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

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

(Stock Code: 00980)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 AND CHANGE OF NON-EXECUTIVE DIRECTOR

FINANCIAL HIGHLIGHTS

As at 30 June 2018, the Group recorded the following:

- Turnover amounted to RMB13,079 million, representing a decrease of approximately 1.2% year on year. The same store sales increased by approximately 1.20% year over year, in which the hypermarket segment increased by approximately 0.19%, the supermarket segment increased by approximately 3.92% and the convenience store segment decreased by approximately 1.96%.

- Gross profit amounted to approximately RMB1,886 million, representing a decrease of 6.0% year on year. Gross profit margin was approximately 14.42%. Consolidated income margin was approximately 24.82%.

- Operating profit amounted to approximately RMB213 million and operating profit margin was 1.63%. Profit attributable to the shareholders of the Company amounted to approximately RMB39 million, turning loss to profit year over year. Basic earnings per share amounted to RMB0.035.

- The total number of outlets reached 3,425. During the period under review, the Group opened 108 new outlets, including, two newly opened hypermarkets, 71 newly opened supermarkets (including eight directly operated stores and 63 franchised stores), 35 newly-opened convenience stores (including 13 directly operated stores and 22 franchised stores). The Group maintained its No. 1 position in number of outlets and further solidified outlet quality.

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

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	NOTES	***RMB'000***	*RMB'000*
Turnover	*3&4*	**13,078,590**	13,237,885
Cost of sales		**(11,192,251)**	(11,232,272)
Gross profit		**1,886,339**	2,005,613
Other revenue	*3&4*		
– Services		**803,609**	722,775
– Rental		**314,844**	331,375
Other income and other gains and losses	*5*	**241,072**	286,761
Selling and distribution expenses		**(2,604,071)**	(2,750,690)
Administrative expenses		**(390,777)**	(360,748)
Other expenses		**(38,044)**	(70,439)
Share of profits of associates		**26,769**	19,781
Finance costs		**–**	(62)
Profit before taxation	*6*	**239,741**	184,366
Income tax expense	*7*	**(111,571)**	(107,877)
Profit for the period		**128,170**	76,489
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain on available-for-sale financial assets		**–**	20,309
Income tax relating to items that may be reclassified subsequently		**–**	(5,077)
Other comprehensive income for the period, net of income tax		**–**	15,232
Total comprehensive income for the period		**128,170**	91,721

(Continued)

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	NOTES	***RMB'000***	*RMB'000*
Profit (loss) for the period attribute to:			
Owners of the Company		**39,370**	(4,820)
Non-controlling interests		**88,800**	81,309
		128,170	76,489
Total comprehensive income for the period attributable to:			
Owners of the Company		**39,370**	8,977
Non-controlling interests		**88,800**	82,744
		128,170	91,721
Earnings (loss) per share – basic and diluted	*8*	**RMB0.035**	RMB (0.004)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

	NOTES	**30 June 2018 (Unaudited)** ***RMB'000***	31 December 2017 (Audited) *RMB'000*
Non-current assets			
Property, plant and equipment		**3,068,914**	3,176,870
Construction in progress		**349,808**	313,168
Land use rights		**852,053**	865,234
Intangible assets		**200,863**	198,430
Interests in associates		**718,470**	511,251
Available-for-sale financial assets		**–**	93,589
Financial assets at fair value through profit or loss ("**FVTPL**")		**58,469**	–
Term deposits		**45,000**	1,200,000
Prepaid rental		**47,097**	19,617
Deferred tax assets		**76,476**	74,150
Other non-current assets		**13,563**	14,292
		5,430,713	6,466,601
Current assets			
Inventories		**2,065,089**	2,414,652
Trade receivables	*9*	**133,159**	133,564
Deposits, prepayments and other receivables		**1,077,049**	1,179,216
Amounts due from fellow subsidiaries		**18,713**	15,050
Amounts due from associates		**194**	106
Financial assets at FVTPL		**3,258,910**	2,287,784
Term deposits		**2,386,000**	880,000
Bank balances and cash		**2,255,473**	3,577,507
		11,194,587	10,487,879
Total assets		**16,625,300**	16,954,480

(Continued)

	NOTES	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Capital and reserves			
Share capital		**1,119,600**	1,119,600
Reserves		**1,295,491**	1,073,552
Equity attributable to owners of the Company		**2,415,091**	2,193,152
Non-controlling interests		**356,690**	295,681
Total equity		**2,771,781**	2,488,833
Non-current liability			
Deferred tax liabilities		**70,732**	76,625
Current liabilities			
Trade payables	*10*	**3,738,102**	3,818,411
Other payables and accruals		**2,119,864**	2,383,756
Contract liabilities		**7,628,918**	–
Coupon liabilities		**–**	7,846,974
Deferred income		**19,454**	42,897
Amounts due to shareholder		**28,096**	–
Amounts due to fellow subsidiaries		**69,034**	55,978
Amounts due to associates		**1,133**	1,278
Bank borrowing		**–**	2,000
Tax payable		**178,186**	237,728
		13,782,787	14,389,022
Total liabilities		**13,853,519**	14,465,647
Total equity and liabilities		**16,625,300**	16,954,480
Net current liabilities		**(2,588,200)**	(3,901,143)
Total assets less current liabilities		**2,842,513**	2,565,458

1. PRINCIPAL ACTIVITIES

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*
HK(IFRIC)-Int 22 Amendments to HKFRS 2	*Foreign Currency Transactions and Advance Consideration Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*
Amendments to HKAS 40	*Transfers of Investment Property*

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments, the impacts on opening condensed consolidated statement of financial position arising from the application of all new standards are described as below.

2.1 *Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards*

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017 (Audited) *RMB'000*	HKFRS 15 *RMB'000*	HKFRS 9 *RMB'000*	1 January 2018 (Restated) *RMB'000*
Non-current Assets				
Available-for-sale investments	93,589	–	(93,589)	–
Financial assets at FVTPL	–	–	250,274	250,274
Others with no adjustments	6,373,012	–	–	6,373,012
Current Assets				
Others with no adjustments	10,487,879	–	–	10,487,879
Capital and Reserves				
Share capital	1,119,600	–	–	1,119,600
Reserves	603,808	–	(17,450)	586,358
Retained profits	469,744	43,829	159,892	673,465
Non-controlling interests	295,681	12,241	14,243	322,165
Non-current Liabilities				
Deferred tax liabilities	76,625	–	–	76,625
Current Liabilities				
Other payables and accruals	2,383,756	(57,427)	–	2,326,329
Contract liabilities	–	7,850,393	–	7,850,393
Coupon liabilities	7,846,974	(7,846,974)	–	–
Deferred income	42,897	(20,752)	–	22,145
Tax payable	237,728	18,690	–	256,418
Others with no adjustments	3,877,667	–	–	3,877,667

3. TURNOVER AND OTHER REVENUE

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Type of Revenue		
Turnover		
Sales of merchandises	**13,078,590**	13,237,885
Services		
Income from suppliers	**781,457**	699,055
Royalty income from franchised stores	**20,400**	21,515
Commission income from coupon redemption at other retailers	**1,752**	2,205
	803,609	722,775
Rental		
Gross rental income from leasing of shop premises	**314,844**	331,375
Total	**14,197,043**	14,292,035
Timing of revenue recognition		
At a point in time	**13,078,590**	13,237,885
Over time	**803,609**	722,775
Rental income	**314,844**	331,375
Total	**14,197,043**	14,292,035

4. SEGMENT INFORMATION

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

The reportable operating segments of the Group are as follows:

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

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

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

	Segment revenue *(note)*		**Segment results**	
	Six months ended 30 June		**Six months ended 30 June**	
	2018	2017	**2018**	2017
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hypermarkets	**8,588,598**	8,886,810	**235,847**	112,344
Supermarkets	**4,577,184**	4,364,797	**104,424**	137,929
Convenience stores	**984,235**	993,317	**(70,383)**	(63,461)
Other operations	**47,026**	47,111	**(2,042)**	10,579
	14,197,043	14,292,035	**267,846**	197,391

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

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Segment results	**267,846**	197,391
Unallocated interest income	**41,714**	35,019
Unallocated income	**(3,734)**	–
Unallocated expenses	**(92,854)**	(67,825)
Share of profits of associates	**26,769**	19,781
Profit before taxation	**239,741**	184,366

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

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

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

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest income on bank balances and term deposits	**81,194**	97,067
Government subsidies *(Note i)*	**26,577**	44,879
Change in fair value of financial assets at FVTPL	**52,624**	48,490
Loss on disposal of financial assets at FVTPL	**(1,736)**	–
Gain on disposal of property, plant and equipment	**–**	3,580
Salvage sales	**16,497**	13,703
Early termination of an operating lease contract by lessor *(Note ii)*	**24,000**	54,830
Income from aged unutilised contract liabilities *(Note iii)*	**20,623**	–
Others	**21,293**	24,212
Total	**241,072**	286,761

Notes:

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

(ii) On 25 January 2018, a subsidiary of the Group entered into an agreement with its lessor on early termination of the lease contract at the request of lessor. According to the agreement, the lessor would pay RMB40,000,000 in total as compensation and the payment schedule is made according to the process of the completion of the termination obligations set out in the early termination contract. The compensation of RMB24,000,000 has been received during the period.

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 appraiser. The compensation had been received during the prior period.

(iii) HKFRS 15 includes further guidance regarding the customers' unexercised rights ("**breakage**"). The Group expects to be entitled to the breakage amount in contract liabilities, and the amount is recognized as revenue in the proportion to the pattern of rights exercised by the customer.

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
After charging:		
Amortisation and depreciation		
Amortisation of other non-current assets	**729**	730
Amortisation of intangible assets – software (included in selling and distribution expenses/administrative expense)	**7,590**	5,387
Amortisation of land use rights	**13,184**	4,375
Depreciation of property, plant and equipment	**190,800**	191,775
	212,303	202,267
Cost of inventories recognised as an expense	**11,192,251**	11,232,272
Minimum lease payments in respect of rented premises	**745,631**	783,875
Staff costs	**1,367,916**	1,435,785
After crediting:		
Share of profits of associates		
Share of profit before taxation	**34,738**	20,906
Less: Share of taxation	**7,969**	1,125
	26,769	19,781

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current tax on PRC Enterprise Income Tax ("**EIT**")	**119,790**	139,663
Deferred tax credit	**(8,219)**	(31,786)
	111,571	107,877

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

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

As of 30 June 2018, the Group had unused tax losses for which no deferred tax asset had been recognised due to the unpredictability of future profit streams.

8. EARNINGS (LOSS) PER SHARE – BASIC AND DILUTED

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
Profit (Loss) for the period attributable to owners of the Company	**39,370**	(4,820)

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**1,119,600,000**	1,119,600,000

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

9. TRADE RECEIVABLES

The aging analysis of the trade receivables net of allowance for doubtful debts at the end of the reporting period, arising principally from sales of merchandise to franchised stores and wholesalers with credit terms ranging from 30 to 60 days (31 December 2017: 30 to 60 days), is as follows:

	30 June 2018 (Unaudited) ***RMB'000***	31 December 2017 (Audited) *RMB'000*
Within 30 days	**128,623**	129,850
31 – 60 days	**253**	777
61 – 90 days	**1,625**	–
91 days – one year	**2,658**	2,937
	133,159	133,564

10. TRADE PAYABLES

The aging analysis of trade payables at the end of the reporting period, arising mainly from purchase of merchandise with credit terms ranging from 30 to 60 days (31 December 2017: 30 to 60 days), is as follows:

	30 June 2018 (Unaudited) ***RMB'000***	31 December 2017 (Audited) *RMB'000*
Within 30 days	**1,741,161**	2,165,607
31 – 60 days	**644,186**	555,930
61 – 90 days	**354,619**	322,647
91 days – one year	**998,136**	774,227
	3,738,102	3,818,411

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

Based on the data from the National Bureau of Statistics of the PRC, in the first half of 2018, China's gross domestic product (GDP) achieved a year-on-year growth of 6.8%, representing a decrease of 0.1 percentage point in growth rate compared with the same period of last year. The growth rate in the second quarter was 6.7%, representing a decrease of 0.1 percentage point in growth rate compared with the first quarter. In the first half of 2018, in the face of the complicated domestic and international situation, the Chinese government, upholding the general mandate of seeking improvements and maintaining stabilization with a focus on supply-side structural reform following the requirements on high quality development, forged ahead with determination and solidly carried out work. The transformation and upgrading achieved outstanding results, resulting in continuous improvements in quality and efficiency, and the economic operation maintained a steady and positive trend.

Based on the data from the National Bureau of Statistics of the PRC, in the first half of 2018, total retail sales of consumer goods nationwide had a nominal year-on-year growth of 9.4%, representing a decrease of 1.0 percentage point in growth rate 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 7.5%, representing a decrease of 1.2 percentage points in growth rate compared to the same period of last year.

Based on the data from the National Bureau of Statistics of the PRC, in the first half of 2018, the national disposable income per capita had an actual growth of 6.6%, representing a year-on-year decrease of 0.7 percentage point in growth rate. The national consumption expenditure per capita had an actual increase of 6.7%, representing an increase of 0.6 percentage point in growth rate compared to the same period of last year. Driven by factors including rising per capita income, improvements to the social security system, and changes in the age structure of the population, China's consumption rate has shown a trend of recovery. In the first half of 2018, the contribution rate of final consumption expenditure to economic growth was 78.5%, representing an increase of 14.2 percentage points compared to the same period of last year.

In the first half of 2018, China's retail industry sales grew steadily, which led to improved operating efficiency. With the acceleration of innovation and transformation and further deepening of integration of diversified industries, new segments and new scenes continued to emerge and the growth rate of physical segments including convenience stores, supermarkets, and department stores accelerated, and the proportion of online retail continuously increased. According to the data released by the Ministry of Commerce of the PRC, in the first half of 2018, retail sales of 5,000 key enterprises monitored by the Ministry of Commerce increased by 4.6% year-on-year, 0.2 percentage point higher in growth rate than that of the same period of last year. In particular, the sales of convenience stores, supermarkets and department stores increased by 7.6%, 4.5% and 1.6% year-on-year in the first half of the year, respectively, and the growth rate increased by 0.4, 0.6 and 0.3 percentage point, respectively.

In the first half of 2018, Chinese retail companies, including the Group, vigorously developed quality retail, cross-industry retail, smart retail and green retail and focused on improving supply quality and efficiency so as to cater to the trend of consumption upgrading.

Financial Review

Turnover and consolidated income

During the period under review, the Group's turnover amounted to RMB13,079 million, decreased by approximately RMB159 million when compared with the same period of last year, representing a decrease of 1.2% year over year, and same store sales increased by approximately 1.20%, mainly due to the fact that, as a response to the changes in market environment, the Group has been adjusting the layout of stores since 2017, and closed certain stores that were incurring significant losses in order to improve the profitability of the overall physical stores, resulting in a decrease of 170 stores or 4.7% compared to the same period of last year.

During the period under review, as a result of the year-on-year decrease of turnover, the Group's gross profit amounted to approximately RMB1,886 million, representing a decrease of approximately 6.0% year over year, and the gross profit margin decreased by approximately 0.73 percentage point year on year.

During the period under review, the consolidated income of the Group was approximately RMB3,246 million, representing a decrease of 3.0% year over year, mainly attributable to (1) a decrease in commodity revenue as a result of the decrease in gross profit margin of commodities; (2) a decrease in revenue from merchants solicitation caused by the closure of stores.

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

Operating cost and net profit

During the period under review, the total distribution costs and administrative expenses of the Group amounted to approximately RMB2,994,848 thousand, decreased by approximately 3.7% or RMB116,590 thousand year on year. The decrease was mainly attributable to: (1) a decrease in rental expenses of approximately RMB38,244 thousand and a decrease in water and electricity charges of approximately RMB20,080 thousand as a result of the closure of some stores with losses through rational adjustments of store layouts; and (2) a decrease in labour costs of approximately RMB67,868 thousand due to adjustment to the personnel structure and a decrease in the total number of personnel.

During the period under review, the Group recorded an operating profit of approximately RMB212,972 thousand, with a year-on-year increase of approximately 29.4%, and an operating profit margin of 1.63%, representing an increase of 0.39 percentage point over the same period of last year of 1.24%.

During the period under review, the revenue of associated companies attributable to the Group was RMB26,769 thousand, with a year-on-year increase of approximately 35.3%. As of 30 June 2018, Shanghai Carhua Supermarket Company Limited ("**Shanghai Carhua**") recorded an operating profit of approximately RMB45,850 thousand, with a year-on-year increase of 84.1%, and had a total of 30 outlets. During the period under review, the Group recognized the return on investment of Bailian E-commerce Co., Ltd ("**Bailian E-commerce**"), which was about RMB11,207 thousand.

During the period under review, the tax expenses of the Group were approximately RMB112 million, basically the same when compared year over year. The Group proactively responded to the impact of the latest taxation policy on enterprise and paid close attention to the government's financial support policy mainly through seeking to obtain preferential policies from various local governments in order to further lower the tax rate of the Group.

During the period under review, the Group recorded a net profit of approximately RMB128,170 thousand, representing an increase of approximately 67.6% year over year. During the period under review, the Group focused on exploration of new retail, deepening the integration of omni-channel sales models, improving shopping convenience, enhancing online sales capabilities and increasing the size of same store sales. The Group sorted the categories of commodities supplied, proactively created a differentiated supply chain to integrate the Group's resources, improved the service awareness to suppliers, and strengthened the ability of negotiation with suppliers, so as to increase service income. In addition, the optimization of source procurement network for fresh produce and development of self-operated fresh produce bases provided powerful support for the expansion of fresh food category in stores. During the period under review, the Group further optimised its stores and implemented cost reduction and efficiency enhancement policy, resulting in obvious effects in cost control. During the period under review, the Group's net profit attributable to the shareholders amounted to approximately RMB39,370 thousand and the net profit margin attributable to the shareholders was approximately 0.30%. Based on the 1,119.6 million shares issued by the Group, the basic earnings per share was approximately RMB0.035.

Cash flow

During the period under review, the net cash outflow of the Group was RMB1,322,034 thousand. It was mainly due to the effects of term deposit and increase in purchase of financial assets measured by fair value and the changes of which were recorded into profit or loss. Cash and various balance at bank as of the end of the period was RMB4,686,473 thousand, representing a decrease of RMB972 million compared with the beginning of the year. The decline was mainly due to decrease in debt certificates and increase in purchase of financial assets measured by fair value and the changes of which were recorded into profit or loss.

As of 30 June 2018, the accounts payable turnover period of the Group was 63 days and the inventory turnover period was approximately 38 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 30 June 2018, there were no arbitrage financial instruments in issue by the Group.

Retail businesses operations

Hypermarkets

During the period under review, the hypermarket segment of the Group recorded a turnover of approximately RMB7,837,668 thousand, accounting for approximately 59.9% of the Group's turnover, representing a decrease of approximately 4.3% year over year. Same store sales had a year-on-year increase of approximately 0.19%. During the period under review, the hypermarket segment optimised resource allocation, implemented differentiated transformation, streamlined the commodity mix, and adjusted category connectivity. The hypermarket segment recorded a gross profit of approximately RMB1,124,811 thousand. The gross profit margin decreased by 0.21 percentage point year over year to 14.35%. The consolidated income was approximately RMB2,020,928 thousand, representing a year-on-year decrease of approximately RMB49,210 thousand. The consolidated income margin increased by 0.49 percentage point year-on-year to approximately 25.78%. During the period under review, the hypermarket segment recorded an operating profit of approximately RMB235,847 thousand, representing a year-on-year increase of approximately RMB123,503 thousand. The operating profit margin increased by 1.64 percentage points year over year to 3.01%. This was mainly due to: (1) optimization of stores and closure of certain stores incurring significant losses; (2) adjustment to the personnel structure and reduction of the total number of personnel; and (3) thorough transformation of stores in Shanghai, resulting in a year-on-year increase in income from merchants solicitation by approximately RMB15,875 thousand. During the period under review, the distribution costs and administrative expenses of the segment decreased by approximately RMB139,761 thousand, of which the labour costs decreased by approximately RMB73,080 thousand year on year.

As of 30 June	**2018**	2017
Gross Profit Margin (%)	**14.35**	14.56
Consolidated Income Margin (%)	**25.78**	25.29
Operating Profit Margin (%)	**3.01**	1.37

Supermarkets

During the period under review, the turnover of the Group's supermarket segment reached approximately RMB4,256,477 thousand with a year-on-year increase of approximately 4.8%, accounting for approximately 32.5% of the Group's turnover. Same store sales increased by approximately 3.92% year over year. The gross profit of the supermarket segment was approximately RMB588,484 thousand, with a year-on-year decrease of approximately 9.2%. The gross profit margin was 13.83%, with a year-on-year decrease of 2.12 percentage points. During the period under review, the supermarket segment focused on space planning for categories, increased the proportion of sales of fresh produce, developed community-based stores, and improved customer stickiness through more favourable prices. The consolidated income margin of the supermarket segment was 22.30%, with a year-on-year decrease of 2.36 percentage points. The operating profit of the supermarket segment was approximately RMB104,424 thousand. The operating profit margin was 2.45%. Strategic plans for the supermarket segment were to: (1) continue to promote the transformation of stores and the upgrading of commodity categories, and create a new fresh produce supermarket model; (2) improve the quality of franchise business and promote the growth of consolidated income from franchise business; and (3) explore in-depth online and offline integration to accelerate the creation of mobile shopping scenarios and enhance the shopping experience of convenience.

As of 30 June	**2018**	2017
Gross Profit Margin (%)	**13.83**	15.95
Consolidated Income Margin (%)	**22.30**	24.66
Operating Profit Margin (%)	**2.45**	3.40

Convenience Stores

During the period under review, the turnover of the Group's convenience store segment recorded a year-on-year decrease of approximately 0.7% to approximately RMB939,601 thousand, which accounted for approximately 7.2% of the Group's turnover. Same store sales had a year-on-year decrease of approximately 1.96%. During the period under review, the convenience store segment mainly focused on the adjustment of the store structure and optimization of products, speeding up the introduction of new and hot-sale products and exploring innovative marketing model, which resulted in a significant growth of gross profit. The convenience store segment recorded a gross profit of approximately RMB165,480 thousand, with a year-on-year increase of approximately RMB5,351 thousand. The gross profit margin increased by 0.68 percentage point year over year to 17.61%. The consolidated income margin increased by 0.06 percentage point year over year to 23.41%. During the period under review, the distribution costs and administrative expenses of the convenience store segment increased by approximately RMB5,973 thousand year over year, mainly due to the continued increase in rental costs which increased by approximately RMB6,188 thousand year over year. During the period under review, the convenience store segment recorded an operating loss of approximately RMB70,383 thousand.

As of 30 June	**2018**	2017
Gross Profit Margin (%)	**17.61**	16.93
Consolidated Income Margin (%)	**23.41**	23.35
Operating Profit Margin (%)	**–7.49**	–6.71

Analysis of Financial Performance

	For the six months ended 30 June		
	RMB million		
	2018	2017	Year-on-year changes (%)
Turnover	**13,079**	13,238	–1.2
Gross profit	**1,886**	2,006	–6.0
Consolidated income	**3,246**	3,347	–3.0
Operating profit	**213**	165	29.4
Taxation	**112**	108	3.7
Profit for the period attributable to shareholders of the Company	**39**	–5	916.8
Basic earnings per share (RMB)	**0.035**	–0.004	916.8
Interim dividend per share (RMB)	**Not distributed**	Not distributed	N/A

Details of the Group's pledged assets

As of 30 June 2018, the Group did not have any pledged assets.

Exposure to foreign exchange risks

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

Share capital

As of 30 June 2018, the issued share capital of the Company was as follows:

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

Contingent liabilities

As of 30 June 2018, the Group did not have any material contingent liabilities.

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. In the first half of 2018, the Group opened 108 new stores, 23 of which were new directly-operated stores and 85 were new franchised stores. Among the new stores, 70 stores were located in the Yangtze River Delta, accounting for 64.81% of the new stores. On the other hand, the Group adapted to the changes in market environment and reorganized the stores that were experiencing substantial losses to improve the overall quality of the physical stores. As a result, 104 stores were closed, including 39 directly-operated stores and 65 franchised stores.

During the period under review, the hypermarket segment improved the operational quality and economic benefits by means of making adjustments and transformation, rationally allocating resources and sorting out stores with comparatively bigger losses. During the period under review, two new hypermarkets were opened, of which one was located in Hangzhou, Zhejiang Province and the other in Quzhou, Zhejiang Province, respectively. Three stores were closed. The total number of stores recorded a net decrease of one.

During the period under review, the supermarket segment focused on sustainable development. The directly-operated business primarily focused on transformation and upgrading, while the franchise business primarily focused on steady enhancement. In the first half of 2018, 71 new supermarkets were opened, including eight directly-operated stores and 63 franchised stores and 34 supermarkets were closed, including nine directly-operated stores and 25 franchised stores. The total number of stores recorded a net increase of 37.

During the period under review, the convenience store segment mainly focused on the adjustment of outlet structure and optimisation of commodity structure, accelerated introduction of new products and adopted innovative marketing model. In the first half of 2018, 35 new convenience stores were opened, including 13 directly-operated stores and 22 franchised stores. The total number of stores recorded a net decrease of 32.

As of 30 June 2018, the Group had 3,425 stores in total, representing a net increase of four stores compared to the end of 2017, the first net increase in the number of stores since 2011. Approximately 81.31% of the Group's stores are located in eastern China.

	Hypermarkets	**Supermarkets**	**Convenience Stores**	**Total**
Direct operation	144	555	795	1,494
Franchise operation	–	1,304	627	1,931
Total	144	1,859	1,422	3,425

Note: The data mentioned above were as of 30 June 2018.

Construction of a supply chain with differentiated categories

During the period under review, the Group focused on building a differentiated supply chain. By expanding direct purchase from the agricultural product bases, the Group conducted strategic cooperation and established production and marketing relationship with a number of agricultural product planting and processing enterprises. The Group implemented the "boosting agriculture through purchase and marketing" program for unmarketable agricultural products and established a national layout of sources featured by "local supply at the sources". The Group intensified overseas direct purchase of fruits, meat and aquatic products to expand supply chain channels. While consolidating fresh food bases and creating compliant self-operated bases, the Group continuously sought for high-quality sources in core production areas as direct purchase bases and set parameters of quality indicators including quality, taste and sugar degree, and safety degree, striving to incubate the private-label fruit brand of "Lianhua Tiantian".

During the period under review, the Group focused on promoting category upgrading. In respect of fresh produce, major efforts were exerted to promote cooperation with suppliers including central factory of baking and central factory of cooked food, speed up the research and development, production and marketing of new products, and enrich the research and development capabilities and product structure of fresh processed products, to gradually form special and advantageous categories of fresh produce. For normal temperature categories, the Group quickly introduced the hot-selling online popular commodities, completed the category innovation plan, developed national famous premium brands, and reconstructed the important brand supply chain. Simultaneously, the Group proactively explored the segment/store combination solution. The hypermarket segment combined with the determined eight themed scenes of normal temperature categories and the highlight of on-spot cooking introduced for fresh produce category, streamlined the commodity structure, and adjusted the category connection, reduced the display space of low area-effectiveness and expanded the space for key development categories. For the supermarket segment, based on the identified store type and performance, the Group launched space planning for a total of eight types of categories for three types of stores, i.e. community selective store, community fresh produce store and community convenience store.

During the period under review, the Group vigorously strengthened nationwide suppliers management and optimisation of gross profit, increased the scale of joint procurement and deeply integrated the supply chain throughout regions and segments. Through implementation of the JBP (Joint Business Plan) with key suppliers, the Group promoted the discussion on cooperation strategy and innovative business model among retailers and suppliers. In terms of private label brand, the Group rationally planned brand development, introduced differentiated quality categories, and strengthened private label brand promotions, to increase the sales amount and proportion of private label brands. As to imported brand, the channels for imported commodities were expanded to increase the proportion of direct purchase of imported commodities and enhance the marketing capacity of imported commodities.

Excellent implementation to improve operational capability

During the period under review, the Group focused on excellent implementation to enhance the capability of the operation team. The establishment of operational standards and deepened implementation thereof facilitated the promotion of operational standard models and strengthened the display specifications of products in fresh produce areas and stacking products. The Group formulated the evening management standards and product display requirements, emphasized various safety and security work and warehouse and backyard management requirements as well as classified storage management and identification specifications of commodities, and implemented special execution requirements. The customer service manual which stressed functional requirements of service points was formulated to standardize the specifications on the appearance of stores. Centring on realisation of "making our customers become more committed to us", the Group formulated the annual service promotion plan and promoted the comprehensive assessment and appraisal of the five-star stores to enhance the overall service level and reputation of the Group's stores.

During the period under review, the Group focused on the annual marketing plan to ensure seamless connection of activities throughout the year. The Group strengthened the integration of marketing resources by unifying the theme, time period and pre-set goals of activities, and specially planned integrated marketing activities including the CNY Good Start, the anniversary of Lianhua, and the mid-year promotion in June. Focusing on innovation of marketing means, the Group created the promotion activity of fresh produce discount day, promoted WeChat marketing and cross-industry cooperation marketing, and made full use of "new retail" thinking to empower new channels and new marketing including cooperation with payment platform companies to carry out theme activities, utilization of member points for equity marketing, launch of Delivery to Home sales assisting tools, etc. In addition, the Group strengthened member marketing to increase member participation, increased the proportion of sales by membership through member-only promotions so as to increase the stickiness of members. Based on marketing activities, the Group promoted public welfare marketing activities and carried out public welfare activities including "Light Off for One Hour" and "Public Welfare Assistance for Agriculture, We Are Acting" which greatly enhanced the brand image of the Group.

During the period under review, the Group exerted great efforts on the construction and advancement of information system. The Group promoted Lianhua ERP supply chain business process design and ERP implementation project and vigorously planned and constructed the overall process framework of Lianhua supply chain. The Group was committed to promoting the optimisation of logistics and enhancement of efficiency, sorting out the major categories of commodity offerings for logistics operations, and improving the preparation accuracy of the logistics central warehouse. The core business process was streamlined to optimise the order process and improve the quality of stocking management of the logistics central warehouse. The Group also optimised the logistics distribution plan of fresh produce to improve distribution service level and quality.

Sustainable transformation and expansion

During the period under review, the Group enhanced its capacity for sustainable development and continued to promote the transformation and upgrading of stores. The Group, following the development idea of seeking for innovation and breakthrough, strove to expand new and quality outlets. In Eastern China, according to the urban development plan, the Group accelerated the store layout and model determination of supermarket segment, renewed leases of premium outlets, and negotiated on rental reduction for outlets incurring losses while strengthening strategic cooperation with various business groups and fully expanding outlet resources. In other regions, the Group mainly expedited the exploration of small business segment development model.

During the period under review, the Group continued to promote the transformation and upgrading of stores. For hypermarkets, the Group determined the 3.0 version of the key plan which was positioned as a community centre with high-quality experience and social networking functions. By optimising resource allocation, adjusting the operating structure, strengthening the on-spot cooking and sales capability, and realizing the modularization of department stores, the Group made great efforts in building a one-stop community platform for shopping, leisure and living in order to increase the customers' shopping experience. For supermarkets, the Group put forth efforts to build brand-new fresh produce supermarket with full range, clear classification and quantitative display of fresh produce by expanding the fresh produce operation area and increasing the proportion of fruit and vegetables. At the same time, the Group explored accelerated online and offline integration and satisfied consumers' requirements for "daily life one-stop" functions and enhanced the shopping experience through the design of self-service check-out plus purchase by scanning QR code, O2O scene creation and online warehouse of stores.

During the period under review, the Group proactively promoted the quick profiting of the franchisees and the set of the new franchise model. Based on franchisees' needs, the Group laid the emphasis on optimising the franchise support system in supermarket segment and strengthened the supply chain support ability to enhance the purchase rate of franchised stores. The logistics capability was improved through shortening the order cycle and the information support capacity was enhanced through improvement of the franchise system platform. The Group adopted unified operating standards, intensified training and comprehensively promoted the work of trustworthy supermarkets to enhance the operation ability of franchised stores. The service capability was improved through data sharing, case sharing, professional management personnel output, establishment of training mechanism, and credit limit support. The accelerated promotion of new franchise model enhanced the ability of franchise expansion. All the efforts were made to comprehensively improve franchisees' satisfaction with cooperation and promote the transition from the loose franchise model to close franchise model, thus achieving mutual cooperation and a win-win situation.

Omni-channel and digital marketing

During the period under review, the Group continued to focus on building an omni-channel sales model under the new retail model. It proactively promoted the operation upgrade of the Delivery to Home business and comprehensively completed the introduction of fast delivery for the stores engaged in intensive order fulfilment to achieve transformation from order fulfilment by all stores to intensive order fulfilment. The Group thoroughly promoted the application of the model integrating standard products plus bulk weighing of vegetable and fruits. By fully leveraging on the traffic of WeChat mini programs, and constantly improving their speed, customer's stickiness was continuously increased. The pilot program of community promotion was implemented with stores as the operating entities to enhance the online operation awareness and capacity of stores. Moreover, the Group persistently optimized the online commodity mix and implemented the commodity stocks tracking system, and improved the accuracy of inventory management. By optimizing the Delivery to Home commodities, the Group also improved the business capabilities of commodity operation team.

During the period under review, the Group proactively conducted online and offline interactive marketing and promotion activities, and developed and launched new scenarios based on online and offline interactions including purchase by scanning QR code, online group buying and offline pick-up, and value-added group buying coupons. The interactive electronic screens of stores were transformed and upgraded. New functions such as electronic posters, coupon release, event promotion, etc., and diversified promotional tools were applied to boost the growth of Delivery to Home business.

Creation of a consumer-centric organizational framework with the whole team supporting front-line work

During the period under review, the Group proactively promoted the process of flattening organization and continuously optimised the organizational functions. The Group streamlined the function distribution and employee positions of core business departments, and redesigned the commodities and rationally allocated the operation line functions. It promoted the cultivation of professional talent reserves for core business departments. Furthermore, it explored and established the market-oriented talent management system, strengthened contract-based management, and accelerated the introduction of market-oriented talents and the talent allocation.

During the period under review, the Group focused on innovation of incentive mechanism to help drive business development. All staff participation and performance improvement were promoted through enlarging and refining the incentive mode of "motivation award for performance increment" and building the risk and profit-sharing mechanism. The integrated linked assessment was reinforced to stimulate the enthusiasm and effectiveness of the core business team.

Implementation of cost reduction and efficiency enhancement and improvement of management and control capabilities

During the period under review, the Group proactively implemented cost reduction and efficiency enhancement policy, and focused on improving corporate management and control capabilities. The Group enhanced ability of commodity negotiation and reduced vacancy rate of stores for merchant solicitation to increase the overall consolidated gross profit margin of the corporation. The "one policy for one store" principle was implemented to control and reduce losses with regions as units to realize the goal of reducing losses. In order to reduce energy cost and asset purchase expenditure, the Group promoted the energy conservation and transformation and the bidding for asset purchase agreement. In addition, the employment structure was adjusted to reduce the total number of full-time workers and the Group strictly controlled the staffing at the headquarter to reduce personnel costs. While strengthening the management and control of funds, the Group actively sought for capital gains increase programs to increase corporate income.

During the period under review, the Group focused on safety production. A safety responsibility agreement was signed to incorporate safety work into the Company's performance appraisal indicators, so as to strictly control the food safety of stores through high accountability. The Group also strengthened the publicity and food safety inspection, and endeavoured to ensure food safety of the Company.

Employment, Training and Development

As of 30 June 2018, the Group had a total of 37,961 employees, representing a decrease of 2,805 employees during the period under review. Total employment expenses amounted to approximately RMB1,367,916 thousand.

During the period under review, the Group further optimised its organizational structure and strengthened the introduction of commodities, markets and market-oriented strategic talents. The functions of core business departments were optimised through promoting re-design of core business structure. The Group explored the establishment of a market-oriented talent management system and strengthened contract-based management.

During the period under review, the Group strengthened the planning and cultivation of store management talents and maintained core talent reserves. Further efforts were made to improve the cultivation initiatives for front-line management talents to build the Group's pool of talents with high potentials. The Group launched a new round of the Eagle Program for training of management trainees, and clarified the training of target team, key training scope, training method and subsequent follow-up mechanism.

During the period under review, the Group further optimised the labour cost structure, reduced personnel costs and improved staff labour efficiency.

Strategy and Planning

In the context of continued recovery of the global economy, in the second half of 2018, the Chinese government will continue to implement a proactive fiscal policy and a prudent and neutral monetary policy, further promote the structural reforms on the supply side, and deepen the reform in fundamental key areas including state-owned assets and state-owned enterprises, financial system, etc. Besides, it will resolutely proceed in the three major battlefields of major risk prevention and resolution, accurate poverty relief, and pollution prevention, and promote high-quality economic development. It is expected that, in the second half of 2018, China's economy will maintain a good trend. Accordingly, the Group believes that the situation of consumer market in the second half of the year will maintain the features in the first half of the year and is expected to continue to stabilize and recover and perform in a reasonable range.

In the second half of 2018, the Group, upholding the belief of "starting from the heart, passionate growth, with one goal, and be brave in shouldering responsibilities", will be oriented by a consumer-centric approach, professionalization and interconnection and implement the strategy of innovation driven and transformation and development.

In the second half of 2018, the Group will continue to vigorously build its differentiated supply chain. The Group will continue to promote the improvement of fresh produce and base construction, establish buyer system in places of origin, and promote the direct purchase at place of origin and nationwide joint purchase of large single products. With control of supply source and quality, proprietary fresh produce brands will be developed. Focusing on category management, the Group will construct a differentiated supply chain and introduce new suppliers and expand the products according to different customer shopping scenarios to promote the upgrade in category and single product management. In the second half of 2018, the Group will continue to strengthen supply chain management and optimisation of gross profit, increase the scale of joint procurement, and further expand its commodity import channels and consolidate its accurate development capacity for new products of private label brands.

In the second half of 2018, the Group will further vigorously enhance the capabilities of its operating team. It will prepare a process streamlining plan and a standard operation manual to continuously and deeply optimise the construction of a standard operation system. The service awareness will be strengthened to improve service standards, with a view to building a whole staff service system.

In the second half of 2018, the Group will rationally plan store promotion resources according to the annual marketing plan, and promptly respond to changes in market demand. Through themed activities at each point and with the combination of internal and external resources, marketing and promotion will be carried out in communities and the Group will practically conduct merchandise display and visual promotion to promote the "experiential marketing" model. Vigorous efforts will be exerted on marketing activities themed by feedback to members, to create a promotional atmosphere for all kinds of promotional activities and enhance the stickiness of members. The Group will formulate clearer brand strategy and architecture, which will be presented based on consumer insights and brand expression of consumption scenes.

In the second half of 2018, the Group will continue to optimise the existing information system to improve its timeliness, accuracy and reliability. The Group will further commit to building sustainable development capability and store transformation and upgrading, continuing to propel quality store development plan, building a store development team, and strengthening store planning and construction. The Group will continue to optimize the efficiency of logistics distribution and launch the automatic replenishment system module for logistics central warehouse to comprehensively improve the satisfaction rate of suppliers' direct delivery of commodities.

In the second half of 2018, the Group will continue to focus on building omni-channel and digital marketing under new retail and optimize the commodity mix, and enrich the commodity pool, to comprehensively improve the commodity management efficiency. It will continuously innovate and expand the efficient online and offline cooperative operation mechanism and continue to implement the transformation of the omni-channel pilot stores, explore the promotion model of Delivery to Home business for franchise stores, and support the omni-channel store construction.

In the second half of 2018, the Group will continue to build a consumer-centric organizational framework with the whole team supporting front-line work. It will continue to optimize the organizational structure and further improve the organizational system and the efficiency of organizational operation. The performance assessment system will be improved and the Group will implement incentive assessment for key special projects. The Group will promote the construction of the training system comprehensively and carry out training programs in multiple dimensions. The personnel structure will be continuously optimized to improve labour efficiency.

Interim Dividend

The board of Directors of the Company (the "**Board**") does not recommend the payment of interim dividend for the six months ended 30 June 2018.

Purchase, Sale or Redemption of Shares

For the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Audit Committee

The audit committee of the Company (the "**Audit Committee**") has considered and reviewed the accounting principles and practices adopted by the Group and has discussed the matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2018 of the Company. The Audit Committee is of the view that the interim accounts for the six months ended 30 June 2018 is in compliance with the applicable accounting standards, the requirements of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Laws of Hong Kong, and the Company has made sufficient disclosures thereof.

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

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

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

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

Provision A.4.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The articles of association 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 three years, and is eligible for re-election. Having taken into account the continuity of the implementation of the Company's operation and management policies, the articles of association contains no express provision for the mechanism of directors' retirement by rotation, thus deviating from the aforementioned provision of the Code.

For Provision A.6.7 of the Code:

Ms. Xu Zi-ying, a non-executive Director, Mr. Dong Zheng, a non-executive Director, and Ms. Sheng Yan, an independent non-executive Director, were unable to attend the fifth meeting of the sixth session of the Board convened on 28 March 2018 by the Company due to their other work duties.

Mr. Dong Zheng, a non-executive Director, was unable to attend the sixth meeting of the sixth session of the Board convened on 11 June 2018 by the Company due to his other work duties.

Mr. Dong Zheng, a non-executive Director, and Mr. Chen Wei, an independent non-executive Director, were unable to attend the seventh meeting of the sixth session of the Board convened on 28 August 2018 by the Company due to their other work duties.

After receiving the relevant materials for the Board meeting, they have authorized other Directors of the Company to attend the meetings and vote on their behalf. The Board considered the relevant matters and all the resolutions were passed smoothly. The Company had sent the related minutes to all Directors of the Board after the Board meeting so any Director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

For Provision A.6.7 of the Code, Mr. Dong Zheng, a non-executive Director, was unable to attend the 2017 annual general meeting of the Company convened on 11 June 2018 due to his other work duties. The Company has provided the relevant materials relating to the 2017 annual general meeting to all Directors of the Board before the meeting. All ordinary resolutions were passed smoothly at the annual general meeting. The Company had sent the related minutes to all Directors of the Board after the annual general meeting so any Director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

CHANGE OF NON-EXECUTIVE DIRECTOR

Resignation of Non-executive Director and Member of Strategic Committee

The Board announces that Mr. Dong Zheng ("**Mr. Dong**") tendered his resignation as a non-executive Director and a member of the strategic committee of the Company due to position adjustment.

The resignation of Mr. Dong became effective on 28 August 2018, the date on which the appointment of the new Director to fill the vacancy was approved by the Board. Mr. Dong has confirmed that he has no disagreement with the Board and there is no matter relating to his resignation that needs to be brought to the attention of the shareholders of the Company and the Stock Exchange.

Appointment of Non-executive Director and Member of Strategic Committee

The Board has convened a meeting (the "**Meeting**") on 28 August 2018 in accordance with the requirements of the Company Law of the PRC and the articles of association of the Company.

The Board is pleased to announce that Mr. Xu Hong ("**Mr. Xu**") *(Note)* has been appointed as a non-executive Director and a member of the strategic committee of the Company at the Meeting.

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

Shanghai, PRC, 28 August 2018

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

Executive Director:	Xu Tao;
Non-executive Directors:	Ye Yong-ming, Xu Zi-ying, Xu Hong, 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. Xu Hong, aged 45, graduated from the Department of Physics of Fudan University with a Bachelor of Science. He is now working in Alibaba Group as business assistant to the group's CEO and vice president of the group. Before joining the Alibaba Group, Mr. Xu worked in PricewaterhouseCoopers (PwC) and became a partner of PwC in July 2007. Mr. Xu is a member of the Chinese Institute of Certified Public Accountants (CICPA).

Mr. Xu was elected as a non-executive Director of the Company at the Meeting for a term from 28 August 2018 until the conclusion of the upcoming general meeting of the Company, subject however to the articles of association of the Company. Mr. Xu will not enter into any service agreement with the Company and he will not be entitled to any remuneration from the Company during the term of directorship.

As at the date of this announcement, Mr. Xu 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. Xu 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. Xu confirmed that there is no other information that needs to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there is no matter that needs to be brought to the attention of the shareholders of the Company and the Stock Exchange.