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

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

(Stock Code: 00980)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017 AND CHANGE OF INDEPENDENT NON-EXECUTIVE DIRECTOR

FINANCIAL HIGHLIGHTS

As at 31 December 2017, the Group recorded the following:

- Turnover was approximately RMB25,225 million, representing a decrease of approximately 5.4% over 2016. The same store sales of the Group decreased by approximately 3.88% over 2016, in which the hypermarket segment decreased by approximately 4.85%, the supermarket segment decreased by approximately 1.58% and the convenience store segment decreased by approximately 3.0%.
- Gross profit was approximately RMB3,758 million, representing a decrease of approximately 4.6% over 2016. Gross profit margin was approximately 14.90%, increasing by 0.13 percentage point over 2016.
- Distribution expenses and administrative expenses was approximately RMB6,364 million. Overall cost ratio was approximately 25.23%, recording an increase of 0.22 percentage point over 2016.
- Consolidated income amounted to RMB6,695 million, representing a decrease of approximately 2.5% over 2016. Consolidated income margin was approximately 26.54%, increasing by 2.03 percentage points over 2016.
- Operating profit amounted to approximately RMB111 million, representing an increase by approximately 150.3% over 2016. Annual loss attributable to shareholders of the Company amounted to approximately RMB283 million. Basic loss per share amounted to RMB0.25.
- The total number of outlets reached 3,421. During the period under review, the Group opened 295 new outlets, including 5 hypermarkets, 153 supermarkets (including 23 directly-operated stores and 130 franchised stores), and 137 convenience stores (including 56 directly-operated stores and 81 franchised stores).

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

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**Year ended 31/12/2017** ***RMB'000***	Year ended 31/12/2016 *RMB'000*
Revenue	*2&3*	**25,225,388**	26,666,069
Cost of sales		**(21,467,549)**	(22,728,564)
Gross profit		**3,757,839**	3,937,505
Other revenue	*2&3*	**2,037,808**	2,136,038
Other income and gains	*4*	**899,296**	461,047
Selling and distribution expenses		**(5,595,679)**	(5,984,113)
Administrative expenses		**(768,633)**	(686,224)
Other expenses		**(219,704)**	(84,386)
Share of results of associates		**8,458**	(687)
Finance cost		**(120)**	(118)
Profit (Loss) before taxation	*5*	**119,265**	(220,938)
Income tax expenses	*6*	**(270,290)**	(115,104)
Loss for the year		**(151,025)**	(336,042)
Other comprehensive income (expenses)			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain (loss) on available-for-sale financial assets		**19,275**	(1,840)
Income tax relating to items that may be reclassified subsequently		**(4,819)**	460
Share of other comprehensive income of associates		**–**	51
Other comprehensive income (expense) for the year, net of income tax		**14,456**	(1,329)
Total comprehensive expense for the year		**(136,569)**	(337,371)
(Loss) profit for the year attributable to:			
Owners of the Company		**(282,760)**	(449,955)
Non-controlling interests		**131,735**	113,913
		(151,025)	(336,042)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(269,685)**	(451,284)
Non-controlling interests		**133,116**	113,913
		(136,569)	(337,371)
Loss per share	*7*	**RMB0.25**	RMB0.40

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	**31/12/2017** **RMB'000**	31/12/2016 *RMB'000*
Non-current assets			
Property, plant and equipment		**3,176,870**	3,082,366
Construction in progress		**313,168**	221,066
Land use rights		**865,234**	329,348
Intangible assets		**198,430**	198,783
Interests in associates		**511,251**	500,793
Available-for-sale financial assets		**93,589**	73,967
Term deposits		**1,200,000**	1,455,000
Prepaid rental		**19,617**	33,190
Deferred tax assets		**74,150**	68,222
Other non-current assets		**14,292**	15,751
		6,466,601	5,978,486
Current assets			
Inventories		**2,414,652**	3,065,232
Trade receivables	*8*	**133,564**	82,633
Deposits, prepayments and other receivables		**1,179,216**	1,108,190
Amounts due from fellow subsidiaries		**15,050**	15,768
Amounts due from associates		**106**	58
Financial assets at fair value through profit or loss		**2,287,784**	1,977,894
Term deposits		**880,000**	2,053,851
Cash and cash equivalents		**3,577,507**	3,175,900
		10,487,879	11,479,526
Total assets		**16,954,480**	17,458,012

(Continued)

	Notes	**31/12/2017** ***RMB'000***	31/12/2016 *RMB'000*
Capital and reserves			
Share capital		**1,119,600**	1,119,600
Reserves		**1,073,552**	1,343,237
Equity attributable to owners of the Company		**2,193,152**	2,462,837
Non-controlling interests		**295,681**	291,042
Total equity		**2,488,833**	2,753,879
Non-current liability			
Deferred tax liabilities		**76,625**	86,455
Current liabilities			
Trade payables	*9*	**3,818,411**	4,117,867
Other payables and accruals		**2,383,756**	2,365,021
Coupon liabilities		**7,846,974**	7,941,014
Deferred income		**42,897**	23,008
Amounts due to fellow subsidiaries		**55,978**	62,708
Amounts due to associates		**1,278**	1,417
Bank borrowing		**2,000**	2,000
Tax payable		**237,728**	104,643
		14,389,022	14,617,678
Total liabilities		**14,465,647**	14,704,133
Total equity and liabilities		**16,954,480**	17,458,012
Net current liabilities		**(3,901,143)**	(3,138,152)
Total assets less current liabilities		**2,565,458**	2,840,334

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2017

1. GENERAL

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

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

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

As of 31 December 2017, the Group has net current liabilities of RMB3,901,143,000 (2016: RMB3,138,152,000). Taking into account of the possibility of immediate withdrawal of non-current unrestricted term deposits of RMB50,000,000, the historical settlement and addition pattern of the coupon liabilities of the Group, the directors of the Company consider the liquidity risk is significantly reduced and the Group is able to be continued as a going concern.

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

2. REVENUE AND OTHER REVENUE

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

	Year ended 31/12/2017 ***RMB'000***	Year ended 31/12/2016 *RMB'000*
Revenue		
Sales of merchandise	**25,225,388**	26,666,069
Other revenue		
Income from suppliers (service income)	**1,380,871**	1,485,137
Rental income from leasing of shop premises	**607,770**	600,389
Royalty income from franchised stores	**44,363**	44,677
Commission income from coupon redemption in other retailers	**4,804**	5,835
	2,037,808	2,136,038
Total revenue	**27,263,196**	28,802,107

3. SEGMENT INFORMATION

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

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

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

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

Segment revenues and results

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

	Segment revenue		**Segment results**	
	Year ended 31/12/2017 ***RMB'000***	Year ended 31/12/2016 *RMB'000*	**Year ended 31/12/2017** ***RMB'000***	Year ended 31/12/2016 *RMB'000*
Hypermarkets	**16,692,516**	17,836,573	**(45,655)**	(148,818)
Supermarkets	**8,512,010**	8,809,770	**47,268**	101,605
Convenience stores	**1,966,564**	2,080,944	**(155,833)**	(114,812)
Other operations	**92,106**	74,820	**395,112**	(15,807)
	27,263,196	28,802,107	**240,892**	(177,832)

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

	Year ended 31/12/2017 ***RMB'000***	Year ended 31/12/2016 *RMB'000*
Segment results	**240,892**	(177,832)
Unallocated intevest income	**71,212**	68,376
Unallocated income	**109**	2,931
Unallocated expenses	**(201,406)**	(113,726)
Share of results of associates	**8,458**	(687)
Consolidated profit (loss) before taxation	**119,265**	(220,938)

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

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

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

Segment assets and liabilities

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

	Year ended 31/12/2017	Year ended 31/12/2016
	RMB'000	*RMB'000*
– Hypermarkets	**8,795,002**	7,723,046
– Supermarkets	**2,796,313**	4,798,902
– Convenience stores	**489,609**	490,894
– Other operations	**148,271**	137,631
Total segment assets	**12,229,195**	13,150,473
Interests in associates	**511,251**	500,793
Other unallocated assets	**4,214,034**	3,806,746
Total assets	**16,954,480**	17,458,012

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than certain financial assets, cash and cash equivalents centrally managed by headquarter and deferred tax assets.

Other segment information

Year ended
31/12/2017

	Hypermarkets *RMB'000*	**Supermarkets** *RMB'000*	**Convenience stores** *RMB'000*	**Other operations** *RMB'000*	**Total** *RMB'000*
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets *(note)*	**1,148,063**	**128,478**	**61,565**	**387**	**1,338,493**
Depreciation	**233,473**	**96,325**	**44,903**	**10,196**	**384,897**
Amortisation	**15,747**	**6,368**	**1,520**	**5,396**	**29,031**
Impairment losses on property, plant and equipment	**39,498**	**–**	**–**	**8,142**	**47,640**
Impairment on goodwill	**–**	**–**	**–**	**–**	**–**
Loss (gain) on disposal of property, plant and equipment and intangible assets	**7,368**	**4,613**	**(123)**	**145**	**12,003**
Interest income	**92,083**	**19,321**	**365**	**992**	**112,761**
Finance cost	**–**	**–**	**–**	**120**	**120**

Year ended
31/12/2016

	Hypermarkets *RMB'000*	Supermarkets *RMB'000*	Convenience stores *RMB'000*	Other operations *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets *(note)*	171,219	86,121	49,877	402	307,619
Depreciation	262,589	85,291	35,818	11,702	395,400
Amortisation	5,650	5,841	947	5,120	17,558
Impairment losses on property, plant and equipment	7,363	–	–	–	7,363
Impairment on goodwill	–	–	–	22,198	22,198
Loss (gain) on disposal of property, plant and equipment and intangible assets	3,832	4,113	(23)	515	8,437
Interest income	124,746	42,033	741	759	168,279
Finance cost	–	–	–	118	118

note: Addition to non-current assets include the additions of RMB552,767,000 (2016: RMB146,018,000) to property, plant and equipment, RMB163,315,000 (2016: RMB156,325,000) to construction in progress, RMB3,891,000 (2016: RMB5,276,000) to intangible assets and RMB618,520,000 to land use rights.

Geographical information

The Group's operations and non-current assets are substantially located in the PRC. Revenues from external customers are substantially derived from customers located in the PRC. Therefore, no analysis of geographical information is presented.

Information about major customers

None of the revenue from any customer contributed over 10% of the total revenue of the Group during both years.

4. OTHER INCOME AND GAINS

	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *RMB'000*
Interest income on bank balances and term deposits	**183,973**	236,655
Government subsidies *(note i)*	**68,319**	49,603
Change in fair value of financial assets at FVTPL	**103,163**	94,781
Dividends from financial assets at FVTPL	**135**	81
Gain on disposal/redemption of available-for-sale financial assets	**–**	613
Gain on disposal of an associate *(note ii)*	**–**	2,810
Gain on disposal of a subsidiary	**399,132**	–
Dividends from available-for-sale investments	**2,314**	1,444
Salvage sales	**28,492**	26,787
Early termination of an operating lease contract by lessor *(note iii)*	**54,830**	–
Others	**58,938**	48,273
Total	**899,296**	461,047

note

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

ii. During the prior period, the Group completed the disposal of its 43% equity interest in Lianhua Mei Ri Ling Commercial (Shanghai) Co., Ltd. ("Lianhua Mei Ri Ling") to the other shareholders of 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 RMB5,666,000, resulting in a gain on disposal of an associate of RMB2,810,000 credited to profit or loss in the prior year.

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 year.

5. PROFIT (LOSS) BEFORE TAXATION

	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *RMB'000*
Profit (Loss) before taxation has been arrived at after charging (crediting):		
Amortisation and depreciation		
Depreciation of property, plant and equipment	**384,897**	395,400
Amortisation of land use rights	**16,293**	6,232
Amortisation of intangible assets	**11,279**	9,867
Amortisation of other non-current assets	**1,459**	1,459
Total amortisation and depreciation	**413,928**	412,958
Share of results of associates		
Share of (profit) loss before taxation	**(8,823)**	1,507
Share of income tax expense (credit)	**365**	(820)
	(8,458)	687
Auditors' remuneration	**5,536**	5,783
Loss on disposal of property, plant and equipment and intangible assets	**12,003**	8,437
Impairment loss on property, plant and equipment recognised (included in other expenses)	**47,640**	7,363
Impairment loss on goodwill (included in other expenses)	**–**	22,198
Director's remuneration	**1,745**	1,180
Salaries, wages and other employee benefits of other staff	**2,592,836**	2,683,271
Retirement benefit scheme contribution of other staff	**262,216**	273,056
Total staff costs	**2,856,797**	2,957,507
Allowance for doubtful debts	**1,224**	551
Reversal of allowance for doubtful debts	**(258)**	–
Recognition of allowance for write-down of inventories	**10,487**	1,383
Reversal of allowance for write-down of inventories	**(3,370)**	–
Cost of inventories recognised as expenses	**21,467,549**	22,728,564

6. INCOME TAX EXPENSE

	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *RMB'000*
Current tax on PRC Enterprise Income Tax ("EIT")	**290,867**	126,768
Deferred tax credit	**(20,577)**	(11,664)
	270,290	115,104

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

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%. Certain subsidiaries are taxed at preferential rate of 15% as those entities which are located in specific provinces of western China.

	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *RMB'000*
Profit (Loss) before tax	**119,265**	(220,938)
Tax at PRC EIT tax rate of 25% (2016: 25%)	**29,816**	(55,235)
Tax effect of share of results of associates	**(2,115)**	172
Tax effect of expenses not deductible for tax purpose	**1,578**	1,551
Tax effect of income not taxable for tax purpose	**(841)**	(5,036)
Tax effect of tax losses and deductible temporary differences not recognised	**251,604**	179,318
Utilisation of tax losses previously not recognised	**(9,752)**	(5,666)
Income tax expense for the year	**270,290**	115,104

7. LOSS PER SHARE

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

	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *RMB'000*
Loss		
Loss for the year attributable to owners of the Company	**(282,760)**	(449,955)

	Year ended 31/12/2017	Year ended 31/12/2016
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,119,600,000**	1,119,600,000

No diluted loss per share is presented for both years as there was no potential ordinary shares in issue.

8. TRADE RECEIVABLES

	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*
Trade receivables	**138,469**	86,505
Less: allowance for doubtful debts	**(4,905)**	(3,872)
	133,564	82,633

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 (2016: 30 to 60 days), presented based on the invoice date is as follows:

	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*
0-30 days	**129,850**	77,159
31-60 days	**777**	1,981
61-90 days	**–**	290
91 days – one year	**2,937**	3,203
	133,564	82,633

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB2,937,000 (2016: RMB3,493,000) which are past due as at the reporting date for which the Group has already provided for impairment loss. The Group does not hold collateral over these balances.

Aging of trade receivables which are past due:

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
61-90 days	**–**	290
91 days – one year	**2,937**	3,203
	2,937	3,493

Movement in allowance for doubtful debts

	Year ended	Year ended
	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
1 January	**3,872**	3,902
Impairment losses recognised	**1,224**	91
Amounts written-off during the year	**(191)**	(121)
31 December	**4,905**	3,872

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 (2016: 30 to 60 days), is as follows:

The Group	**31/12/2017**	31/12/2016
	RMB'000	*RMB'000*
0-30 days	**2,165,607**	2,065,618
31-60 days	**555,930**	757,589
61-90 days	**322,647**	367,604
91 days – one year	**774,227**	927,056
	3,818,411	4,117,867

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

Based on the data from the National Bureau of Statistics of the PRC, in 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 last year, ending six consecutive years of Chinese economic deceleration and the first year-over-year increase. In 2017, the Chinese government, upholding the general mandate of seeking improvements and maintaining stabilization with a focus on supply-side structural reform, properly increased the aggregate demand, deepened reform and innovation, bolstered the real economy and prevented and dissolved risks. The economic structure has been continuously optimized and new driving forces have grown steadily. Overall quality of growth witnessed obvious improvements, and the resilience of development has been strengthened. The development of the Chinese economy has appeared to stabilize, with improvements beginning to show.

Based on data from the National Bureau of Statistics of the PRC, in 2017, total retail sales of consumer goods nationwide had a nominal year-on-year growth of 10.2%, representing a decrease in growth rate of 0.2 percentage point compared to the same period of last year. In particular, the retail sales of consumer goods of enterprises above a designated size had a year-on-year growth of 8.1%, keeping flat with the same period of last year.

In 2017, economic development in the PRC accelerated and the growth in citizen income also accelerated. Based on data from the National Bureau of Statistics of the PRC, the national per capita disposable income had an actual growth of 7.3% in 2017, representing a year-on-year increase of 1.0 percentage point, and was also 0.4 percentage point higher than the GDP growth rate in the same period. Based on the data from the National Bureau of Statistics of the PRC, the national CPI in 2017 had a year-on-year increase of 1.6%, representing a decrease in growth of 0.6 percentage point compared to the same period of last year. As indicated by Nelson's China Consumer Confidence Index Report, under the "New Normal", consumer confidence in China continued to rise and hit a new high in the fourth quarter of 2017. The introduction of new products in consuming market has expedited, a new generation of consumers who are willing to try new products has risen, and overall innovation in the market has sped up. Consumption upgrade, health and greenness, and retail reform were the three trends that led the market in 2017.

In light of the increasing demand for high-quality products from consumers, the physical retail sector continues to speed up its transformation and upgrade. In 2017, various physical retail enterprises proactively initiated innovation and transformation including development of new business segments and omni-channel model, reconstruction of supply chains, as well as promotion of extending channels to rural areas. New business segments and new operational models have developed steadily. In addition, various physical retail enterprises made continuous adjustments to their commodity structures and business segment structures, and proactively applied new technologies to innovate marketing and shopping scenarios to enhance customers' shopping experience, which helped drive the market recovery of physical retail. According to data published by the Ministry of Commerce of the PRC, in 2017, 2,700 typical retail enterprises that were monitored by the Ministry of Commerce of the PRC recorded a year-on-year increase in sales of 4.6%, representing an increase of 3 percentage points with respect to growth rate as compared with the same period of last year, and operating profit and total profit of these enterprises saw an increase of 8.0% and 7.1%, respectively, recording an increase in growth rate of 6.5 and 11 percentage points, respectively, compared with that of the same period last year. In particular, the growth rate of the supermarket segment was 3.8%, representing an increase of 1.9 percentage points compared with the same period of last year.

In 2017, retail enterprises proactively connected their online and offline businesses as well as upstream and downstream channels to promote cross-industry integration of multiple segments in a convergent and collaborative way. They also increased their adoption of modern information technologies to develop new physical stores, mobile terminals, TV shopping platforms and other sales channels so as to strengthen the consumers' omni-channel shopping experience. In addition, retail enterprises proactively promoted the extension of their supply chains towards production, reduced costs and adjusted production according to demand to achieve "One Thousand Appearances for One Thousand Stores". Certain supermarkets also launched new model of "Supermarket + Catering" to attract consumers and increase sales.

Financial Review

Turnover & consolidated income

During the period under review, the Group's turnover was approximately RMB25,225 million, representing a decrease of RMB1,441 million compared with the corresponding period of last year and a decrease of approximately 5.4% year over year. This was mainly because: (1) the Group carried out comprehensive reform and transformation in its offline stores while actively developing its online business, and as such, store sales showed negative growth during the transformation period; and (2) in order to improve its operational quality and profitability, the Group made structural adjustments to its store layouts through allocating resources rationally, sorting out stores with comparatively bigger losses and expanding new stores.

During the period under review, affected by the year-on-year decrease of its turnover, the Group's gross profit amounted to approximately RMB3,758 million, representing a decrease of approximately RMB180 million compared with the corresponding period of last year and a decrease of approximately 4.6% year over year. In spite of this, the gross profit margin increased by 0.13 percentage point when compared with the corresponding period of last year, reaching 14.90%. The increase of gross profit margin was mainly due to the decrease in fresh produce wastage and the enhanced control over the gross profit margin of commodities.

During the period under review, the consolidated income of the Group was approximately RMB6,695 million, representing an increase of approximately RMB160 million when compared with the corresponding period of last year and an increase of approximately 2.5% year over year. The consolidated income margin increased by 2.03 percentage points year over year to 26.54%.

During the period under review, the year-on-year decrease of product sales led to a decrease in commodity revenue. And affected by insufficient demand for pre-paid cards, the Group's sales of pre-paid cards continued to show a downward trend, resulting in the decrease of the Group's cash inflow. During the period under review, the Group recorded net cash outflow. However, benefiting from the accumulation of cash flow in previous years, the Group still maintained a sufficient operating capital. During the period under review, as the Group adopted a stable and professional management strategy for its capital management, capital earnings amounted to approximately RMB287 million, representing a decrease of approximately RMB45 million when compared with the corresponding period of last year.

Operating cost and net profit

During the period under review, the total distribution costs and administrative expenses of the Group amounted to approximately RMB6,364,312 thousand, representing a decrease of approximately RMB306,025 thousand year over year. The decrease was mainly attributable to: (1) decrease in labour cost of approximately RMB100,710 thousand as a result of optimizations in corporate structure of the Group; (2) decrease in energy expenses of approximately RMB64,172 thousand through actively promoting energy-saving and consumption-reduction policies in stores; and (3) decrease in rental expenses of approximately RMB127,188 thousand as a result of the closure of some stores with substantial losses through rational adjustments of store layouts.

During the period under review, the Group recorded an operating profit of approximately RMB111 million. The loss was reduced by approximately RMB331 million compared with the corresponding period of last year. This was mainly due to the increase in other income and the decrease in distribution costs. The operating profit amounted to RMB331 million after eliminating provisions for losses due to store closures.

During the period under review, the revenue of associated companies attributable to the Group was approximately RMB8,458 thousand with a year-on-year increase of approximately RMB9,145 thousand. Shanghai Carhua Supermarket Co., Ltd ("Shanghai Carhua") achieved a slight increase in operating profit during the period under review. As of 31 December, 2017, there were a total of 30 stores operated by Shanghai Carhua.

During the period under review, the tax expense of the Group was approximately RMB270 million, representing a year-on-year increase of approximately RMB155 million or an increase of 134.8% year over year. The increase was mainly due to the increase in taxation of RMB91 million resulting from the gain on the disposal of the equity interests in Lianhua Live and Fresh.

During the period under review, the Group accelerated the integration of its online and offline business operations to build its omni-channel capabilities, and focused on the development of its "Delivery to Home" and "Buy Online and Pick up in Stores" businesses. The Group explored the new business model of O2O with integration of online and offline business, and proactively sought cross-boundary and cross-sector cooperation to improve business operations. The Group also actively optimized its staff and store structures to reduce redundant costs. During the period under review, the Group recorded a net loss attributable to the shareholder of the Company of approximately RMB283 million. The loss decreased by approximately RMB167 million year over year. Based on the 1,119.6 million shares issued by the Company, the basic loss per share was approximately RMB0.25.

Cash flow

During the period under review, the net cash outflow of the Group was approximately RMB401,607 thousand, mainly due to the decrease in the sales of pre-paid cards year over year. The cash and various bank balance as at the end of the period was approximately RMB5,657,507 thousand.

As at 31 December 2017, the accounts payable turnover days of the Group were approximately 62 days, and the inventory turnover days were approximately 41 days.

During the period under review, the Group did not use any financial instruments for hedging purposes and did not issue any hedging instruments as at 31 December 2017.

Retail business operation

Hypermarkets

During the period under review, the hypermarket segment of the Group recorded a turnover of approximately RMB15,263,388 thousand, accounting for approximately 60.5% of the Group's turnover, which represented a year-on-year decrease of approximately 6.3%. In particular, same store sales had a year-on-year decrease of approximately 4.85%. The year-on-year decrease in sales was mainly due to the Group's proactive re-organization of store layout and the closure of some stores with expired leases which the landlords would not renew or with much higher rentals under the hypermarket segment. During the period under review, the hypermarket segment recorded a gross profit of approximately RMB2,268,679 thousand. The gross profit margin increased by 0.41 percentage point year over year to 14.86%. The consolidated income was approximately RMB4,010,132 thousand. The consolidated income margin increased by 0.68 percentage point to 26.27%. During the period under review, the hypermarket segment recorded distribution costs and administrative expenses of approximately RMB3,850,109 thousand, representing a decrease of RMB411,790 thousand year over year. The loss attributable to the closure of stores as a result of the reorganization of the store network under the hypermarket segment was RMB218,815 thousand. During the period under review, the operating loss of the segment was approximately RMB45,655 thousand. The loss decreased by RMB103,163 thousand year over year compared with the corresponding period of last year, while the operating profit margin increased by 0.61 percentage point year over year to –0.30%. The hypermarket segment improved and expanded the sales of fresh produce through the upgrading and transformation of stores and adjustments to the commodity structure. Meanwhile, in line with the transformation and upgrading of stores, the Group allocated quality resources to attract new businesses in a rational manner to improve its revenue structure.

	As of 31 December	
	2017	2016
Gross Profit Margin (%)	**14.86**	14.45
Consolidated Income Margin (%)	**26.27**	25.59
Operating Profit Margin (%)	**–0.30**	–0.91

Supermarkets

During the period under review, the supermarket segment of the Group recorded a turnover of approximately RMB8,001,927 thousand, accounting for approximately 31.7% of the Group's turnover, which represented a year-on-year decrease of approximately RMB321,633 thousand and a decrease of 3.9% compared with the corresponding period of last year. The total number of directly-operated stores and franchised stores decreased by 6.7%, which was the main reason for the decrease in sales. The year-over-year decrease of franchised sales and wholesale amounted to RMB230,355 thousand. In particular, same store sales decreased by approximately 1.58% year over year. During the period under review, the Group carried out comprehensive upgrades on existing stores and actively adjusted its commodity structure. The Group also continued to promote the implementation of the "Bailian Delivery to Home" project to improve same store sales. During the period under review, the supermarket segment recorded a gross profit of approximately RMB1,150,230 thousand. The gross profit margin decreased by 0.56 percentage point to 14.37% year over year. The consolidated income was approximately RMB1,736,287 thousand representing a year-on-year decrease of approximately RMB86,446 thousand compared with the corresponding period of last year. The consolidated income margin decreased by 0.20 percentage point year over year to 21.70%. During the period under review, the year-on-year decrease in sales led to the decrease in commodity revenue, while the rigid increase in labour costs and huge increase in rentals of mature stores compressed the profit margin of the supermarket segment, which led to the year-on-year decrease in operating profit. During the period under review, the operating profit of the supermarket segment was approximately RMB47,268 thousand with a year-on-year decrease of approximately RMB54,338 thousand. The operating profit margin decreased by 0.63 percentage point to approximately 0.59%.

	As of 31 December	
	2017	2016
Gross Profit Margin (%)	**14.37**	14.93
Consolidated Income Margin (%)	**21.70**	21.90
Operating Profit Margin (%)	**0.59**	1.22

Convenience Stores

During the period under review, the convenience store segment of the Group recorded a turnover of approximately RMB1,874,299 thousand, accounting for approximately 7.4% of the Group's turnover, which represented a year-on-year decrease of approximately 5.5%. In particular, same store sales decreased by approximately 3.0% year over year. During the period under review, the convenience store segment continued to improve the operational quality and brand image of existing stores, constantly optimized and adjusted store functions and shifted the focus of the structure of product offerings to young customers. The convenience store segment recorded a gross profit of approximately RMB327,767 thousand. The gross profit margin increased by 0.84 percentage point year over year to 17.49%. The consolidated income was approximately RMB443,772 thousand. The consolidated income margin increased by 1.22 percentage points year over year to 23.68%. During the period under review, the distribution costs and administrative expenses increased by approximately RMB39,482 thousand when comparing with the corresponding period of last year, which was mainly due to (1) the increase in the policy-orientated salary and other factors which led to the increase in labour cost of approximately RMB9,419 thousand year over year to RMB295,076 thousand; and (2) the year-over-year increase in depreciation and amortisation expenses of approximately RMB9,659 thousand. The convenience store segment suffered an operating loss of approximately RMB155,833 thousand with a year-on-year increase in loss of approximately RMB41,021 thousand. The operating profit margin decreased by 2.52 percentage points to approximately –8.31%.

	As of 31 December	
	2017	2016
Gross Profit Margin (%)	**17.49**	16.65
Consolidated Income Margin (%)	**23.68**	22.46
Operating Profit Margin (%)	**–8.31**	–5.79

Financial results analysis

	Twelve months ended 31 December RMB million		
	2017	2016	Year-on-year change (%)
Turnover	**25,225**	26,666	–5.4
Gross profit	**3,758**	3,938	–4.6
Consolidated income	**6,695**	6,535	2.5
Operating profit	**111**	–220	150.3
Taxation	**270**	115	134.8
Profit attributable to shareholders of the Company for the period	**–283**	–450	37.2
Basic earnings per share *(RMB)*	**–0.25**	–0.40	37.2
Final dividend per share *(RMB)*	**–**	–	N/A

Capital Structure

As at 31 December 2017, the Group's cash equivalent was mainly held in Renminbi. Except for bank borrowings of RMB2,000 thousand by a non-wholly owned subsidiary of the Group, there were no other bank borrowings of the Group.

During the period under review, the equity attributable to owners of the Company decreased from approximately RMB2,753,879 thousand to approximately RMB2,488,833 thousand, mainly due to the loss in the period amounting to approximately RMB151,025 thousand, the dividend distributed to non-controlling interests amounting to approximately RMB128,477 thousand and the increase of capital reserve by approximately RMB14,456 thousand.

Details of the Group's Pledged Assets

As of 31 December 2017, the Group did not pledge any assets.

Foreign Exchange Risks

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

Share Capital

As of 31 December 2017, the issued share capital of the Company was as follows:

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

Contingent Liabilities

As at 31 December 2017, the Group did not have any material contingent liabilities.

Operating Review

Development of sales network

During the period under review, the Group continued to adhere to its quality-focused development strategy. The Group actively established new outlets in key development areas to consolidate its market position. The Group opened 295 new stores, 84 of which were new directly-operated stores and 211 of which were new franchised stores. Among the locations of the new stores, 222 stores were located in the Yangtze River Delta, accounting for 75.25% of the new stores. In addition, the Group adapted to the changes in market environment and reorganized the stores with substantial losses to improve the quality of overall physical stores. As a result, 492 stores were closed. Among the closed stores, 100 were directly-operated stores and 392 were franchised stores. Directly-operated stores had a net reduction of 16 stores, and franchised stores had a net reduction of 181 stores. The main reasons for closing those stores were the expiration of their tenancy agreements and the active closure and adjustment of stores with difficulties in operation.

Region	Segment	Newly opened stores during the period under review		Closed stores during the period under review	
		Count	Operating Areas *(m²)*	Count	Operating Areas *(m²)*
Major East China Zone	Hypermarkets	6	41,874	6	45,819
	Supermarkets	121	71,336	245	69,022
	Convenience Stores	111	6,897	160	7,219
North China Zone	Hypermarkets	0	0	2	13,770
	Supermarkets	1	160	1	100
	Convenience Stores	6	292	21	1,040
Northeast China Zone	Supermarkets	0	0	1	8,530
	Convenience Stores	21	905	16	711
Middle China Zone	Supermarkets	2	6,000	6	6,860
South China Zone	Hypermarkets	1	6,000	1	9,055
	Supermarkets	26	10,986	31	10,725
Southwest China Zone	Supermarkets	0	0	2	11,983
Total		295	144,450	492	184,834

During the period under review, the Group improved the operational quality and economic benefits of the hypermarket segment by means of making adjustments, rationally allocating resources and sorting out stores with comparatively bigger losses. During the period under review, 5 hypermarkets were opened, while 12 were closed.

During the period under review, the supermarket segment focused on sustainable development. The directly-operated business primarily focused on transformation and upgrading. The franchised business primarily focused on steady enhancement. During the period under review, 153 new supermarkets were opened, including 23 directly-operated stores and 130 franchised stores. The supermarket business continued to be a market leader in the markets of Shanghai, Hangzhou and Liuzhou.

During the period under review, the convenience store segment mainly focused on the adjustment of outlet structure and optimization of commodity structure, continually expanded the sales of fresh produce, imported commodities and branded commodities, accelerated introduction of new products and adopted innovative marketing. During the period under review, 137 new convenience stores were opened, including 56 directly-operated stores and 81 franchised stores.

During the period under review, the completed investment of the Group was approximately RMB468.30 million, approximately RMB201.89 million of which was for new store development, approximately RMB173.45 million of which was for the upgrade and reform of stores, approximately RMB1.24 million of which was for the Anhui Logistics Central Warehouse Project, and approximately RMB91.72 million of which was for the Yangxunqiao Logistics Project.

As of 31 December 2017, the Group has 3,421 stores in total, representing a decrease of 197 stores compared to the end of 2016. Approximately 81.38% of the Group's stores are located in eastern China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	145	556	809	1,510
Franchised operation	–	1,266	645	1,911
Total	145	1,822	1,454	3,421

Note: The data mentioned above were as of 31 December 2017.

People-oriented concept

During the period under review, the Group, adhering to its people-oriented concept, innovated motivation approaches in order to improve the enthusiasm of employees and promote better performance. The Group continuously promoted the "three dimensions" performance assessment plan which covered the whole company including operation teams in member companies and departments and offices both in the headquarter and front-line stores. The Group also explored motivational model reforms and created a sharing mechanism featuring joint creation, joint sharing and joint undertakings through division of operation units, clarification of budget for each department and utilizing the output of small units as a performance assessment indicator. With respect to reform of the motivation mechanism in front-line stores, the hypermarket business segment implemented a store partner system in certain regions to promote the stores to carry out their business activities with performance as a core target. The supermarket segment promoted store manager and store assistant joint-contracting models to incentivize stores to decrease costs and increase profit, the effects of which were remarkable.

During the period under review, the Group focused on optimizing the allocation of human resources and strengthened talent team construction. Based on the needs of strategic development, the Group focused on the improvement of its market-oriented talent introduction and selection mechanism, introduced, cultivated and selected young and excellent professionals with outstanding performance and development potential and reinforced construction of its professional talent pool at each level. The Group also established a professional training platform and emphasized the cultivation of a studious, innovative, dedicated and energetic youth talent team. The Group aimed at cultivating multi-dimensional talents so as to speed up the horizontal and vertical flow of internal personnel. In order to expand the space for practice, the Group explored the rotation program between the headquarter and subsidiaries and among member companies. The Group also set up assisting internship positions with the aim of attracting talented college students and constructing the youth talent pool.

Innovative reform

During the period under review, the Group steadily promoted the upgrade of its stores. The hypermarket segment made its transformation plan according to the principles of precise positioning, division of stores and "one plan for one store". For hypermarkets with growth potential, well-known brands were introduced, and new and fashionable baby and children zones, personalized entertainment zones for children, upgraded imported foods zones and premium wine and alcohol zones were set up. Meanwhile, the layout of stores was optimized, customer routes were re-designed, instruments and equipment for fresh produce business were upgraded and neighborhood service functions were also enhanced. For loss-making stores, the Group promoted improvements in the cost and revenue structure of those stores through adjustments of operation structure and optimization of resource allocation. The supermarket segment focused on building supermarkets in communities by introducing brand suppliers, selling freshly cooked food, constructing "Kitchens in the Neighborhood" and promoting the transformation of fresh produce operation from selling raw materials to selling cooked food. The convenience store segment actively explored the "1.0" new convenience store model utilizing" Internet Plus" through continuous improvements in the operation quality and brand image of existing stores. More personalized elements were added to the convenience store segment on the basis of continuously optimization of store functions. The targeted customer group is inclined towards young people.

During the period under review, the Group proactively expanded its sales. With all operating units making joint efforts and collaborating with each other, the "6.17 Big Promotion" was a huge success, achieving a new record of daily sales, which increased the confidence of the Group to reform, transform and develop innovatively.

During the period under review, the Group actively accelerated the integration of online and offline business operations and built up its omni-channel capabilities. For its physical stores, the Group focused on the development of its "Delivery to Home" and "Buy Online and Pick up in Stores" businesses through active expansion of online channels with electronic business technologies. The Group explored the new business model of O2O featuring the integration of online and offline and proactively sought cross-boundary and cross-industry cooperation. In addition, the Group actively looked for breakthroughs in online fresh produce operation, introduced suppliers for fresh produce, expanded the online sales of fresh produce and SKUs and optimized the number of products eligible for "Delivery to Home". The "Selection Basket" business was refined to improve the cost performance of shopping and to increase orders. The supply chain was optimized to reduce the rate of products in shortage. In addition, specific criteria were established for evaluation and motivation for the "Delivery to Home" business. The Group actively and effectively carried out activities to expand membership and accelerated the connection with physical stores, realizing rapid growth in both the number of orders and sales volume of the "Delivery to Home" business.

During the period under review, the Group proactively promoted innovative development of traditional retail and explored the innovation and transformation of business segments. To better cater to the trend of consumption upgrade and meet the demands of young consumer groups, the Group proactively promoted the upgrade and innovation of segments. In terms of innovation in the supermarkets segment, the Group opened the Green & Health store in the first half of the year, which was a new operation model centering on the essence of retail and promoting the concept of a delicate lifestyle through selling healthy and quality food and packaged products. Additionally, the Group made full use of existing commodity resources and newly introduced supplier resources to prepare and sell foods on-site, in order to explore the transformation of fresh produce from raw materials to cooked food and develop one-stop services from farms to dining tables. The value chain of fresh produce operations continued to be improved and the effects of markets started to emerge. With respect to innovation in hypermarkets, the Group opened a "Whale-Choice Future Store"(鯨選未來店) in the second half of the year. In this store, commodity structure, commodity quality, store service and other elements were upgraded with the idea of building a professional store. As for categories, valuable exploration was conducted in the form of integration pavilion. Also, the Group created a new retail model comprising of "supermarket + catering + social" to gather customers with on-spot cooking and to attract younger customers with the theme of "creating a new way of life", thus optimizing the customer structure. In terms of operational model, the Group concurrently launched the Lianhua Whale-Choice App with the stores to achieve rapid delivery of orders and satisfy customers' demand for one-stop consumption.

Refinement and pragmatism

During the period under review, the Group proactively promoted the construction of its supply chain with emphasis on the characteristics of base construction, stability of quality and long-term cooperation. Regional companies also sped up their supply chain development. Joint procurement was conducted with the procurement department of the headquarter to strive for preferential negotiation conditions. In addition, the Group proactively improved localized procurement systems and sped up the introduction of new products and products with local characteristics. Local distribution centers were also set up. In particular, the Group accelerated the construction of local fresh produce distribution centers to expand and strengthen the local fresh produce business.

During the period under review, the Group actively optimized its structure and enhanced its commodity management level. This included strengthening strategic operations with brand suppliers nationwide and pursuing the Joint Business Plan (JBP). With the focus of expanding sales, the Group strengthened the collaboration between commodity purchases and operations, sped up the introduction of new products and enhanced the proportion of sales of new products and the contribution of new products to overall performance. The Group integrated high quality suppliers, developed branded products and innovated the distribution model of branded products and improved the operation quality of branded products with the integration pavilion "High-quality Life". The proportion of sales of branded products was increased. The proportion of sale and gross profit margin of imported products were increased through expanding the procurement channels of imported products, improving the marketing and strengthening cooperation with suppliers. The inventory turnover indicator was improved through vigorously streamlining unmarketable goods and optimization of inventory structure.

During the period under review, the Group strengthened regulation over food safety processes, performed strict review of new products, and intensified on-site reviews of suppliers to strictly control food safety. The Group combined daily self-inspection of stores, supervision from the Company and third-party checks to proactively establish its position as an "Honest Supermarket". With the combination of daily and special inspection, regular and irregular inspection and centralized and scattered inspection, overall safety controls have been enhanced. In addition, the Group allocated specific budget and increased investments in safety to improve safety conditions and create an environment for safe production.

Reduction in loss and increase in profit

During the period under review, the Group implemented strict controls over a number of channels and made great efforts to optimize its position with reasonable determination of employment scale. The Group adopted trial implementation of hourly employment (part-time employment), reduced the number of employees and increased the efficiency of employees through close management of workload. The Group also strove to reduce labor costs through application for various re-employment subsidy policies.

During the period under review, the Group continued to control fees for a number of channels and achieved remarkable results. The installation of LED lamps in batches and investment in intelligent refrigeration equipment reduced the energy costs of stores. The rentals were reduced by way of increasing subletting areas and strengthening negotiations on rental reduction. The provision of special training and management reduced the wastage of commodity. Inventory costs were lowered through accelerating commodity circulation. Investment costs were controlled through careful plans and calculations. IT development costs were reduced by streamlining and optimizing the current inventory management system. Operating expenditures were reduced through streamlining business processes and intensifying budget control.

Employment, Training and Development

As of 31 December 2017, the Group had a total of 40,766 employees, representing a decrease of 3,267 employees during the period under review. Total employment expenses amounted to approximately RMB2,856,797 thousand.

During the period under review, the Group continued to push forward and improve its motivation mechanism, adopt innovative ways of motivation, and perfect the incentive assessment system 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, reorganization of organizational procedures and other integration work were completed. A training organization and management system consisting of multiple levels was established at the headquarter of the Company. As per the new corporate organization structure, the Group executed an annual "class-hour evaluation system". Training based on the five levels of management, namely senior management, professional management in operations and procurement, store managers, front-line staff, and new employees, was implemented. According to the requirements of the "class-hour evaluation system", clear annual requirements of class hours for each level were established and the evaluation result are now regarded as an important basis for promotion, transfer and contract renewal of management and employees. To ensure that training needs of the employees were met, categories of training courses which meet the needs of the positions were set for each level. And a curriculum system is being developed step by step. The Group also produced a whole-year training plan catered for senior management, the commodity procurement department, administrative management offices and departments, and frontline staff. The Group set an annual plan for rotational training in line with practical work-related needs. The professional business training included new theories, new knowledge and new technologies. Through the integration of "Internet Plus" in all sections of training, the training channels were widened, coverage was enlarged and training efficiency was improved.

During the period under review, the Group reinforced the cultivation of talents with advanced skills and employees with value. The Group offered various professional training programs, continued to ensure guidance by senior workers for the technical talents in each position, increased the efforts of cultivating technical talents and enhanced the comprehensive quality of employees. Based on positional requirements, the Group provided targeted skill training to continuously enhance the proportion of employees with relevant certificates and improve their competence for the positions. Centering on the enhancement of business operations of the Company and starting from the skill positions of front-line fresh produce employees, the Group provided special training, organized competitions of fresh food preparation skills and improved work in terms of "Skill Ranking + Performance Commission". Meanwhile, leveraging on external training platforms, the Group implemented rotational training for store managers and special training for front-line employees in stores, striving to cultivate employees with value.

Principal Risks

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

Risks relating to the logistic system and distribution center

The Group reviews its warehousing and logistic distribution practice on a regular basis to provide support to its business. Risks include significant fluctuation of daily warehouse in-out quantities, a prolonged shortage of safe stock, an excessive investment inventory and an excessive inventory with more turnover days due to insufficient control of the warehouse distribution system and uncertainties, which might increase the operation risk and inventory risk.

Mitigating measures:

The Group has reinforced the infrastructure construction for its distribution center and constantly enhanced informationization management of its logistics business. Through a series of upgrading and transforming efforts for the integrated logistics system to enable the electronization, real-time transmission, visualized storage of logistics information as well as the provision of precise logistic data, the Group has established a highly professional and socialized logistics distribution center control system to realize accurate and prompt inventory management and efficient centralized supply chain practice in chain operation. In addition, we reinforce the monitoring and tracking of daily distribution services, warehouse in-out, inventory status and order transmission and response, and thus effectively control possible risks arising from the operation of logistics system.

Risks relating to the development of network

The Group's operating results rely to a large extent on its ability to develop the potential for its retail sales in a way favorable to the Group. In recent years, the number of the Group's outlets, in particular the franchised outlets continued to decline, which had a relatively significant adverse impact on its operating results. The development of network is subject to a number of major factors such as the population density and growth potential of the outlet, consumption power of residents, traffic convenience, rental costs, lease term, marketing costs, availability of suitable premise, competition environment and human resources costs. The business development and prospects of the Group depends on the aforesaid factors, representing the key risk factors with an effect on the profit of the Group.

Mitigating measures:

The Group adheres to the quality-oriented and innovation-driven growth strategies. First, the Group actively opens new outlets in key areas to enhance its market position. Second, the Group adapts to changes in market conditions and reorganizes stores that recorded great losses, thus improving the overall quality of physical stores. Third, the Group aims to boost the competitiveness of its stores through renovating, adjusting and optimizing efforts. It improves the single-store profitability of hypermarkets through adjusting operation structure and optimizing resources allocation. The supermarket segment focuses on enhancing functions to serve the community as a "Household Kitchen". The convenience store segment focuses on streamlining the outlet structure and optimizing commodities offerings to expand sales of fresh produce, imported commodities and branded produce and accelerate introduction of new commodities and innovate in marketing. Forth, the Group actively promotes the transformation and upgrade of terminal stores, aggressively develop the "Delivery to Home" business and build the omni-channel mode to cater for the needs of consumers for omni-channel shopping. Fifth, the Group grasps the opportunities arising from consumption upgrade, innovate in businesses types and advocate new lifestyle to meet the diversified and personalized needs of consumers.

Risks relating to the business capabilities of E-commerce

The E-commerce business may not achieve the expected profit level as scheduled. The success of E-commerce business depends on certain factors including, among others, the ability to correctly position the new business mode in the environment of fierce competition, the ability to successfully incorporate E-commerce with its existing three business segments and create synergies, the ability to introduce the best commodity offerings suitable for the preferences of online customers at an attractive price, the ability to bargain with suppliers and secure preferential terms, the results of marketing activities, the professional ability of sales personnel of the online sales platform, the availability of a smooth offline and online supply chain as well as the competition from existing operators and new entrants. As the development of E-commerce business mode entails significant capital investment, the input-output imbalance is also one of the risks encountered by the Group.

Mitigating measures:

In light of the increasing demand for quality from consumers, the physical retail sector is experiencing transformation and upgrading at a faster pace with rapid developments of new business types and new modes. As a part of its growth strategy, the Group actively engaged itself in innovative transformation and development of new business types to build an innovative marketing and shopping scenario through internet platform, thus setting up a safe, convenient bridge with prompt service between the Group and consumers. In practice, the Group becomes increasingly aware that the vigorous development of "Delivery to Home" business through fully leveraging on its physical network is the most important way to build its omni-channel mode. Our development of "Delivery to Home" business focuses on the online and offline sharing of commodities, flows, logistics, supply chain and marketing resources. Through better resource allocation and utilization enabled by such sharing and integration, the Group aims to mitigate the risk arising from the input-output imbalance.

Risks relating to the employees

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

Mitigating measures:

The Group endeavors to optimize the allocation of human resources and reinforces the building of the talent team. Base on the needs of its strategic development, the Group focuses on improving the market-oriented introduction and selection mechanism for talents to select young, excellent talents with outstanding performances and development potentials and increases efforts in building a talents pool at each level. The Group has established a professional training platform to cultivate a studious, innovative, dedicated and energetic youth talent team. The Group adheres to its people-oriented concept and adopts innovative incentives to motivate employees for better performance. Through division of operation units, clarification of budget for each department and utilizing the output of small units as a performance assessment indicator, the Group continues to promote the company-wide "three dimensions" performance assessment program covering the operation team of member enterprises, departments and units at headquarters and frontline stores. The Group makes brave reform of the store incentive mechanism to introduce a sharing mechanism of joint-contribution, joint-sharing and joint-undertaking. In respect of the incentive mechanism reform for front-line stores, the Group has conducted pilot trials of a store partner system in hypermarkets in certain areas to promote the stores to carry out their business activities with profits as a core target, and has lunched the store manager and store assistant joint-contracting models in supermarkets to incentivize stores to decrease costs and increase profit, the effects of which are remarkable.

Compliance risk management

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

Strategy and Planning

2018 is the first year of thorough implementation of the spirit of the 19th National Congress of the Communist Party of the PRC and also is a critical year for further implementation of the "Thirteenth Five-Year Plan" on the basis of the previous year. The Chinese economy has shifted from the stage of high speed growth into the stage of high quality development. The Chinese government, adhering to "quality first, efficiency foremost", will focus on structural reforms on the supply side and promote reforms with a focus on quality, efficiency and driving force for economic development.

The Chinese economy has gradually entered the stage of high quality development. Consumption in the PRC will evolve into a new development stage with diversified demand, continuously increasing scale and structural optimization and upgrades. With the acceleration of structural reform on the supply side, continuous and stable growth in income, and innovative and coordinated regional development, there is still ample room for increase in consumption. Physical retail will also expedite the application of modern information technology with continued innovative transformation and upgrade so as to meet customers' personalized, diversified and upgrading demand. It is expected that in 2018, the PRC consumer market will maintain stable and rapid development and continue to have a fundamental impact on economic growth, resulting in stronger recovery of physical retailing.

In 2018, the Group, upholding the belief of "starting from the heart, passionate growth, with one mind, and be brave in shouldering responsibilities", will be oriented by customer-oriented, professionalization and interconnection and implement the strategy of innovation driven transformation and development. Through building the industrial chain, strengthening the supply chain, integrating the market chain and electronization of business and organization optimizations, the Group will build an omni-channel retail model. By capturing market opportunities brought about by consumption upgrades, the Group will focus on construction of a supply chain with differentiated categories, extraordinary execution, sustainable transformation and expansion and omni-channel and digital marketing and uphold the concept of "to let consumers like us more", striving to building the Company into a leading omni-channel retailer which aims at satisfying the demands of consumers in the Yangtze River Delta.

In 2018, the Group plans to open 205 new stores, 5 of which are hypermarkets and 100 of which are supermarkets and convenience stores respectively.

In 2018, the Group will vigorously build its differentiated supply chain. The Group will continue to consolidate the fresh produce base and build compliant self-operated bases to control supply source and quality. Proprietary fresh brands will be developed with a focus on vegetables, fruits, meat and aquatic products. In addition, the Group will proactively develop its fresh food processing business, strengthen construction of the supply chain of the processing plant of baking products, fresh food and cooked food and enrich the research and development capacity of fresh food processing and product mix to enhance the added value of products with a high cost performance. The Group will also gradually establish signature categories of fresh produce, increase the proportion of fresh produce, and provide a fresh supply covering all three meals of each day for customers. The Group will proactively seize opportunities brought about by consumption upgrades. Oriented by customers' demands and focusing on category management, the Group will construct a differentiated supply chain and introduce new suppliers and expand the products according to different shopping scenarios to promote the upgrade in categories and product management. In addition, based on the needs of transformation and upgrade of stores, the Group will provide commodities after careful selection and of excellent quality at reasonable prices, which will save troubles for the customers. In terms of supply chain management and optimization of gross profit, the Group will increase the scale of joint procurement and integrate the supply chain throughout regions and segments. Through implementation of the JBP (Joint Business Plan) with key suppliers, the Group will promote the discussion on cooperation strategy and innovative business model among retailers and suppliers, share resources, enlarge scale, and increase commodity revenue. The Group will continue to expand its commodity import channel, increase the proportion of direct procurement of imported commodities, enhance the marketing of imported commodities and increase the proportion of sales of products with high gross profit. In addition, the Group will intensify its brand design and tracing capacity of brand commodities and proactively build the integration pavilion for private brands to form characteristics categories of products with high competitiveness. The Group will enhance management of all segments in the supply chain, create new category combinations, upgrade the distribution channels and integrate marketing resources through building a professional team with the goal of shaping a customer preferred product structure.

In 2018, the Group will vigorously enhance the capabilities of its operating team. Through remolding the fresh produce business, the Group aims to become an expert in fresh produce. The Group is planning to strengthen the attraction of fresh produce for customers, through strengthening the management of fresh produce in stores and innovating the operation mechanism, while also strengthening the construction of categories and enhancing all employees' service awareness. Through the adjustment to marketing effectiveness, the Group will rapidly respond to the changes in market demand and implement scheduled activities according to the annual marketing plan. With the combination of internal and external resources, marketing, promotion and publicity will be thoroughly implemented in communities. The promotional resources of stores will be subject to reasonable plans to ensure commodity displays and visual publicity in a way to create a good atmosphere for all promotional activities, striving to achieve the annual marketing budget goals. The Group will gradually improve and consolidate the standard operation manual and service manual in stores to make the work easier for the employees and finally establish a completed and effective system containing operation and service standards to promote improvements in the soft environment for shopping and improve customer engagement through allowing products to be traced to their source, building mechanisms and continuous training, evaluation, practice and inspection. The Group will proactively utilize the information system to support optimization of operation process, improve the connection of the sections of supply chain, enhance the quality of order management, improve the fulfillment of orders from the stores and control the source of inventory management, realizing further improvement in inventory turnover indicators.

In 2018, the Group will be committed to building sustainable development capacity and store transformation and upgrade. The development focus is on boutique supermarkets and community supermarkets with strengthened fresh produce business and new convenience stores. The Group will promote the transformation and upgrade of certain supermarkets to boutique supermarkets based on the conditions of core business districts and customers' consuming power. The Group will speed up the development of supermarket outlets according to the regional plan of Shanghai and, on the basis of segment determination, promote the construction of flagship supermarkets and sample supermarkets. The new model stores will be established according to new market demands and duplication and promotion will be sped up. The Group is planning to engage in strong cooperation and integrate market resources in order to build core supply chain, inject new retail elements, optimize the customer group structure and accelerate the exploration and practice of new convenience stores. The main task for hypermarkets is transformation and upgrade. Based on the different situation of business districts and property conditions of hypermarkets, the Group will provide services, optimize resources allocation, and adjust the operation structure in order to implement differentiated transformation plans. The capacity of on-spot cooking and selling will be enhanced, stores will be modularized and the shopping experience will be improved. In 2018, the Group will, in accordance with the changes in market environment, expedite the construction of its franchise business support system and build new franchise stores with the direction of enhancing the quality of the supermarket franchise business. The allocation of commodities, logistics, information, funds and other important resources will be strengthened. Through building a professional team, focusing on service and building the brand, the Group aims to realize improvements in quality and quantity and promote the increase in revenue from franchising.

In 2018, the Group will continue to make efforts to build an omni-channel sales model for new retail. The Group will optimize and improve its business capacity of the "Fast Delivery to Home" business in its exploration and practice and construct a sustainable business mode of "Fast Delivery to Home" with iteration and developments combined with the characteristics of its operation management system and supply chain. The Group will proactively promote the in-depth integration of its online and offline businesses to give full play to the flow advantage of offline physical stores and endeavor to increase members, enrich product pool, optimize the product plan for online sales and innovate the marketing model with online and offline interaction to promote the stable increase of revenue from the online business. The Group will vigorously explore accurate digital marketing and fully utilize big data and technologies to improve user experience and operation efficiency. The Group will study and leverage on the outlet coverage advantage of physical stores and plan the layout of order fulfillment and delivery network of online business to enhance the service level of online business and continuously enrich brand connation and reputation.

In 2018, the Group will further streamline the level of management, promote flattening of the organization and information communication efficiency according to the requirements on promoting the optimization of organization to gradually improve organization functions and enhance commodity, marketing and operation capacity. The Group will explore and build a remuneration assessment mechanism in line with marketization requirements and reinforce the contractual management of market-oriented introduction of talents. The Group will further improve the measures of talent cultivation including promotion, rotation and reserve and explore the transferring mechanism of application of internal employees. The innovation mechanism will be promoted to boost the operation and development strategy. The motivation model for performance increment will be enlarged and refined to extend the coverage of benefit sharing and reflect the concept of joint participation and joint operation. The Group will continue to optimize the personnel structure and improve labor efficiency. The labor efficiency of stores will be improved through streamlining the employment model. Flexible employment measures will be adopted to make the labor costs more reasonable. The Group will optimize the mobile learning model, explore internal training credit promotion system and perfect the training system of professional technical talents while gradually improving the capacity enhancement system. The Group will build the human resources sharing mechanism of Lianhua and a recruitment resources sharing mechanism to further enhance the construction of a management team for companies in other cities and provinces.

In 2018, the Group will continue to strictly control costs and expenditures, put more emphasis on the analysis of investment and yield, control of various operating expenditures and the reasonableness of rental costs. The rental costs will be lowered through renewal of lease for premium outlets and negotiation on rental reduction for the outlets incurring losses. More attention will also be paid to reasonableness of employment. The employment method will be more flexible. Hourly worker, contract worker and other flexible means will be applied to reduce labor costs.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company for the year ended 31 December 2017.

Final Dividend

The board of Directors (the "**Board**") of the Company recommends not to distribute final dividend for the year ended 31 December 2017.

Audit Committee

The audit committee of the Company has reviewed the annual results of the Company for the year ended 31 December 2017 and confirmed that they are prepared in accordance with the applicable accounting standards, laws and regulations and appropriate disclosures have been made.

Scope of Work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2017 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu ("**Deloitte**"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte on this announcement.

Compliance with Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the 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 of the Listing Rules as code of conduct for securities transactions by all Directors. After specific enquiries to all Directors, the Board is pleased to announce that all of the Directors have fully complied with the provisions under the Model Code for the financial year ended 31 December 2017.

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

The Board is pleased to confirm that except for the matters as set out below, the Company has complied with all the code provisions in the "Corporate Governance Code" (the "**Code**") under Appendix 14 of the Listing Rules during the financial year ended 31 December 2017. 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:

The code provision A.4.2 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, the Company deviated from the aforementioned provision of the Code.

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

Mr. Zhang Xuan-song, the then non-executive Director, Mr. Zhang Jing-yi, the then non-executive Director, Mr. Gu Guo-jian, the then independent non-executive Director, and Mr. Wang Jin, the then independent non-executive Director, were unable to attend the 15th meeting of the fifth session of the Board convened on 14 March 2017 by the Company due to their other business commitments.

Mr. Qian Jian-qiang, a non-executive Director, and Mr. Wong Tak Hung, a non-executive Director, were unable to attend the 17th meeting of the fifth session of the Board convened on 29 March 2017 by the Company due to their other business commitments.

Mr. Zhang Ye, the then 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.

Mr. Zhang Ye, the then non-executive Director, Mr. Qian Jian-qiang, a non-executive Director, and Mr. Lee Kwok Ming, Don, an 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.

Mr. Wong Tak Hung, a non-executive Director, was unable to attend the third meeting of the sixth session of the Board convened on 27 September 2017 by the Company due to his other business commitments.

Mr. Ye Yong-ming, a non-executive Director, Mr. Dong Zheng, a non-executive Director, Mr. Qian Jian-qiang, a non-executive Director and Mr. Zhang Jun, an independent non-executive Director, were unable to attend the 4th meeting of the sixth session of the Board convened on 28 November 2017 by the Company due to their other business commitments.

Mr. Zhang Ye, the then non-executive Director, was unable to attend the 2016 annual general meeting of the Company convened on 12 June 2017 (the "**2016 AGM**") due to his other business commitments.

Mr. Qian Jian-qiang, a non-executive Director, Mr. Wong Tak Hung, a non-executive Director, and Mr. Xia Da-wei, an independent non-executive Director, were unable to attend the extraordinary general meeting of the Company convened on 17 July 2017 (the "**1st EGM**") due to their other business commitments.

Mr. Ye Yong-ming, a non-executive Director, Mr. Dong Zheng, a non-executive Director, Mr. Qian Jian-qiang, a non-executive Director, and Mr. Zhang Jun, an independent non-executive Director, were unable to attend the extraordinary general meeting of the Company convened on 28 November 2017 (the "**2nd EGM**") due to their other business commitments.

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

Moreover, the Company has provided the relevant materials and all necessary information relating to the 2016 AGM, the 1st EGM and 2nd EGM (the "**General Meetings**") to all members of the Board before the respective General Meetings. All ordinary resolutions and special resolutions considered at the General Meetings were passed smoothly. The Company sent the related minutes of the General Meetings to all members of the Board after the General Meetings so that the Director who was unable to attend the meeting was able to understand the resolutions passed at the meetings.

Publication of Annual Report

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

RESIGNATION AND APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR, MEMBER OF REMUNERATION AND APPRAISAL COMMITTEE AND MEMBER OF NOMINATION COMMITTEE

The Board announces that Ms. Sheng Yan ("**Ms. Sheng**") tendered her resignation as an independent non-executive Director, a member of the remuneration and appraisal committee and a member of the nomination committee of the Company due to her personal reason.

The above resignation of Ms. Sheng takes effect on 28 March 2018, the date on which the appointment of the new Director to fill the vacancy was approved by the Board. Ms. Sheng has confirmed that she has no disagreement with the Board and there is no matter relating to her resignation that need to be brought to the attention of the shareholders of the Company and The Stock Exchange of Hong Kong Limited.

The Board has convened a meeting (the "**Meeting**") on 28 March 2018 in accordance with the requirements of the Company Law of the PRC and the articles of association of the Company. At the Meeting, the Board approved the appointment of Mr. Chen Wei ("**Mr. Chen**") *(Note)* as an independent non-executive Director, a member of the remuneration and appraisal committee and a member of the nomination committee of the Company for a term commencing from 28 March 2018 until the conclusion of the annual general meeting of the Company for the year 2017.

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

Shanghai, PRC, 28 March 2018

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

Executive director:	*Xu Tao;*
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, Chen Wei and Zhang Jun.*

Note:

Mr. Chen Wei, aged 56, is the Professor of Management Practice at Peking University HSBC Business School (PHBS) and Director of Centre of Innovation and Entrepreneurship at PHBS. Prior to joining PHBS, Mr. Chen was the Senior Vice President for Didi Chuxing. Before Didi, Mr. Chen served as Executive Vice President and CHRO at Vanke Enterprises Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000002). Mr. Chen started up the Hay Group consulting business in China and later served as Managing Director for Greater China and North East Asia. He became the Global Executive Team member in 2009 and Board Member in 2013 for Hay Group. Mr. Chen also worked for Coca Cola and Nike in marketing and general management earlier in his business career. Mr. Chen holds a Bachelor's degree in Psychology from East China Normal University and a Master's degree in Workforce Learning and Development from Pennsylvania State University in USA. He has also graduated from AMP (Advanced Management Program) from Harvard Business School.

Mr. Chen was elected as an independent non-executive Director 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. Chen will enter into a service contact with the Company and he will be entitled to receive remuneration RMB150,000 (after taxation) per year from the Company during the term of directorship, the amount of which was determined by the Board taking into account the condition of similar companies in the market and the prevailing market conditions and approved by the shareholders of the Company at the 2016 AGM.

As at the date of this announcement, Mr. Chen 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. Chen 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. Chen 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 of Hong Kong Limited.