut costs and increase efficiency, and strive to achieve the four objectives of promoting performance, customer satisfaction, employee confidence and its brand, and implement all key tasks.

In the second half of 2017, the Group will continue to adhere to its people-oriented concept, innovate its incentive mode to enhance its organizational capacity, and constantly improve its remuneration incentive system. The remuneration structural system of the headquarters will be redesigned in the sequence of management support, business support and operations. With its performance-oriented culture as a guide, the Group will strive to promote the performance evaluations in three dimensions, which covers all levels of the Group, and set up a sharing mechanism of joint creating, bearing and sharing to promote employee enthusiasm and efficiency. With team building as a guide, the Group will optimize its human resource management, foster its professionals through introduction from outside in combination with self-cultivation, and develop the professional evaluation and selection criteria so as to enhance the overall qualities and skills of its personnel. With creating an innovative team and a learning organization as a focus, the Group will strengthen its team building process, improve the evaluation system of "performance plus ability" for scientific evaluation and effective incentives and enhance its team's competitiveness and capability.

In the second half of 2017, with expanding sales as its main line of economic work, the Group will continue to actively innovate its marketing approaches, enhance exchanges with customers, implement multi-dimension marketing by means of combining the traditional media and emerging media, and promoting online and offline marketing, in order to disseminate the business philosophy of "by your side and at your fingertips". Guided by customers' demands, the Group continue to conduct targeted traditional poster marketing and differentiated marketing. The Group shall increase community marketing, with serving the community groups within its business areas as a guide, and with store group(s) as a unit, the Group will go deep into the communities to strengthen interactions with the community residents. The Group will actively plan and organize targeted marketing activities to enhance consumers' loyalty and cohesion, and meticulously plan and carefully organize festival/holiday marketing, theme marketing and other large-sized promotional activities, so as to give full play to synergies. The Group will conduct membership marketing to boost consumers' loyalty and satisfaction.

In the second half of 2017, the Group will continue to implement upgrading and optimization of its stores in accordance with its requirements of accurate positioning, structural optimization, customers' experience upgrading, service improvement and performance enhancement. The Group will track the status of the stores retrofitted, regularly evaluate the results of upgrading and retrofitting, during the process of which problems will be addressed in a timely manner. The Group will also, on the foundation of assuring the quality of store upgrading and retrofitting, speed up its exploration of an upgraded version of stores to facilitate store transformation and upgrading. At the same time, the Group will organize and allocate its important resources, meticulously make an overall plan for coordinated arrangements, pushing forward the transformation of both hypermarkets and supermarkets so as to raise the ratio of output to input, and ensure the sustainability of the performance enhancement of the transformed stores. Also, the Group will, through innovating service functions, integrating market chains and operating the fresh food category business well, accelerate the transformation of convenience stores.

In the second half of 2017, the Group will actively innovate its value chain, strengthen its supply chains to improve its procurement quality, continue to expand direct procurement, and optimize commodity structure to heighten commodity management level. The Group will expand its cross-border direct procurement channels, grow the imported commodity business, and strengthen cooperation with KeyAccount(KA) jointly developing business plans and jointly increasing their market share. The Group will handpick key commodities, implement joint procurement to reduce procurement costs, and pay attention to category management and optimize brand portfolio to highlight the categories of reflecting the current trends. The Group will enhance the promotion of new products to speed up the selection of the superior and elimination of the inferior, so as to promote the cycle of commodities. The Group will accelerate the construction of localized bases, optimize its supply chains, utilize upstream resources, enrich commodity varieties, increase the sales volume of its competitive products, and constantly raise the management level for fresh produce. The Group will quicken the construction of central kitchens, as well as the construction of processing systems in stores, improve the fresh food operating structure to enlarge the proportion of fresh food processing business, raise the added-values of fresh products, and propel improvements in fresh produce operations from extensive management to intensive management. The Group will actively push forward the construction of both takeaway factories and bread factories, expedite the development of the core-value chain of convenience stores and promote the upgrading of convenience stores. The Group will allocate high-quality investor resources to support the transformation and upgrading of stores, so as to increase incomes from introduced investments.

In the second half of 2017, the Group will continue to actively expand its to-home business to enhance its online commodity management level. The synchronization management of online and offline inventories as well as a quick replacement mechanism for online commodities will be set up and the sorting of inventories of stores will be dynamically managed to ensure the accuracy of sellable inventories. The Group will transform its marketing model from being driven by promotion to "being driven by traffic plus repeated buys", accelerate the development of diversified tools for marketing and promotion. The Group will propel the practices of entering communities and accurate delivery to home, so as to augment users' loyalty and repurchase rate. Overall, loyal customers' shopping experience will be strengthened through preferences offered to targeted customers, such mobile phone apps including "進口鯨選" (whale-choice for imported commodities) and "生鮮優選" (preferred choice of fresh produce) will be developed, and the optimization of channel pages will be completed. An incentive system will be set up, which is specific to the business of delivery to home, in order to raise the enthusiasm of stores to operate the to-home business.

In the second half of 2017, the Group will continue to insist on innovative development, actively expand its channels, and promote the upgrading of its business model. Diversified development modes will be adopted for supermarkets and convenience stores including direct operation, joint venture, franchisee, and merger. Through integration of regional market resources, the Group will actively expand its business to new areas, and expedite the construction of supermarkets and convenience stores. The Group will seize the market opportunity of consumption upgrades to develop premium supermarkets. The Group will strengthen its on-the-spot fresh products processing business, and optimize the structure of normal temperature commodities, putting its efforts into creating the business model of Lianhua Living Museum. The Group will, with management upgrades as a foundation, service upgrades as a security measure, and with promotion of fresh produce operations as its point of strength, carry out the transformation and upgrading of its franchisees in a planned and orderly way so as to achieve a steady increase of gains from the franchise business.

In the second half of 2017, the Group will continue to strengthen and improve its logistics support system. By promoting the integrated construction of the Jiangqiao Logistics, the Group will further optimize its business processes and information systems, cooperating with suppliers to efficiently respond to orders, rationally plan distribution/delivery routes, improve their service quality, raise satisfaction rates for both of online and offline orders and improve the overall efficiency of distribution. The Group will speed up the construction of the Hangzhou Yangxunqiao Logistics Center, striving to complete the Center and put it into use within 2018. The Group will further improve the functions of the fresh produce distribution center in the Guangxi province, set up systematic operating standards and system processes, achieve online operations of all commodities, and support its stores to grow its pure fresh produce business. The Group will accelerate the development of local supply chains in the Jiangsu and Anhui province, and strive to complete the integration of suppliers in greater East China. The procurement department of the headquarters will support regional companies to build their localized supply chains, providing business flow support to help regional companies accelerate the transformation and upgrading of their stores.

In the second half of 2017, the Group will continue to consolidate its basic management to improve its operational quality. The Group will promote the work of improving both the quality and usage of basic data, solidify the achievements of "unified standard and data homology" and "timeliness, integrity and accuracy", and implement data quality monitoring;. The Group will strengthen management of commodity sources, and intensify management on suppliers' permits and licenses in order to heighten its commodity quality management level,. The Group will intensify its self-building and service awareness, elevate related staff's quality and safety awareness, and push forward the orderly implementation of ERP and OA projects.

In the second half of 2017, the Group will continue to strictly control its costs, decrease costs and increase profit. The Group will continue to tap its potentials through "picking" details, "squeezing" water content, and "compressing" capacities to achieve good cost control. The Group will, through integration of its internal organization structures, functions and operational processes, streamline positions to reasonably reduce its work force so as to control its labor costs. The Group will reduce commodity wastage through better management, cut down tenancy expenditures through initiative negotiations, compress inventory costs through accelerating commodity circulation, reduce investment costs through careful planning and calculations, and cut the operational costs through focusing on details.

In the second half of 2017, the Group will continue to comprehensively promote the development of its training system, putting its efforts in building a learning-oriented organization. Through organizing professional business training course, the Group will focus on enhancing the capabilities of all staff and intensify its efforts in education and training. The Group will extend its training channels and enlarge training coverage. The Group will facilitate a docking link between the demand for and the supply of training to raise training efficiency. Using the fresh produce tier-one personnel as a breakthrough to improve the business of the Company, the Group will intensify the development of highly-skilled technicians to foster value adding staff.

Interim Dividend

The board of directors of the Company (the "Board") does not recommend the payment of interim dividend for the six months ended 30 June 2017.

Subsequent Events

On 17 July 2017, the major and connected transactions in relation to the acquisition of 100% equity interest in Yiwu City Life Supermarket Co., Ltd and the disposal of 100% equity interest in Shanghai Lianhua Live and Fresh Food Processing and Distribution Co., Ltd. were approved by the shareholders of the Company on 17 July 2017. The legal procedures and steps of the relevant agreement and the equity transfer contemplated thereunder have been completed through Shanghai United Assets and Equity Exchange. As at the date of this announcement, the parties are in the course of undergoing the registration procedures for the equity transfer at the State Administration for Industry and Commerce of the PRC.

Purchase, Sale or Redemption of Shares

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

Audit Committee

The audit committee of the Company (the "Audit Committee") has considered and reviewed the accounting principles and practices adopted by the Group and has discussed the matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2017 of the Company. The Audit Committee is of the view that the interim accounts for the six months ended 30 June 2017 is in compliance with the applicable accounting standards, the requirements of the Stock Exchange and the Laws of Hong Kong, and the Company has made appropriate disclosures thereof.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules")

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as code of conduct for securities transactions by all directors of the Company. After making specific enquiries of all directors, the Board is pleased to confirm that all directors have fully complied with the provisions under the Model Code during the period under review.

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

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

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

For Provision A.6.7 of the Code:

Mr. Zhang Xuan-song, non-executive director, Mr. Zhang Jing-yi, non-executive director, Mr. Gu guo-jian, independent non-executive director, and Mr. Wang Jin, independent non-executive director, were unable to attend the fifteenth meeting of the fifth session of the Board convened on 14 March 2017 by the Company due to their other business commitments. After receiving the relevant materials for the Board meeting, they have authorized other directors of the Company to attend the meeting and vote on their behalf. The matters considered at the Board meeting were ordinary business and all resolutions were passed. The Company had sent the related minutes to all members of the Board after the Board meeting so any director who was unable to attend the meeting was fully informed of the resolutions passed at the meeting.

Mr. Qian Jian-qiang, non-executive director and Mr. Wong Tak Hung, non-executive director, were unable to attend the seventeenth meeting of the fifth session of the Board convened on 29 March 2017 by the Company due to their other business commitments. After receiving the relevant materials for the Board meeting, they have authorized other directors of the Company to attend the meeting and vote on their behalf. The matters considered at the Board meeting were ordinary business and all resolutions were passed. The Company had sent the related minutes to all members of the Board after the Board meeting so any director who was unable to attend the meeting was fully informed of the resolutions passed at the meeting.

Mr. Zhang Ye, non-executive director, was unable to attend the first meeting of the sixth session of the Board convened on 12 June 2017 by the Company due to his other business commitments. After receiving the relevant materials for the Board meeting, he has authorized another director of the Company to attend the meeting and vote on his behalf. The matters considered at the Board meeting were ordinary business and all resolutions were passed. The Company had sent the related minutes to all members of the Board after the Board meeting so any director who was unable to attend the meeting was fully informed of the resolutions passed at the meeting.

Mr. Zhang Ye, non-executive director, Mr. Qian Jian-qiang, non-executive director and Mr. Lee Kwok Ming, Don, independent non-executive director, were unable to attend the second meeting of the sixth session of the Board convened on 28 August 2017 by the Company due to their other business commitments. After receiving the relevant materials for the Board meeting, they have authorized other directors of the Company to attend the meeting and vote on their behalf. The matters considered at the Board meeting were ordinary business and all resolutions were passed. The Company had sent the related minutes to all members of the Board after the Board meeting so any director who was unable to attend the meeting was fully informed of the resolutions passed at the meeting.

For Provisions A.6.7 and E.1.2 of the Code:

Mr. Zhang Ye, non-executive director, was unable to attend the 2016 annual general meeting of the Company convened on 12 June 2017 due to his other business commitments. The Company has provided the relevant materials relating to the 2016 annual general meeting to all members of the Board before the meeting. All ordinary resolutions and one special resolution were passed at the annual general meeting. The Company had sent the related minutes to all members of the Board after the annual general meeting so any director who was unable to attend the meeting was fully informed of the resolutions passed at the meeting.

Mr. Qian Jian-qiang, non-executive director, Mr. Wong Tak Hung, non-executive director, and Mr. Xia Da-wei, independent non-executive director, were unable to attend the 2017 extraordinary general meeting of the Company convened on 17 July 2017 due to their other business commitments. The Company has provided the relevant materials relating to the 2017 extraordinary general meeting to all members of the Board before the meeting. All ordinary resolutions were passed at the extraordinary general meeting. The Company had sent the related minutes to all members of the Board after the extraordinary general meeting so any director who was unable to attend the meeting was fully informed of there solutions passed at the meeting.

RESIGNATION AND APPOINTMENT OF DIRECTOR AND MEMBER OF STRATEGIC COMMITTEE

The Board announces that Mr. Zhang Ye ("Mr. Zhang") tendered his resignation as a non-executive director and a member of the strategic committee of the Company due to changes in nominated shareholders of the Company.

The above resignation of director became effective at the time when the appointment of the new director was approved at the Meeting (as detailed below). Mr. Zhang has confirmed that he has no disagreement with the Board and there is no matter relating to his resignation that need to be brought to the attention of the shareholders of the Company.

The Board has convened a meeting (the "Meeting") on 28 August 2017 in accordance with the requirements of the Company Law of the PRC and the articles of association of the Company.

The Board is pleased to announce that following the above-mentioned resignation of Mr. Zhang, Mr. Dong Zheng ("Mr. Dong") (Note) was appointed as a non-executive director and a member of the strategic committee of the Company. The appointment of Mr. Dong becomes effective after such appointment was approved at the Meeting ("Effective Date").

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

Shanghai, 28 August 2017

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

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

Note:

Mr. Dong Zheng, aged 38, graduated from Cambridge University with a MBA degree in 2010. From March 2015 till now, Mr. Dong served in Alibaba Group (阿里巴巴集團), as Chief of Staff to BBC Business Group (BBC電商事業群) President and then Business Assistant to Alibaba Group CEO. Alibaba Group is a company listed on The New York Stock Exchange, stock code: BABA. From July 2010 to Mar 2015, Mr. Dong served in McKinsey & Co. (麥肯錫公司) and last position was Associate Partner.

Mr. Dong was elected as a non-executive director of the Company at the Meeting for a term from the Effective Date until the conclusion of the upcoming general meeting of the Company, subject however to the articles of association of the Company. Mr. Dong will not enter into any service agreement with the Company and he will not be entitled to any remuneration from the Company during the term of directorship.

As at the date of this announcement, Mr. Dong has no interest in the Shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Save as disclosed herein, Mr. Dong has not held any other directorships in any public listed companies in the past three years and, he has no relationship with any directors, senior management or substantial or controlling shareholders of the Company. Mr. Dong confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there is no matter that need to be brought to the attention of shareholders of the Company and the Stock Exchange.