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

INTERIM REPORT 2020

STOCK CODE：0980

Contents

Corporate Information

Directors

Executive Director

Mr. Xu Tao

Non-Executive Directors

Mr. Ye Yong-ming *(Chairman)*
Ms. Xu Zi-ying *(Vice Chairman)*
Mr. Xu Hong
Mr. Qian Jian-qiang (Retired on 22 June 2020)
Ms. Zhang Shen-yu
Ms. Zheng Xiao-yun (Retired on 22 June 2020)
Mr. Dong Xiao-chun
Mr. Wong Tak Hung

Independent Non-Executive Directors

Mr. Xia Da-wei
Mr. Lee Kwok Ming, Don
Mr. Chen Wei
Mr. Zhao Xin-sheng

Board Committees

Audit Committee

Mr. Lee Kwok Ming, Don *(Chairman)*
Mr. Xia Da-wei
Mr. Zhao Xin-sheng
Ms. Zheng Xiao-yun (Retired on 22 June 2020)
Mr. Dong Xiao-chun

Remuneration and Appraisal Committee

Mr. Xia Da-wei *(Chairman)*
Ms. Xu Zi-ying
Mr. Chen Wei
Mr. Zhao Xin-sheng

Strategic Committee

Mr. Ye Yong-ming *(Chairman)*
Ms. Xu Zi-ying
Mr. Xu Hong
Mr. Xu Tao
Mr. Qian Jian-qiang (Retired on 22 June 2020)
Ms. Zhang Shen-yu

Nomination Committee

Mr. Ye Yong-ming *(Chairman)*
Mr. Chen Wei
Mr. Xia Da-wei
Mr. Zhao Xin-sheng

Supervisors

Mr. Yang A-guo *(Chairman)*
Mr. Li Feng
Ms. Tang Hao
Ms. Tao Qing (Retired on 22 June 2020)

Company Secretaries

Ms. Xu Xiao-yi
Ms. Leung Shui Bing
Ms. Hu Li-ping (Retired on 2 July 2020)

Authorized Representatives

Mr. Xu Tao
Ms. Xu Xiao-yi
Ms. Hu Li-ping (Retired on 10 June 2020)

International Auditor

Deloitte Touche Tohmatsu

Legal Advisors to the Company

As to Hong Kong laws

Baker & McKenzie

As to People's Republic of China ("PRC") laws

Grandall Law Firm (Shanghai)

Investors and Media Relations Consultant

Christensen China Limited

Principal Bankers

Industrial and Commercial Bank of China
Pudong Development Bank
China Merchants Bank

Registered and Business Offices

Registered Office in the PRC

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No. 1258 Zhen Guang Road
Shanghai, PRC

Place of Business in the PRC

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Shanghai, PRC

Place of Business in Hong Kong

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Shareholders' Enquiries

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Hong Kong Share Registrar and Transfer Office

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Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Share Information

Listing Place

The Stock Exchange of Hong Kong Limited
("Stock Exchange" or "SEHK")

Listing Date

27 June 2003

SEHK Stock Code

980

Number of H Shares Issued

372,600,000 H shares

Financial Year-end Date

31 December

Management Discussion and Analysis

Operating Environment

In the first half of 2020, the outbreak of COVID-19 aggravated the long-term global economic stagnation and also brought new challenges to China's economic development and policy making. Amid the resurgence of cases in some regions in China, the spread of COVID-19 worldwide and the rising uncertainties of external environment caused by changes in the world, China reported weak economic indicators and faced greater downward pressure on its economy.

Facing the severe challenges, the Chinese government coordinated the epidemic prevention and control, while promoting the resumption of work and production. As a result of a series of policies, China's economy rebounded after the slowdown and returned to the track of steady recovery and the overall economic and social stability was maintained. According to the data of National Bureau of Statistics of the PRC, China's gross domestic product (GDP) reported a year-on-year decline of 1.6% in the first half of 2020, representing a year-on-year decline of 7.9 percentage points in growth rate, among which, the second quarter recorded a growth of 3.2%, with the growth rate shifting from negative to positive and ascending by 10 percentage points from the first quarter.

Based on the data of National Bureau of Statistics of the PRC, total retail sales of consumer goods nationwide fell by 11.4% year-on-year in the first half of 2020. If analyzed by retail segment, supermarkets in retail units above designated size recorded a year-on-year growth of 3.8%, while department stores, specialty stores and exclusive shops recorded decrease of 23.6%, 14.1% and 14.4%, respectively in the first half of 2020. Affected by the outbreak of COVID-19, national disposable income per capita fell by 1.3% in real terms, and national consumption expenditure per capita dropped by 9.3% in real terms. From the perspective of consumption category, consumption in the category of food, tobacco and liquor recorded a growth of 5.0%, which was the fastest among all categories, and accounted for 31.9% of the consumption expenditure per capita; consumption for rigid demands in the food category had a higher proportion in the total consumption; and the Engel's Coefficient returned to over 30%. In the first half of 2020, with the further increase of food prices, the consumer price index (CPI) ascended by 3.8% as compared with the corresponding period of last year.

In the first half of 2020, the outbreak of COVID-19 boosted the "stay-at-home economy" and further stimulated the shift of consumers' habits to online shopping, which posed stricter requirements on the security of shopping environment. The demands for the product category of portable nature grew rapidly. Based on the data of National Bureau of Statistics of the PRC, in the first half of 2020, national online retail sales recorded a year-on-year growth of 7.3%, among which, online retail sales of physical goods rose by 14.3% and accounted for 25.2% of total retail sales of consumer goods.

Despite the great negative impact of the outbreak of COVID-19, China's consumption market still showed strong resilience, vitality and new growth points. New types of consumption and consumption upgrading further expanded. New consumption patterns including contactless delivery, unmanned retail and live streaming sales developed rapidly; and information consumption, AI consumption and "Internet + medical care, hygiene, health" consumption experienced significant growth. Supply chain control and end service quality became the important factors for supermarket operators including the Group to win in the competition, and digitalization became an inevitable trend.

Financial Review

Revenue

During the period under review, the Group's revenue was approximately RMB14,037 million, representing a year-on-year increase of approximately RMB549 million, or approximately 4.1%, and same store sales rose by approximately 1.23%. The main reason for the increase was that retail segments of the Group responded promptly during the outbreak of COVID-19 to adjust the core product items and ensure the supply of products for people's livelihood, which, together with the active price control, effectively attracted customers. Meanwhile, owing to the promotion of store transformation and store partnership scheme in Shanghai region, revenue of the supermarket segment recorded a year-on-year increase of approximately RMB491 million, representing a year-on-year growth of 10.6%.

Gross Profit

During the period under review, the Group's gross profit was approximately RMB2,024 million, representing a year-on-year increase of approximately RMB201 million, or approximately 11.1%. The main reason for the increase was that retail segments of the Group responded to the livelihood needs during the outbreak of COVID-19 and took the initiative to adjust the product portfolio to ensure the supply of products for people's livelihood as well as improved the on-site operation of stores to reduce wastage. As a result, the overall gross profit margin of the Group was approximately 14.42%, representing an increase of approximately 0.91 percentage point as compared with the gross profit margin of approximately 13.51% for the corresponding period of last year.

Other Revenue

During the period under review, the Group's other revenue was approximately RMB959 million, representing a year-on-year decrease of approximately RMB258 million, or approximately 21.2%. Due to the outbreak of COVID-19, the revenue from merchant solicitation decreased by approximately RMB160 million as compared with the corresponding period of last year, and the revenue from suppliers declined by approximately RMB97 million as compared with the corresponding period of last year.

Other Income and Other Gains and Losses

During the period under review, the Group's other income and other gains amounted to approximately RMB263 million, representing a year-on-year decrease of approximately RMB152 million, or approximately 36.6%, which was primarily attributable to the gains of approximately RMB135 million from the disposal of self-owned land and buildings of Hangzhou Lianhua Huashang Group Co., Ltd., a subsidiary of the Group, in the corresponding period of last year, while no such gains were recorded in the current period.

Distribution and Selling Expenses

During the period under review, the Group's distribution and selling expenses amounted to approximately RMB2,363 million, representing a year-on-year decrease of approximately RMB225 million, or approximately 8.7%. Distribution and selling expenses accounted for approximately 16.83% of the revenue, representing a year-on-year decrease of approximately 2.35 percentage points.

Administrative Expenses

During the period under review, the Group's administrative expenses amounted to approximately RMB416 million, representing a year-on-year increase of approximately RMB1 million, or approximately 0.1%. Administrative expenses accounted for approximately 2.96% of the revenue, representing a year-on-year decrease of approximately 0.12 percentage point.

Other Expenses

During the period under review, the Group's other expenses amounted to approximately RMB72 million, representing a year-on-year increase of approximately RMB69 million, or approximately 2,633.9%, which was mainly attributable to the provision for loss from planned closure of stores for the period under review.

Share of Profits of Associates

During the period under review, the Group's share of profits of associates amounted to approximately RMB20 million, representing a year-on-year increase of approximately RMB17 million, or approximately 541.9%. In particular, the return on investment in Shanghai Carhua Supermarket Co., Ltd. recorded a year-on-year increase of approximately RMB13 million.

Profit before Taxation

During the period under review, the Group's profit before taxation amounted to approximately RMB263 million, representing a year-on-year decrease of approximately RMB3 million, or approximately 1.1%.

Income Tax Expense

During the period under review, the Group's income tax expense was approximately RMB117 million, representing a year-on-year decrease of approximately RMB6 million, or approximately 4.8%.

Profit Attributable to Shareholders of the Company

During the period under review, the Group's profit attributable to shareholders of the Company amounted to approximately RMB58,327 thousand, representing a year-on-year increase of approximately RMB14,362 thousand, or approximately 32.7%. During the period under review, the net profit margin was approximately 0.42%, representing a year-on-year increase of approximately 0.09 percentage point. Based on the 1,119.6 million shares issued by the Group, the basic earnings per share were approximately RMB0.05.

Liquidity and Financial Resources

During the period under review, the net cash outflow of the Group was approximately RMB460,778 thousand, mainly due to the year-on-year decrease in sales of prepaid cards and an increase in funds withdrawal. As at 30 June 2020, cash and balance at bank amounted to approximately RMB7,365,061 thousand.

For the six months ended 30 June 2020, the accounts payable turnover period of the Group was 60 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 2020, there were no arbitrage financial instruments in issue by the Group.

Growth of Each Retail Business

Hypermarkets

During the period under review, the Group's hypermarket segment focused on the iteration of 3.0PLUS model and 2.0 model, created customer experience with diversified market and catering scenarios, accelerated the construction of digital store system and prioritized the improvement of online operation capability. During the period under review, the hypermarket segment of the Group recorded a revenue of approximately RMB8,016,890 thousand, representing a year-on-year increase of approximately 2.1% and accounting for approximately 57.1% of the Group's revenue. Same store sales had a year-on-year decrease of approximately 1.74%. During the period under review, the hypermarket segment recorded a gross profit of approximately RMB1,193,764 thousand, representing a year-on-year increase of approximately RMB152,098 thousand. Affected by the outbreak of COVID-19, revenue from suppliers decreased by approximately RMB85,756 thousand year on year, and rental income from leasing of shop premises recorded a year-on-year decline of approximately RMB145,650 thousand, which led to a year-on-year decline of approximately RMB150,859 thousand in the consolidated income. The aggregate of distribution and selling expenses and administrative expenses amounted to approximately RMB1,547,406 thousand, representing a year-on-year decrease of approximately RMB122,272 thousand. The finance cost dropped by approximately RMB42,903 thousand year on year. The segment operating profit amounted to approximately RMB250,670 thousand, representing a year-on-year decrease of approximately RMB55,897 thousand; and the operating profit margin declined year on year by 0.77 percentage point to approximately 3.13%.

	As at 30 June	
	2020	2019
Gross Profit Margin (%)	**14.89**	13.27
Consolidated Income Margin (%)	**24.69**	27.13
Operating Profit Margin (%)	**3.13**	3.90

Supermarkets

During the period under review, the Group's supermarket segment focused on transformation and upgrading, and further improved the operating performance by adjusting product portfolio, building supply chain capacity, differentiating refined operation and promoting targeted marketing. In the meantime, it expanded the fresh produce operation area and reconstructed the space on the basis of scenario and product portfolio optimization to improve the effectiveness per square meter. During the period under review, the Group's supermarket segment recorded a revenue of approximately RMB5,136,252 thousand, representing a year-on-year increase of approximately RMB491,485 thousand, or approximately 10.6%, and accounting for approximately 36.6% of the Group's revenue. Same store sales had a year-on-year growth of approximately 9.02%. During the period under review, the supermarket segment recorded a gross profit of approximately RMB710,792 thousand, and the gross profit margin rose year on year by 0.46 percentage point to approximately 13.84%. The consolidated income was approximately RMB1,056,725 thousand, representing a year-on-year increase of approximately RMB30,594 thousand; and the consolidated income margin declined year on year by 1.52 percentage points to approximately 20.57%. The segment operating profit amounted to approximately RMB104,524 thousand, representing a year-on-year increase of approximately RMB68,754 thousand, and the operating profit margin rose by 1.27 percentage points to approximately 2.04%.

	As at 30 June	
	2020	2019
Gross Profit Margin (%)	**13.84**	13.38
Consolidated Income Margin (%)	**20.57**	22.09
Operating Profit Margin (%)	**2.04**	0.77

Convenience stores

During the period under review, when faced with the continuous impact of the outbreak of COVID-19, the convenience store segment adopted principles of "ensuring stability, streamlining structure, reducing costs and minimizing losses", focused on online sales and products for people's livelihood, downsized the work force through multiple dimensions and controlled operating costs. Meanwhile, it proceeded with store reorganization and closure. During the period under review, the convenience store segment recorded a revenue of approximately RMB787,627 thousand, representing a year-on-year decrease of approximately 16.5% and accounting for approximately 5.61% of the Group's revenue. Same store sales decreased by 12.78% year on year. The convenience store segment recorded a gross profit of approximately RMB112,313 thousand, and the gross profit margin declined by 1.75 percentage points to approximately 14.26%. The consolidated income was approximately RMB156,976 thousand and the consolidated income margin declined by 1.51 percentage points to approximately 19.93%. The aggregate of distribution and selling expenses and administrative expenses amounted to approximately RMB187,956 thousand, representing a year-on-year decrease of approximately RMB91,052 thousand. During the period under review, the convenience store segment recorded an operating loss of approximately RMB34,699 thousand, representing a decrease of approximately RMB39,953 thousand as compared with the loss for the corresponding period of last year. The operating profit margin rose by 3.50 percentage points to approximately –4.41%.

	As at 30 June	
	2020	2019
Gross Profit Margin (%)	**14.26**	16.01
Consolidated Income Margin (%)	**19.93**	21.44
Operating Profit Margin (%)	**–4.41**	–7.91

Capital Structure

As at 30 June 2020, the Group's cash and cash equivalents were mainly held in Renminbi. The Group had no other bank borrowings other than the bank borrowings of RMB20 million incurred by a non-wholly owned subsidiary.

During the period under review, the equity attributable to owners of the Group increased from approximately RMB1,771,953 thousand to approximately RMB1,830,280 thousand, which was primarily attributable to the profit of approximately RMB58,327 thousand recorded in the period.

Details of the Group's Pledged Assets

As at 30 June 2020, the Group did not pledge any assets.

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 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 at 30 June 2020, 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 30 June 2020, the Group did not have any material contingent liabilities.

Development of Sales Network: Segment End Models and Expansion

During the period under review, the Group stuck to the development strategy of high-quality and sustainable expansion. On one hand, it developed new outlets in key development areas, identified market segments and vigorously developed close-relationship franchise model. 135 new stores were opened during the period under review, including 26 directly-operated stores and 109 franchised stores. 99 stores were located in the Yangtze River Delta and accounted for 73.3% of the new stores. On the other hand, the Group adapted to changes in market environment, continued to prudently review the stores and improved the overall quality of the physical outlets. As a result, 148 stores were closed, including 79 directly-operated stores and 69 franchised stores.

During the period under review, one new hypermarket was opened, which was located in Jiangsu Province, and one hypermarket in Shanghai was closed. With the guideline of reducing losses and increasing profits, the hypermarket segment accelerated transformation and sorted out loss-making stores. The hypermarket segment, based on the iteration of 3.0PLUS model and 2.0 model and the online and offline integration, expanded product category and deepened service through accelerating the construction of front-end warehouses and optimizing the operation of stores. With the accelerated construction of digital store system, it focused on improving the online operation capability and the proportion of online fresh produce sales. Leveraging the coordinated online and offline promotion, the segment strengthened the resource integration and sharing while sorting out loss-making stores, so as to ensure reasonable resource allocation and improve the overall operation capability and efficiency.

During the period under review, the supermarket segment, as the core development segment of the Group, continued to promote sales network expansion, store transformation and productivity improvement. A total of 95 new supermarkets were opened, including 23 directly-operated stores and 72 franchised stores. 50 supermarkets were closed, including 12 directly-operated stores and 38 franchised stores. The number of stores recorded a net increase of 45. The directly-operated business under the supermarket segment focused on transformation and upgrading and further improved the fresh produce operation capabilities and overall operating performance through layout adjustment, category iteration, supply chain construction, catering service development, differentiated and refined operation as well as targeted marketing. During the outbreak of COVID-19, the supermarket segment took immediate measures according to the development of epidemic. On one hand, the segment adjusted the core product items and ensured the supply of products for people's livelihood. On the other hand, it promptly managed and controlled the prices to ensure reasonable prices for products sold. As a result, the segment effectively attracted customers and improved the operation performance. The franchise business focused on the development of close-relationship franchised outlets, reshaped the franchise system to improve the operation capability in non-tobacco sales and operation capability, unified the information system, reshaped the franchise supply chain, promoted the win-win cooperation with franchisees, facilitated the continuous growth with light assets and advanced the sustainable and healthy development of franchise operation.

During the period under review, 39 new convenience stores were opened, including two directly-operated stores and 37 franchised stores and 97 stores were closed. The number of stores recorded a net decrease of 58. Centering on the principle of "ensuring stability, streamlining structure, reducing costs and minimizing losses", the convenience store segment continued to improve the product portfolio, enrich the product category, focus on user experience, develop additional service functions and therefore improve the profitability of individual store.

During the period under review, the Group optimized product category layout for delivery-to-home business and witnessed a significant increase in the delivery-to-home business, with a double-digit growth in online sales. The Group accelerated the launching of new supply chain products and improved product category layout for delivery-to-home business. It continued to optimize all procedures of the delivery-to-home business, and improved the effectiveness of order delivery. Through the dual engine of the third-party platform and the self-owned platform, the Group continually developed the sustainable delivery-to-home marketing scenario, improved the delivery-to-home ecosystem as well as customers' online experience and realized stable growth in delivery-to-home business.

As at 30 June 2020, the Group had 3,339 stores in total, approximately 82.3% of which were located in East China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	141	686	598	1,425
Franchise operation	–	1,377	537	1,914
Total	141	2,063	1,135	3,339

Note: Data mentioned above are figures as at 30 June 2020.

Product Portfolio Planning and Supply Chain Construction

During the period under review, the Group improved consolidated income margin through optimizing core product categories and product portfolio as well as carrying out smart promotions. By reviewing and allocating existing product items according to the area and number of shelves in stores, the Group organized the structure of product portfolio, built famous categories and optimized the number of product items. While promoting the central warehouse direct logistics business and advancing the transition from direct delivery to distribution to strengthen the centralized distribution capacity, the Group controlled the supply shortage rate of products, shortened turnover days and improved the operation and logistics coordination. It also strengthened the sales estimate and exception management of promotion categories to reduce the return rate. The Group built a modular category structure and improved the category structure on a regular base for the realization of the best end-to-end customer experience.

During the period under review, the Group continuously improved the structure and the operation capability of the fresh produce category, enhanced the competitiveness of fresh produce and promoted the sustainable growth of fresh produce sales. Starting with the product portfolio optimization, the Group strengthened the direct sourcing, expanded fresh produce bases, fully leveraged the channel advantage, optimized the supply chain for bases and joint procurement, lowered fresh produce wastage and enriched the fresh produce category to build a high-quality and competitive fresh produce category so as to improve the sales and consolidated income in all regions.

During the period under review, the Group further developed and optimized the imported product supply chain, introduced diversified brand suppliers, adopted more suppliers in joint operation of advantageous brands, expanded imported product supplier resources and improved the proportion of direct sourcing and brand cooperation. The Group fostered differentiated business advantages of Lianhua through interaction and cooperation with brand suppliers, so as to innovate consumer experience and realize its own brand value.

During the period under review, the Group focused on promoting the consumer-oriented Joint Business Plan (JBP) and strategic cooperation. It established a national JBP working group, improved the internal and external communication for JBP, entered into the nationwide joint procurement contracts, worked with brand owners to explore comprehensive and strategic cooperation in new retail fields including the big data empowerment and the experience innovation, increased the amount of JBP brands and realized brand upgrading so as to improve proportion of JBP sales.

Private-label Brand

During the period under review, the Group continuously optimized and improved private-label brands and their structures from the perspective of the enterprise development strategy. It analyzed the consumption level and habits of brand users, understood the consumption potential and characteristics of target customers through customer profile, and made targeted positioning and planning for brands. The Group built private-label brands with core competitiveness, deeply developed "Lianhua Quality" and "Lianhua Excellence" series, together with the construction of visual strategy system for key private-label brands, to gradually achieve scale effects of Lianhua's private-label brands.

During the period under review, the Group continuously developed and introduced source suppliers, integrated and developed regional resources, coordinated all segments and improved the proportion of the core livelihood category, so as to satisfy consumers' demands and adapt to the change and upgrading of their shopping habits. It reviewed the existing private-label brand supply chain, reorganized individual product category for centralized procurement, integrated with the key product category featuring "To Be Famous For" (TBFF) to diversify the category, expanded the private-label brand product structure in each region, built omni-channel high-quality categories, and cultivated a prominent advantage in the competition with similar segments.

During the period under review, the Group focused on private-label brand marketing and all-staff promotion, enhanced the entertainment element of shopping through creating scenario areas, therefore improving consumer experience. With diversified brand marketing methods, including building brand quality and telling stories of brand origins, the Group shifted from the traditional consumption model to the entertaining, discovery-driven, creative and leisure consumption model. It kept close interactions between offline and online operations, and maintained the brand interconnection of different segments and channels.

Excellent Implementation to Improve Operational Capability

During the period under review, the Group continued to cultivate the refined operation, further improved operation standards and services and strengthened the execution. The Group boosted sales by improving the display of products, breaking the limit of category segmentation through innovation and reform, strengthening the display of related products and adopting the strategy of bundle sale. Through the big data analysis, it realized the integrated operation featuring the same price online and offline for the same product, captured the customer behavior profile to achieve targeted marketing and highlighted the all-time high-quality services to win customers' recognition and improve customer loyalty. The Group strengthened the review of existing procedures, regulated the standard operation procedures and continuously improved the operation level and uniformity. While promoting the five major commitments to customers, the Group further developed the quality-assured shopping system, strengthened the social media operation, optimized the self-service cashier system and continuously improved the service quality.

During the period under review, the Group consolidated the foundation of fresh produce, promoted the quality construction of fresh produce and improved the self-operation capability of fresh produce. While improving the all-time and all-category operation capability of fresh produce, the Group focused on the second opening ability in the evening rush hour, creating the scenarios of morning and evening market, highlighted the display of key products, and created a positive image of direct sourcing by increasing the supply of fresh produce from the bases and building fresh produce areas with Lianhua characteristics. In the meantime, the Group improved the staff's marketing capability for fresh produce, enhanced the deep processing capability of fresh produce category, and therefore strengthened the overall operation capability and realized stable improvement in sale proportions of the fresh produce category.

During the period under review, the Group stayed performance-oriented and promoted the store partnership model. It developed selection and admission standards of the stores participated in the partnership model, and improved the partner assessment system. Through the review of partners' operation philosophy and ability, the Group improved the SOP (Standard Operation Procedure) manual, developed the sustainable partnership model, so as to motivate the stores and to continuously improve the operating performance of stores.

During the period under review, the Group focused on the development of logistic business, the enhancement of the supply chain synergy and the improvement of logistics operation performance. It introduced a market-oriented mechanism, improved the performance-based remuneration review system, realized transparency of logistics information, expanded the transition from direct delivery to distribution, and improved the warehouse utilization efficiency. The Group improved the automatic replenishment system for central warehouse and further improve the order fulfilment rate from stores, thus reducing inventory turnover days. With the optimized procedures and the reduced operation costs, it improved the logistics efficiency.

Brand Revamp

During the period under review, the Group implemented brand positioning and optimized brand management system. It reviewed its store signage system and POSM (Point of Sales Materials) system of the stores in supermarket segment; completed the design of store signage system and updated usage guide for the images and videos of brands and categories as well as optimized the brand brochure in the meantime.

During the period under review, the Group, based on consumer phycology and behavior logic, promoted the consumer-oriented S-grade marketing integration, built the marketing model with user experience as the core, launched a number of special marketing, promotion and customization events, and exerted great effort to promote 2020 Chinese New Year Promotion, 29th Anniversary Celebration Activity, May 5th Shopping Festival, Lighting up Dream Dinner and 612 Promotion. The concerted efforts stimulated the release of sales potential and consumers had a resonance with the brand concept and corporate values and satisfied their deeper needs in the course of consumption.

During the period under review, the Group actively interacted and cooperated with external high-quality resources. It deepened the partnership with key payment platforms, consolidated JBP product resources, introduced JBP brands resources nationwide, and explored cross-industry cooperation with life and entertainment related service providers. A diversified payment marketing network was established by applying unified management to the integrated payment in different regions across the country and establishing close cooperative relationship with UnionPay, Alipay and WeChat Pay, thus providing consumers with safer and more efficient payment experience.

During the period under review, the Group was committed to establishing the eCRM (electric Consumer Relationship Management) membership system with whole-chain targeted marketing. It leveraged the omni-channel synergy to expand and improve the membership system and marketing tools, thus improving members' experience. The Group reshaped members' benefits and experience and launched the Lianhua Member Exclusive Promotion Day with scenario-based marketing ideas and the design and implementation of member visual system. As a result, the Group improved member satisfaction and enhanced members' activity level and loyalty to the brand. Making use of member analysis driven by big data, the Group promoted the membership development in each region, and connected with younger consumers through the traffic of Weibo official account, WeChat, Alipay and other third-party platforms, so as to improve member loyalty and the proportion of young consumers in the overall membership and continuously enhance the proportion of member sales.

During the period under review, the Group completed the brand positioning, improved the brand management system, established a unified and strong national brand and further optimized the brand manual. It integrated marketing through branding, improved in-store experiences, upgraded services of each category and promoted the sound development of each category. The Group diversified shopping purposes based on core scenarios, generated consumer demand and applied more digital tools to construct the loop of brand recognition-engagement-consumption. The Group continued to promote cooperation with bases, completed the exclusive icon design of "Direct Source from Bases", thereby standardizing and visualizing the "Direct Source from Bases", and adopted a series of measures to improve the image of "Lianhua Fresh", so that consumers could experience the freshness, healthiness and safety of "Direct Source from Bases" of Lianhua and would have greater trust in Lianhua brand.

Employment, Training and Development: Mechanism, Organization and Corporate Culture

As at 30 June 2020, the Group had a total of 33,454 employees, representing a decrease of 3,028 employees as compared to the end of 2019. Total employment expenses amounted to approximately RMB1,226,714 thousand.

During the period under review, the Group optimized the organization structure of the front, middle and back ends and department setting and promoted organizational reform with reference to practices of iconic companies in the industry. Giving full play to the professional abilities of professional managers, the Group concentrated more on the improvement of management and overall efficiency. It improved the organizational performance assessment system and established the headquarters personnel quota management system. The Group continued to streamline the management hierarchy, effectively identified key positions, reasonably decentralized and delegated powers, so as to improve the organization's response and operation efficiency.

During the period under review, the Group initiated performance review and talent selection, reviewed its talents, fixed positions and personnel quota and focused on advancing the contractual management. Combining the internal cultivation with the external introduction, the Group gradually established the selection and performance review mechanism for the management in which the hiring, promotion and dismissal become more flexible and the talent selection mechanism based on contract-based management. The Group continued to improve the incentive model and optimized the remuneration structure of headquarters' management members in an orderly manner. Through the establishment and improvement of annual KPI performance system, it further promoted the contract-based assessment mechanism for key positions to maximize the enterprise's vitality. It adopted the incentive model that enables all staff to share the benefits of performance improvement to motivate staff's initiative and to cultivate the core competitiveness and the driving force of sustainable development. Based on assessment on key and specific aspects, the Group further advanced the business model transition, steadily promoted the implementation of strategic projects, and motivated management members to share the responsibility and jointly contribute to breakthroughs. The store partnership project is an important achievement of the Group's contractual reform, which has been implemented in 102 partnership stores since the launching in 2019 and is now being promoted steadily.

During the period under review, the Group continued to upgrade the training system and build the innovative learning organization, as well as focused on strengthening the talent reserve and the cultivation of innovative talents. Through the establishment of faculty system and the course system, being the two engines of training development, the Group valued the cultivation of skilled talents with strong technical ability and professional knowledge. Supported by the front-end operation capability and empowered by the digitalization, the Group developed Lianhua Micro-Course Series and established the learning system by layer and by category, centering on the key echelon.

Digital Drive

During the period under review, the Group focused on the verification and iteration of the digital store system and advancing the construction and implementation of digital store system. With the research and development of digital store system, the implementation of one code for one product and front-end warehouse project and the upgrading of software and hardware, the Group improved stores' contract fulfilment efficiency, strengthened the construction of "multi-layer and sustainable" store digitalization system and realized the deep integration of online service, offline experience and modern logistics.

The Group synergized the support from supply chain and promoted digitalized management and operation. Relying on the internet and applying advanced technologies including big data and artificial intelligence, the Group promoted the "integrated and visualized" consolidation and improvement of supply chain system to support the digitalized operation capability in new retail. It accelerated the integration of supply chain system and built an integrated supply chain information system with the internet architecture, covering the whole process of supply chain including products, operation, logistics, B2B, collaborative replenishment, settlement and financial services. The Group continued to improve the Lianhua big data platform, realized the whole-process visualization and the timeliness of the business data and improved the value-added data service capacity. While building and improving the all-segment information security system of Lianhua, the Group upgraded the data storage and backup system to improve the overall information security.

Strategy and Planning

The year of 2020 is the year for China to build a moderately prosperous society in all respects and the transition year from China's "Thirteenth Five-Year Plan" to "Fourteenth Five-Year Plan". As the outbreak of COVID-19 is being effectively controlled in the country and the resumption of work and production is further promoted, production and operation have gradually returned to normal. Supplies and demands rebound continuously while employment and prices remain stable on the whole. China's economy has demonstrated strong resilience with the positive trend of recovery.

The second half of 2020 will see the emergence of new consumption highlights as consumption growth mechanism is further improved and the momentum for consumption upgrading continues to strengthen. Commodity consumption and service consumption will continue to be the dual drivers for the overall consumption structure and the annual consumption growth will continue to stay positive and play a fundamental role in promoting the reasonable economic growth and the steady improvement.

As such, in the second half of 2020, the Group will adhere to its philosophy of "Reform, Innovation, Persistence, Growth", persistently focusing on the key work of "segment end models and expansion, product portfolio planning and supply chain construction, private-label brands, excellent implementation and brand revamp" along with the double driving systems covering both the incentive mechanism, organizational system, capital structure, corporate culture and digitalization. The Group will base on its brand mission of "To offer better products, better experiences, and better living every day" to build the brand image of Lianhua to strengthen its base in Yangtze River Delta and expand throughout the country. It will provide full range of quality products through effective integration of supply chain, thereby becoming an omni-channel lifestyle retailer with local spirit and realizing its vision "increase our consumers' loyalty to us".

Regarding the segment end models and expansion, the Group will orient on the segment positioning, improve the merchant solicitation layout and accelerate store transformation and upgrading in the second half of 2020. The hypermarket segment will focus on promoting transformation and upgrading 2.0 model, take loss reduction and profit increase as the major tasks and improve the overall effectiveness per square meter. The segment will follow the concept of "community life centre & vibrant hustle and bustle for life", build a new retail model that underlines the last kilometer community service, and realize the upgrading from "traditional hypermarket" to "community commercial centre". The supermarket segment will proceed with the iteration and model determination of stores, create new scenario and model for community fresh produce experiencing stores, provide differentiated and characteristic shopping experience through the inside-out brand revamp, and improve the core operation strength. Following the principle of "streamlining structure, reducing costs and accelerating loss minimizing", the convenience store segment will, on one hand, improve stores' operation capability, and, on the other hand, continue to adjust store network layout and integrate the supply chain capacity with other segments. Guided by the principle of reducing costs and minimizing losses, the segment will enhance the overall synergy with other segments in cities including Shanghai and Hangzhou, and reasonably adjust the network layout in cities including Beijing and Dalian. In the meantime, the segment will continue to develop close-relationship franchise system and ensure sustainable growth of the sales of franchised stores through increasing the store number, improving the supply chain and optimizing store operation. The Group will further promote the development of delivery-to-home business, advance the construction of fresh produce and the offline and online cooperation, improve the delivery-to-home experience strategically and accelerate the growth of delivery-to-home business.

Regarding the product portfolio planning and supply chain construction, the Group will focus on improving the consolidated income margin and the overall operating performance in the second half of 2020 through the strategies of improving the core categories, adjusting category structure, improving the efficiency of individual products and launching smart promotion. The Group will introduce high-quality and differentiated new products, build a leading product portfolio, and improve the category structure. It will optimize fresh produce direct-sourcing bases, improve the base management and control, strengthen the joint procurement supply chain, promote the "Double Hundred Project" of fresh produce and enhance the fresh produce source channel construction. While promoting the implementation of contracts with more nationwide joint procurement suppliers, the Group will further develop the cooperation with suppliers in marketing and major products for people's livelihood, and promote the implementation of consumer-oriented JBP strategic cooperation. It will also improve the sales proportion of imported products through product category improvement and supply chain optimization.

Regarding the development of private-label brands, the Group will follow the clear strategic development plan for private-label brands in the second half of 2020, maintain a deeper relationship with consumers, improve consumers' acceptance and trust of the brand and the organization and increase the sales proportion of private-label brands through multi-channel marketing promotion, supply chain optimization, brand building, regional coordination and marketing enhancement on the basis of operating private-label brands with Lianhua characteristics.

Regarding the excellent implementation, the Group will focus on improving the operation execution capability to enhance the operation, marketing and online order fulfillment capabilities of fresh produce in the second half of 2020 to build a high-quality fresh produce category. The Group will continue to develop the store partnership model and realize high-quality duplication and promotion on the basis of enhancing the existing model. It will improve the operation capability of stores by improving store operation standards and procedures, raising the service awareness of stores and strengthening online training and review. In the meantime, it will promote the development of logistics to support the businesses development, improve the logistics distribution efficiency and build a logistics support system with market competitiveness.

The Group will continue to promote the brand revamp in the second half of 2020, build an aesthetic experiencing space that well matches customers' preference and a nationwide, systematic and unified brand image. It will advance the implementation of consumer-oriented S-grade marketing in all segments, launch the theme marketing that integrates theme and timing, activity and pace, label and visual representation, and build the eCRM membership system with whole-chain targeted marketing to generate consumers' demands. Relying on the brand influence and the network advantage, leveraging cross-industry resources and cooperating with third parties in payment and digitalized traffic attraction, the Group will achieve resource sharing in respect of brand communication, channel promotion and after-sales service.

In the second half of 2020, the Group will accelerate the implementation of new organization structure. Guided by supporting the frontline and serving consumers, it will gradually promote the construction of front, central and back ends of the organization structure. The Group will also refer to the leading enterprises in the industry to optimize the hierarchy, fix positions and personnel quota, and conduct the contractual management in respect of talent selection and performance review. Meanwhile, it will improve the incentive mechanism, adjust the remuneration structure, develop staff's potential, speed up the talent cultivation and introduction and strengthen the building of talent echelon.

In the second half of 2020, the Group will continue to promote the store digitalization construction, actively build the digitalized management and operation capability in new retail, and improve the overall promotion efficiency driven by big data. It will consolidate the business supporting platform, optimize the big data platform, and pursue the comprehensive improvement in execution and operation efficiency of end stores, consumers' satisfaction and marketing efficiency empowered by digitalization.

Disclosure of Interests

Directors, Supervisors and Chief Executive of the Company

As at 30 June 2020, none of the Directors, supervisors or chief executive of the Company had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they are regarded or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Substantial Shareholders of the Company

So far as the directors are aware, as at 30 June 2020, the following persons (not being a Director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholders	Class of shares	No. of domestic shares/unlisted foreign shares/ H shares	Approximate percentage of total voting rights of the Company	Approximate percentage of voting rights of domestic shares and unlisted foreign shares	Approximate percentage of voting rights of H shares	Capacity of Interest
Shanghai Bailian Group Co., Limited (Note 1)	domestic shares	224,208,000	20.03%	30.01%	–	Beneficial owner
Alibaba Group Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Taobao Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Taobao China Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Taobao (China) Software Co., Ltd. (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Alibaba (China) Technology Co., Ltd. (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Beneficial owner
Bailian Group Co., Ltd. (Note 1)	domestic shares	513,869,400	45.90%	68.79%	–	Beneficial owner/Interest of corporation controlled
Xu Zi-zuo	H shares	53,357,000(L))	4.77%	–	14.32%(L)	Beneficial owner
Corornation Global Fund Managers (Ireland) Ltd	H shares	37,130,454(L)	3.32%	–	9.97%(L)	Investment manager
China Galaxy International Asset Management (Hong Kong) Co., Limited (Note 3)	H shares	34,647,000(L)	3.09%	–	9.30%(L)	Investment manager
China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP) (Note 3)	H shares	33,914,000(L)	3.03%	–	9.10%(L)	Interest of corporation controlled
Julius Baer International Equity Fund	H shares	12,191,558(L)	1.09%	–	5.89%(L)	Beneficial owner

(L) = Long position
(S) = Short position
(P) = Lending pool

Notes:

1. As at 30 June 2020, Bailian Group Co., Ltd. ("Bailian Group") directly and indirectly holds approximately 53.16% of the shares in Shanghai Bailian Group Co., Limited ("Shanghai Bailian"). As at 30 June 2020, Shanghai Bailian held 224,208,000 shares of the Company. Thus, Bailian Group directly and indirectly holds approximately 513,869,400 shares of the Company, or 45.90% in proportion.

   As at 30 June 2020, (i) Mr. Ye Yong-ming, the Chairman and a non-executive Director, was the chairman of Bailian Group and the chairman of Shanghai Bailian; (ii) Ms. Xu Zi-ying, the Vice Chairman and a non-executive Director, was a director and the president of Bailian Group, the vice chairman of Shanghai Bailian and the chairman of Shanghai First Pharmaceutical Co., Ltd.（上海第一醫藥股份有限公司）; (iii) Ms. Zhang Shen-yu, a non-executive Director, was a director and the executive deputy general manager (in charge) of Shanghai Bailian; (iv) Mr. Dong Xiao-chun, a non-executive Director, was a director, the chief financial officer and the secretary of the board of directors of Shanghai Bailian; (v) Mr. Yang A-guo, a supervisor of the Company, was the chief financial officer of Bailian Group and the head of the supervisory committee of Shanghai Material Trade Co., Ltd.（上海物資貿易股份有限公司）; and (vi) Mr. Li Feng, a supervisor of the Company, was the director of the auditing and risk control centre of Bailian Group and a supervisor of Shanghai Bailian.

2. Alibaba Group Holding Limited holds 100% of the shares in Taobao Holding Limited, Taobao Holding Limited holds 100% of the shares in Taobao China Holding Limited, Taobao China Holding Limited holds 100% of the shares in Taobao (China) Software Co., Ltd., and Taobao (China) Software Co., Ltd. holds 57.59% of the shares in Alibaba (China) Technology Co., Ltd. Alibaba (China) Technology Co., Ltd. held 201,528,000 shares of the Company, representing 18% share capital of the Company. Thus, Alibaba Group Holdings Limited, Taobao Holding Limited, Taobao China Holding Limited and Taobao (China) Software Co., Ltd. are all deemed to be invested in the shares held by or deemed to be interested by Alibaba (China) Technology Co., Ltd.

3. China Galaxy International Asset Management (Hong Kong) Co., Limited holds 100% of the shares in China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP). China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP) held 33,914,000 shares of the Company. Thus, China Galaxy International Asset Management (Hong Kong) Co., Limited directly and indirectly holds approximately 34,647,000 shares of the Company, or 3.09% in proportion.

4. As the Company issued 8 additional shares to the Shareholders whose names appeared on the register of Shareholders of the Company on the record date, i.e. 28 June 2011, for every 10 shares held by them by way of capitalization of the capital reserve fund on 8 September 2011, the number of H shares of the Company held as at 30 June 2020 by holders of H shares has been adjusted accordingly, if necessary.

Save as disclosed above, the Directors are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at 30 June 2020.

The Legal Status of Unlisted Foreign Shares

Set out below is the summary of legal opinions given by Grandall Law Firm (Shanghai) on the rights attached to unlisted foreign shares (the "Unlisted Foreign Shares"). Although the Prerequisite Clauses for Articles of Association of Companies to be Listed Overseas (the "Prerequisite Clauses") provides the definitions of "domestic shares", "foreign shares" and "overseas listed foreign shares" (these definitions have been adopted in the Articles of Association of the Company ("Articles of Association")), the rights attached to the Unlisted Foreign Shares, which are subject to certain restrictions on transfer as referred to in the Prospectus and may become H shares of the Company (the "H Shares") upon obtaining the requisite approvals from, among others, the China Securities Regulatory Commission (the "CSRC") and the Stock Exchange, are not expressly provided under the existing PRC laws or regulations. However, the Company's creation of Unlisted Foreign Shares and the subsistence of the Unlisted Foreign Shares does not contravene any PRC laws or regulations.

At present, there are no express laws and regulations in the PRC governing the rights attached to Unlisted Foreign Shares. Grandall Law Firm (Shanghai) advised that until new laws or regulations are introduced in this aspect, holders of the Unlisted Foreign Shares shall be treated the same as holders of domestic shares ("Domestic Shares") of the Company (in particular, in respect of the rights to attend and vote at general meetings and class meetings and to receive notice of such meetings in the same manner as holders of Domestic Shares), except that the holders of the Unlisted Foreign Shares enjoy the following rights to which the holders of Domestic Shares are not entitled:

(a) to receive dividends declared by the Company in foreign currencies; and

(b) in the event of winding up of the Company, to remit their respective shares of the remaining assets (if any) of the Company out of the PRC in accordance with the applicable foreign exchange control laws and regulations of the PRC.

No provision is made for the settlement of disputes between holders of Unlisted Foreign Shares and holders of Domestic Shares in the Prerequisite Clauses or the Articles of Association. According to the PRC laws, in case of disputes between holders of Unlisted Foreign Shares and holders of Domestic Shares and the parties failed to reach any settlement after negotiation or mediation, either party may choose to resort to an arbitration commission in the PRC or any other arbitration commission to conduct arbitration for dispute resolution pursuant to a written arbitration agreement. If there is no prior arbitration agreement and the parties are not able to reach an agreement in respect of their dispute, either party may initiate legal proceedings in a competent PRC court.

According to the requirements under Clause 163 of the Prerequisite Clauses and the Articles of Association, in general, disputes between holders of H Shares and holders of Domestic Shares are required to be settled through arbitration. Such dispute resolution requirements are also applicable to disputes between holders of H Shares and holders of Unlisted Foreign Shares.

As advised by Grandall Law Firm (Shanghai), the Unlisted Foreign Shares can be converted into new H Shares subject to satisfaction of the following conditions:

(a) the expiry of a period of one year from the date on which the Company was converted from a limited company into a joint stock limited company and listed on the Stock Exchange;

(b) approvals from the original approval authority or authorities in the PRC for the establishment of the Company obtained by holders of Unlisted Foreign Shares for the conversion of Unlisted Foreign Shares into H shares;

(c) approval from the CSRC obtained by the Company for the conversion of Unlisted Foreign Shares into new H Shares;

(d) approval granted by the Stock Exchange for the listing and trading of the new H Shares converted from the Unlisted Foreign Shares;

(e) approval granted by the shareholders of the Company at a general meeting and the holders of H Shares, Domestic Shares and Unlisted Foreign Shares at their respective class meetings to authorize the conversion of Unlisted Foreign Shares into new H Shares in accordance with the Articles of Association; and

(f) full compliance with relevant PRC laws, rules, regulations and policies governing companies incorporated in the PRC and seeking permission for listing of shares outside the PRC and with the Articles of Association and any agreement among the shareholders.

Upon satisfaction of all the conditions mentioned above and other conditions as may be imposed from time to time by the Stock Exchange, Unlisted Foreign Shares may be converted into new H Shares.

Subsequent Events

From 1 July 2020 to the date of this interim report, there was no non-financial event that may cause material effects on the results of the Company.

Interim Dividend

The board of Directors of the Company (the "Board") does not recommend the distribution of interim dividend for the six months ended 30 June 2020.

Purchase, Sale or Redemption of Shares

For the six months ended 30 June 2020, 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 matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2020 of the Group. The Audit Committee considered that the interim accounts of the Group for the six months ended 30 June 2020 is in compliance with the relevant accounting standards, the requirements of the Stock Exchange and the Laws of Hong Kong, and the Company has made sufficient disclosures thereof.

Compliance with the Model Code

The Company has adopted the Model Code as code of conduct for securities transactions by all the Directors and supervisors of the Company. After specific enquiries to the Directors and supervisors, the Board is pleased to confirm that all the Directors and supervisors 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 all the code provisions in the Corporate Governance Code (the "Code") 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 provide that each director shall be appointed at the general meeting of the Company and for a term of not more than 3 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 contain no express provision for the mechanism of directors' retirement by rotation, thus deviating from the aforementioned provision of the Code.

For Provision A.6.7 of the Code:

Mr. Qian Jian-qiang, the then non-executive Director, was unable to attend the 13th meeting of the sixth session of the Board convened on 31 March 2020 by the Company due to his other work duties.

Ms. Xu Zi-ying, a non-executive Director, was unable to attend the first meeting of the seventh session of the Board convened on 22 June 2020 by the Company due to her other work duties.

Ms. Xu Zi-ying, a non-executive Director, and Ms. Zhang Shen-yu, a non-executive Director, were unable to attend the second meeting of the seventh session of the Board convened on 28 August 2020 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 relevant matters were considered at the Board meeting 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, Ms. Xu Zi-ying, a non-executive Director, Mr. Qian Jian-qiang, the then non-executive Director and Ms. Zheng Xiao-yun, the then non-executive Director, were unable to attend the 2019 annual general meeting of the Company ("Annual General Meeting") convened on 22 June 2020 due to their other work duties. The Company has provided the relevant materials relating to the 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 in Information of Directors

The changes in the Directors up to the date of this report are set out below:

Name of Director	Details of Changes
Mr. Qian Jian-qiang	Retired as a non-executive Director on 22 June 2020
Ms. Zheng Xiao-yun	Retired as a non-executive Director on 22 June 2020
Ms. Zhang Shen-yu	Appointed as a non-executive Director on 22 June 2020
Mr. Dong Xiao-chun	Appointed as a non-executive Director on 22 June 2020

Please see the announcement of the Company dated 22 June 2020 for the biographical details of the relevant Directors. Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

By Order of the Board
Mr. Ye Yong-ming
Chairman

28 August 2020, Shanghai, the PRC

Deloitte. 德勤

TO THE MEMBERS OF LIANHUA SUPERMARKET HOLDINGS CO., LTD.
(a joint stock limited company incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 46, which comprise the condensed consolidated statement of financial position as of 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28 August 2020

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	notes	Six months ended 30 June 2020 (Unaudited) RMB'000	 2019 (Unaudited) RMB'000
Revenue	3	**14,036,644**	13,487,505
Cost of sales		**(12,012,937)**	(11,665,230)
Gross profit		**2,023,707**	1,822,275
Other revenue	3	**958,714**	1,216,259
Other income and other gains and losses	5	**262,991**	415,016
Distribution and selling expenses		**(2,363,034)**	(2,588,062)
Administrative expenses		**(415,634)**	(415,065)
Impairment losses under expected credit loss ("ECL") model, net of reversal	19	**(3,124)**	954
Other expenses	6	**(71,791)**	(2,626)
Share of profits of associates		**19,891**	3,099
Finance costs	7	**(148,708)**	(185,778)
Profit before taxation	8	**263,012**	266,072
Income tax expense	9	**(116,982)**	(122,943)
Profit for the period		**146,030**	143,129
Total comprehensive income for the period		**146,030**	143,129
Profit for the period attribute to:			
Owners of the Company		**58,327**	43,965
Non-controlling interests		**87,703**	99,164
		146,030	143,129
Total comprehensive income for the period attributable to:			
Owners of the Company		**58,327**	43,965
Non-controlling interests		**87,703**	99,164
		146,030	143,129
Earnings per share – basic and diluted	11	**RMB0.052**	RMB0.039

Condensed Consolidated Statement of Financial Position

At 30 June 2020

	notes	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	12	**3,332,852**	3,452,466
Construction in progress	12	**23,041**	33,345
Right-of-use assets	12	**7,070,394**	7,480,238
Intangible assets	12	**239,104**	227,903
Interests in associates	13	**744,990**	725,098
Financial assets at fair value through profit or loss ("FVTPL")	14	**73,043**	73,909
Term deposits	15	**4,455,000**	1,695,000
Prepaid rental		**789**	467
Deferred tax assets		**3,538**	2,933
Finance lease receivables		**282,486**	305,180
Other non-current assets	16	**126,361**	63,171
		16,351,598	14,059,710
Current assets			
Inventories		**2,338,228**	2,775,011
Trade receivables	18	**291,222**	164,431
Deposits, prepayments and other receivables		**574,583**	754,232
Amounts due from fellow subsidiaries	20	**9,211**	9,075
Amounts due from associates	21	**48**	39
Finance lease receivables-current		**36,665**	39,376
Financial assets at FVTPL	14	**58,686**	1,310,747
Term deposits	15	**1,172,300**	2,241,300
Cash and cash equivalents		**1,737,761**	2,198,539
		6,218,704	9,492,750
Non-current assets classified as held for sale	17	**52,555**	–
Total assets		**22,622,857**	23,552,460

Condensed Consolidated Statement of Financial Position

At 30 June 2020

	notes	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Capital and reserves			
Share capital	23	**1,119,600**	1,119,600
Reserves		**710,680**	652,353
Equity attributable to owners of the Company		**1,830,280**	1,771,953
Non-controlling interests		**336,434**	274,553
Total equity		**2,166,714**	2,046,506
Non-current liabilities			
Deferred tax liabilities		**77,520**	94,388
Lease liabilities		**6,436,968**	6,774,004
		6,514,488	6,868,392
Current liabilities			
Trade payables	24	**3,531,706**	3,984,193
Bank borrowing	22	**20,000**	–
Other payables and accruals	25	**1,627,059**	1,675,869
Lease liabilities-current		**840,231**	754,352
Contract liabilities		**7,692,970**	8,022,516
Deferred income		**8,958**	11,779
Amounts due to fellow subsidiaries	20	**60,033**	25,156
Amounts due to associates	21	**988**	1,262
Amounts due to other related parties		**1,328**	2,751
Tax payable		**158,382**	159,684
		13,941,655	14,637,562
Total liabilities		**20,456,143**	21,505,954
Total equity and liabilities		**22,622,857**	23,552,460
Net current liabilities		**(7,722,951)**	(5,144,812)
Total assets less current liabilities		**8,681,202**	8,914,898

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to owners of the Company							
	Share capital RMB'000	Capital reserve RMB'000 (note a)	Other reserve RMB'000 (note b)	Statutory common reserve fund RMB'000 (note c)	Retained profits RMB'000	Total attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2019 (audited)	1,119,600	258,353	(235,497)	559,800	447,998	2,150,254	283,359	2,433,613
Total comprehensive income for the period	–	–	–	–	43,965	43,965	99,164	143,129
Dividends to non-controlling shareholders	–	–	–	–	–	–	(28,419)	(28,419)
At 30 June 2019 (unaudited)	1,119,600	258,353	(235,497)	559,800	491,963	2,194,219	354,104	2,548,323
At 1 January 2020 (audited)	**1,119,600**	**258,353**	**(235,497)**	**559,800**	**69,697**	**1,771,953**	**274,553**	**2,046,506**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**58,327**	**58,327**	**87,703**	**146,030**
Dividends to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(27,822)**	**(27,822)**
Capital contribution from non-controlling shareholders of new subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**2,000**	**2,000**
At 30 June 2020 (unaudited)	**1,119,600**	**258,353**	**(235,497)**	**559,800**	**128,024**	**1,830,280**	**336,434**	**2,166,714**

notes:

(a) Capital reserve of the Company represents share premium arising from issue of H shares net of share issuance expenses.

(b) Other reserve of the Group mainly represents:

i. the fair value difference of a subsidiary's net assets, arising from a business combination in 2005, and the Group's original equity interest in that subsidiary;

ii. the financial impact of adopting merger accounting to account for the acquisition of subsidiaries during the year ended in 2009 and 2011;

iii. acquisition of additional equity interests in subsidiaries; and

iv. share of the other comprehensive income of the associates.

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

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

No transfer has been made to the statutory common reserve fund in respect of the net profit for the six months ended 30 June 2020 and 2019 as such transfer will be made, upon directors' approval, at the year-end date based on the annual profit.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash from operating activities	**418,378**	442,214
Investing activities		
Placement of unrestricted term deposits	**(2,956,000)**	(2,456,000)
Withdrawal of unrestricted term deposits	**1,222,000**	200,000
Purchase of financial assets at FVTPL	**–**	(1,710,700)
Purchase of property, plant and equipment and construction in progress	**(167,187)**	(186,370)
Purchase of intangible assets	**(11,980)**	(4,622)
Payment for rental deposits	**–**	(8,384)
Proceeds on disposal of financial assets at FVTPL	**1,263,192**	3,211,910
Proceeds on disposal of property, plant and equipment	**213,379**	149,520
Dividend from financial assets at FVTPL	**–**	415
Net cash used in investing activities	**(436,596)**	(804,231)
Cash used in financing activities		
New bank borrowing raised	**20,000**	–
Dividends paid to non-controlling shareholders	**(27,822)**	(42,546)
Capital contribution from non-controlling shareholders of new subsidiary	**2,000**	–
Payment for acquisition of partial interest of a subsidiary	**–**	(28,176)
Repayments of leases liabilities	**(436,738)**	(384,228)
Net cash used in financing activities	**(442,560)**	(454,950)
Net decrease in cash and cash equivalents	**(460,778)**	(816,967)
Cash and cash equivalents at 1 January	**2,198,539**	2,661,100
Cash and cash equivalents at 30 June	**1,737,761**	1,844,133

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

As of 30 June 2020, the Group has net current liabilities of RMB7,722,951,000 (31 December 2019: RMB5,144,812,000). Taking into account of the Group's ability to withdraw the non-current unrestricted term deposits of RMB3,068,000,000, the historical settlement and addition pattern of the coupon liabilities (included in contract liabilities), the directors of the Company consider the liquidity risk is significantly reduced and the Group is able to be continued as a going concern.

1A. Significant events and transactions in the current interim period

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy and business environment. However, the outbreak of COVID-19 also resulted in increased demands of consumers for livelihood merchandises sold by the Group's. In addition, the government has announced some financial measures and supports for corporates during the current interim period to overcome the negative impacts arising from the pandemic such as one-off waiver of employers' obligations on payment of employees' social benefit and rent concessions granted by certain lessors of the Group.

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 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	*Definition of Material*
Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*

The application of the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Accounting policy newly applied by the Group during the current period

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell which continue to be measured in accordance with the accounting policies as set out in respective sections.

3. REVENUE AND OTHER REVENUE

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

Disaggregation of revenue from contracts with customers

Type of Revenue

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Revenue		
Sales of merchandises	**14,036,644**	13,487,505
Services		
Income from suppliers (service income)	**757,436**	854,271
Royalty income from franchised stores	**19,307**	19,410
Commission income from coupon redemption in other retailers	**1,015**	1,783
	777,758	875,464
Total	**14,814,402**	14,362,969
Timing of revenue recognition		
At a point in time	**14,037,659**	13,530,859
Over time	**776,743**	832,110
Total	**14,814,402**	14,362,969

3. REVENUE AND OTHER REVENUE (Continued)

Disaggregation of revenue from contracts with customers (Continued)

Type of Revenue (Continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Revenue from contracts with customers	**14,814,402**	14,362,969
Rental income from leasing of shop premises	**180,956**	340,795
Total revenue and other revenue	**14,995,358**	14,703,764

4. SEGMENT INFORMATION

The following is an analysis of the Group's revenue (including revenue 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) Six months ended 30 June		Segment results Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000	**2020 (Unaudited) RMB'000**	2019 (Unaudited) RMB'000
Hypermarkets	**8,634,011**	8,699,336	**250,670**	306,567
Supermarkets	**5,439,866**	4,967,950	**104,524**	35,770
Convenience stores	**822,742**	986,441	**(34,699)**	(74,652)
Other operations	**98,739**	50,037	**1,984**	35,165
	14,995,358	14,703,764	**322,479**	302,850

note: Segment revenue includes both revenue and other revenue for both periods presented.

4. SEGMENT INFORMATION (Continued)

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Segment results	**322,479**	302,850
Unallocated interest income	**25,154**	28,802
Unallocated income and other gains and losses	**1,874**	5,461
Unallocated expenses	**(106,386)**	(74,140)
Share of profits of associates	**19,891**	3,099
Profit before taxation	**263,012**	266,072

All of the segment revenue reported above are 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 other gains and losses 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.

Information on segment assets and liabilities is not disclosed since these information are not reported to the CODM as they do not assess performance of reportable segments using information on assets and liabilities.

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest income on bank balances and term deposits	**136,488**	100,506
Government subsidies (note i)	**38,173**	34,883
Gain on change in fair value of financial assets at FVTPL	**10,264**	65,584
Dividends from financial assets at FVTPL	**–**	415
Gain on disposal of right-of-use assets and property, plant and equipment (note ii)	**15,549**	134,713
Salvage sales	**15,900**	17,101
Income from breakage (note iii)	**13,813**	26,310
Others	**32,804**	35,504
Total	**262,991**	415,016

notes:

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

(ii) During the six months ended 30 June 2019, a subsidiary of the Group entered into an agreement with the local government under the dismantling plan carried out by the local government ("the Agreement"). According to the Agreement, the government would pay RMB148,849,000 in total as compensation for dismantling the warehouse of the subsidiary. As at 30 June 2019, the relevant procedures as set out in the Agreement have been completed and the compensation has been received, resulting in a gain of RMB135,433,000 on disposal of property, plant and equipment.

(iii) The Group recognises the amount by reference to a ratio which is derived from historical information that represents proportion of the coupons issued by the Group to coupons not yet utilized by the customers for over five years. The breakage amounts are recognised as revenue from contract liabilities according to HKFRS 15.

6. OTHER EXPENSES

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Impairment loss recognised on right-of-use assets	**40,000**	–
Impairment loss recognised on property, plant and equipment	**8,000**	–
Store closure expenses	**19,782**	1,989
Others	**4,009**	637
Total	**71,791**	2,626

7. FINANCE COSTS

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Interest expenses on lease liabilities	**148,508**	185,778
Interest expenses on borrowing	**200**	–
Total	**148,708**	185,778

8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at:

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
After charging:		
Amortisation and depreciation		
Amortisation of intangible assets – software (included in distribution and selling expenses/ administrative expense) (note 12)	**8,419**	9,449
Depreciation of property, plant and equipment (note 12)	**170,552**	178,482
Depreciation of right-of-use assets (note 12)	**531,928**	552,077
	710,899	740,008
Cost of inventories recognised as an expense	**12,012,937**	11,665,230
Allowance for credit losses	**3,124**	99
Reversal of allowance for credit losses	**–**	(1,053)
Staff costs	**1,226,714**	1,395,917
After crediting:		
Share of profits of associates		
Share of profit before taxation	**30,157**	7,212
Less: Share of taxation	**10,266**	4,113
	19,891	3,099

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax on PRC Enterprise Income Tax ("EIT")	**134,455**	149,916
Deferred tax credit	**(17,473)**	(26,973)
	116,982	122,943

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 2020, the Group had unused tax losses of RMB3,013,650,000 (31 December 2019: RMB3,370,430,000) for which no deferred tax asset had been recognised due to the unpredictability of future profit streams.

10. DIVIDEND

The directors do not recommend the payment of an interim dividend for both interim period and the year ended 31 December 2019. .

11. EARNINGS PER SHARE – BASIC AND DILUTED

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings		
Profit for the period attributable to owners of the Company	**58,327**	43,965

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic 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.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, CONSTRUCTION IN PROGRESS, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

	Property, plant and equipment	Construction in progress	Right-of-use assets	Intangible assets		
				Goodwill	Software	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Opening carrying amount as at 1 January 2019 (audited)	3,503,796	31,279	7,957,150	127,953	82,470	210,423
Additions	117,341	26,815	307,160	–	4,622	4,622
Transfers	20,474	(31,105)	–	–	10,631	10,631
Disposals	(14,807)	–	–	–	–	–
Depreciation/amortisation charge (note 8)	(178,482)	–	(552,077)	–	(9,449)	(9,449)
Impairment (note b)	–	–	–	–	–	–
Closing carrying amount as at 30 June 2019 (unaudited)	3,448,322	26,989	7,712,233	127,953	88,274	216,227
Opening carrying amount as at 1 January 2020	3,452,466	33,345	7,480,238	127,953	99,950	227,903
Additions	42,899	30,483	267,502	–	11,980	11,980
Transfers	33,147	(40,787)	–	–	7,640	7,640
Disposals	(14,626)	–	(60,786)	–	–	–
Depreciation/amortisation charge (note 8)	(170,552)	–	(531,928)	–	(8,419)	(8,419)
Lease modifications (note a)	–	–	(9,109)	–	–	–
Impairment (note b)	3,027	–	(36,477)	–	–	–
Reclassified as held for sale	(13,509)	–	(39,046)	–	–	–
Closing carrying amount as at 30 June 2020 (unaudited)	3,332,852	23,041	7,070,394	127,953	111,151	239,104

(a) During the current interim period, lessors of the relevant retail stores provided rent concessions to the Group through monthly rent reductions ranging from 4% to 100% over one to twelve months.

The Group opted not to apply the practical expedient under HKFRS 16.46A and concluded the changes in lease payments constitute lease modifications. The net reduction in lease modification represents the offsetting effect of rent concessions from lessors and extension of certain lease contracts of the Group during the current interim period.

(b) The directors of the Company conduct a review of the Group's leasehold improvements and operating and office equipment on a periodic basis to determine if there are any indications of impairment. During the current interim period, the directors determined that certain operating assets used in the retail stores which had been selected to be closed, were impaired mainly due to physical damage and obsolescence.

13. INTERESTS IN ASSOCIATES

Among the Group's associates, the 2019 audited consolidated financial statements provided by Tianjin Yishang showed that the net assets attributable to the parent company at the beginning of 2019 is inconsistent with the figures at the end of the reporting year of 2018, representing a decrease of RMB1.11 billion. The Company is in further communication with Tianjin Yishang and parties concerned to understand the reasons for the adjustments, obtain relevant information, and seek solutions. At the same time, the Company has entrusted professional lawyers to file a lawsuit on Tianjin Yishang's relevant actions in the processing of the 2019 audit report, and protect shareholders' rights through legal means. As relevant procedures are still in progress, the Company does not include such groundless adjustments into its interests in associates of the consolidated statement of financial position as at 30 June 2020 of the Group.

14. FINANCIAL ASSETS AT FVTPL

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Non-current		
Unlisted equity investments (note a)	**21,872**	21,872
Equity securities listed in Shanghai Stock Exchange	**51,171**	52,037
	73,043	73,909
Current		
Equity securities listed in Shanghai Stock Exchange	**2,652**	2,809
Unlisted financial products (note b)	**56,034**	1,307,938
	58,686	1,310,747
Total	**131,729**	1,384,656

notes:

(a) These represent certain unlisted equity investments in the PRC which are determined using fair value of net assets of the underlying entities.

(b) The unlisted financial products are offered and managed by the licensed financial institutions in the PRC to invest principally in certain financial assets including bonds, trusts, cash funds, bond funds or unlisted equity investments issued and are circulated in the PRC in accordance with the entrusted agreements entered into between the parties involved. The investments were measured at fair value at the end of the reporting period, with corresponding gain on change in fair value of RMB11,287,000 (six months ended 30 June 2019: RMB42,306,000), credited to "other income and other gains and losses" in the current interim period.

15. TERM DEPOSITS

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Restricted:		
Current (note)	**858,000**	1,978,000
Non-current	**1,387,000**	310,000
Total	**2,245,000**	2,288,000
Unrestricted:		
Current (note)	**314,300**	263,300
Non-current	**3,068,000**	1,385,000
Total	**3,382,300**	1,648,300

Term deposits placed with banks in the PRC are denominated in Renminbi. Deposits having a maturity period over 3 months but within 1 year are presented as current assets whilst deposits having a maturity period over 1 year are presented as non-current assets.

As at 30 June 2020, restricted term deposits amounting to RMB2,245,000,000 (31 December 2019: RMB2,288,000,000) are placed by the Group as a security for coupons issued to customers and are not available for other use by the Group. In additions, the Group had structured deposits placed with banks, details of the balances are summarised in the note below:

Note:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Structured deposits – current:		
Restricted	**–**	1,230,000
Unrestricted	**38,300**	78,300
Total	**38,300**	1,308,300

The effective interest rates on those deposits range from 1.80% to 4.99% (31 December 2019: from 2.25% to 4.99%) per annum. The carrying amounts of the deposits approximate their fair value.

16. OTHER NON-CURRENT ASSETS

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Interest receivable	**126,361**	63,171

Note: This amount represents the interest receivable on term deposit with maturity over 1 year.

17. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

During the current interim period, the Group entered into agreements with the local government under the dismantle plan carried out by the local government ("the Agreements"). According to the Agreements, the local government would pay RMB304,240,000 in total as compensation for dismantling the warehouses of the Group. As at 30 June 2020, the relevant procedures as set out in the Agreements were still in progress and 70% of advance payment was paid by the local government. The management reclassified the warehouses to non-current assets held for sale as it is expected that the sale is highly probable and qualify for recognition as a completed sale within one year from the date of classification. No impairment had been recognised as the net proceeds of disposal were expected to exceed the carrying amount of non-current assets held for sale.

The major classes of assets classified as held for sale are as follows:

	30 June 2020 (Unaudited) RMB'000
Property, plant and equipment	**13,509**
Right-of-use assets	**39,046**
Total assets classified as held for sale	**52,555**

18. TRADE RECEIVABLES

The aging analysis of the trade receivables net of allowance for credit losses 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. The following is an analysis of trade receivables by age, presented based on the invoice date, which approximated the revenue recognition date.

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
0 – 30 days	**287,648**	161,692
31 – 60 days	**2,104**	963
61 – 90 days	**974**	1,432
91 days – one year	**496**	344
	291,222	164,431

Note: The aging is determined from the date on which the control of the goods or services is transferred to the customers till the end of the reporting period.

19. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS ("ECL") MODEL

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Impairment loss recognised (reversed) in respect of		
Trade receivables	**2,502**	(1,053)
Deposits, prepayments and other receivables	**622**	99
	3,124	(954)

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

20. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES

Amounts due from (to) fellow subsidiaries are trade in nature, unsecured, interest free, with credit terms ranging from 30 to 60 days (31 December 2019: 30 to 60 days). As at 30 June 2020, balances of both amounts due from (to) fellow subsidiaries are all aged within 60 days (31 December 2019: 60 days).

21. AMOUNTS DUE FROM (TO) ASSOCIATES

Amounts due from/to associates represent balances arising from expenses paid by the Group and purchases of merchandise from associates respectively. Balances are all aged within 90 days (31 December 2019: 90 days) and the credit terms of the trade balances range from 30 to 90 days (31 December 2019: 30 to 90 days). Such balances with associates are unsecured and interest free.

22. BANK BORROWING

During the current interim period, the Group obtained a new bank loan amounting to RMB20,000,000 (31 December 2019: Nil). The loan carries interest at fixed market rates of 3.05% per annum and is repayable within one year.

23. SHARE CAPITAL

	Number of share RMB1.00 each	**Share capital** RMB'000
Registered:		
As at 1 January 2019, 31 December 2019 and 30 June 2020	1,119,600,000	1,119,600
Issued and fully paid:		
As at 1 January 2019, 31 December 2019 and 30 June 2020	1,119,600,000	1,119,600

24. 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 2019: 30 to 60 days), is as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
0 – 30 days	**1,612,330**	2,188,279
31 – 60 days	**658,291**	600,744
61 – 90 days	**421,184**	347,832
91 days – one year	**839,901**	847,338
	3,531,706	3,984,193

note: The aging is determined from the date on which the control of the goods or services is transferred to the Group till the end of the reporting period.

25. OTHER PAYABLES AND ACCRUALS

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Payroll, staff welfare and other staff cost payable	**240,075**	321,863
Value added tax and other payable	**44,087**	42,994
Deposits from lessees, franchisees and other third parties	**297,053**	293,659
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	**16,714**	21,100
Prepayments received from franchisees and other third parties	**423,795**	655,474
Payables for acquisition of property, plant and equipment and low value consumables	**123,468**	212,459
Store closure provision	**23,791**	6,583
Accruals	**208,545**	106,787
Advance payment received (note 17)	**212,968**	–
Other miscellaneous payables	**36,563**	14,950
	1,627,059	1,675,869

26. CAPITAL COMMITMENTS

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment, construction of buildings and land use rights:		
– contracted for but not provided in the condensed consolidated financial statements	**57,714**	149,026

27. RELATED PARTY TRANSACTIONS

Save as elsewhere disclosed in the condensed consolidated financial statements, the Group also entered into the following significant related party transactions during the current interim period:

(i) Related party transactions

	Six months ended 30 June	
	2020 **(Unaudited)** **RMB'000**	2019 (Unaudited) RMB'000
Sales to fellow subsidiaries	**312,194**	203,637
Purchases from associates Sanming Taige Information Technology Co., Ltd.（三明泰格資訊技術有限公司）	**1,756**	2,441
Purchases from fellow subsidiaries	**193,255**	31,129
Purchases from other related parties	**1,607**	1,216
Rental income from fellow subsidiaries	**4,949**	12,823
Commission income earned from fellow subsidiaries	**–**	234
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	**2,515**	3,081
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	**4,624**	4,823
Payments of financial cost arising from lease liabilities to fellow subsidiaries	**7**	5,775
Property management fee charged by fellow subsidiaries	**6,285**	16,056
Rental expenses and property management fee charged by fellow subsidiaries	**–**	490
Interest income earned from a fellow subsidiary	**12,011**	17,314
Platform usage fee charged by fellow subsidiaries	**13,308**	8,751
Logistics resources leasing fee charged by fellow subsidiaries	**1,213**	1,121
Logistics and delivery fee charged by fellow subsidiaries	**2,987**	–
Logistics and delivery fee charged by the other related parties	**2,261**	858
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account	**11,900**	9,554
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account upon redemption of membership points by the customers	**4,093**	3,959

Detail terms of related party transactions during the current interim period are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

27. RELATED PARTY TRANSACTIONS (Continued)

(ii) Related party balances

The Group entered into a financial services agreement with a fellow subsidiary controlled by Bailian Group on 28 February 2013. Pursuant to the agreements signed thereafter, the fellow subsidiary agreed to provide the Group with the deposit services at a deposit rate equal to or more favourable than those offered by other major commercial banks in the PRC in respect of comparable deposits and loans. The summary of cash and cash equivalents and unrestricted term deposits placed to the fellow subsidiary is set out below:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Cash and cash equivalents in a fellow subsidiary	**502,366**	566,757
Unrestricted term deposits in a fellow subsidiary	**170,000**	70,000

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

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("Government Related Entities") including Bailian Group. Apart from the transactions with fellow subsidiaries disclosed above, the Group has also entered into various transactions, including sales, purchase, and deposits placement, with other Government Related Entities.

In view of the nature of the retail business operated by the Group, the directors are of the opinion that it is impracticable to identify the identities of the counterparties from the sales of merchandise as to whether they are Government Related Entities.

During both periods, significant amount of the Group's purchase were from Government Related Entities and most of the Group's deposits and borrowing are placed with banks which are also Government Related Entities.

(iv) Key management compensation

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Salaries and other short-term employee benefits	**5,132**	5,690
Post-employment benefits	**106**	178
Other long-term benefits	**119**	201
	5,357	6,069

The remuneration of key management is determined having regard to the performance of individuals and market trends.

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30/06/2020 RMB'000	31/12/2019 RMB'000			
1) Structured deposits as term deposits and investments in low risk bank financial products classified as financial assets at FVTPL in the condensed consolidated statement of financial position	**Assets – 94,334**	Assets – 2,616,238	Level 2	Discounted cash flow was used to capture the present value of the expected future economic benefit that will flow to the Group	Expected yield of the underlying investment portfolio and the discount rate
2) Investment in equity shares listed in Shanghai Stock Exchange classified as financial assets at FVPTL in the condensed consolidated statement of financial position	**Assets – 53,823**	Assets – 54,846	Level 1	Quoted bid prices in an active market	N/A
3) Unquoted equity investments classified as financial assets at FVTPL	**Assets – 21,872**	Assets – 21,872	Level 3	Fair value of net assets	Fair value of net assets

28. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value measurements and valuation process

The Chief Financial Officer ("CFO") of the Group determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available, and if appropriate, the Group will engage third party qualified valuers to perform the valuation. The CFO works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The CFO reports the findings, if any, to the board of directors of the Company at the end of each reporting period to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

29. AUTHORISATION FOR THE ISSUE OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited condensed consolidated financial statements were authorised for issue by the Company's board of directors on 28 August 2020.