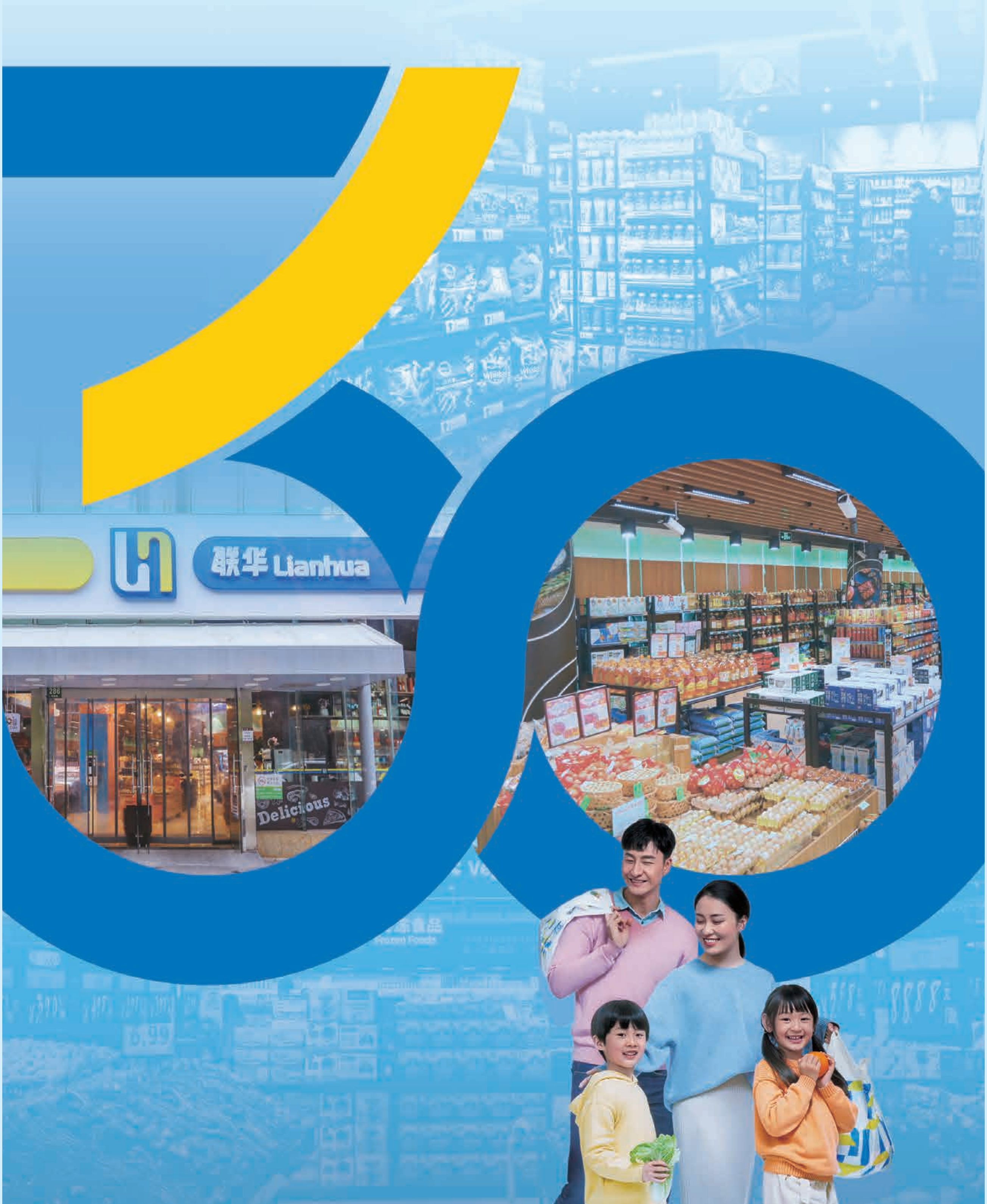
联华超市股份有限公司
LIANHUA SUPERMARKET HOLDINGS CO.,LTD.



INTERIM REPORT 2021

STOCK CODE:0980

Contents

Corporate Information

Directors

Executive Director

Mr. Xu Tao (Resigned on 23 April 2021)
Mr. Chong Xiao-bing

Non-executive Directors

Mr. Ye Yong-ming *(Chairman)*
Ms. Xu Zi-ying *(Vice Chairman)*
Mr. Xu Hong
Ms. Zhang Shen-yu
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
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 (Resigned on 23 April 2021)
Mr. Chong Xiao-bing
Ms. Zhang Shen-yu

Nomination Committee

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

Environmental, Social and Governance（ESG）Committee

Mr. Chong Xiao-bing *(Chairman)*
Ms. Zhang Shen-yu
Mr. Lee Kwok Ming, Don
Mr. Chen Wei

Supervisors

Mr. Yang A-guo *(Chairman)*
Mr. Li Feng
Ms. Tang Hao

Joint Company Secretaries

Ms. Xu Xiao-yi
Ms. Leung Shui Bing

Authorized Representatives

Mr. Xu Tao (Resigned on 23 April 2021)
Mr. Chong Xiao-bing
Ms. Xu Xiao-yi

International Auditor

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

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

Room 713, 7th Floor
No. 1258 Zhen Guang Road
Shanghai, PRC

Place of Business in the PRC

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Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
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

Operating Environment

In the first half of 2021, facing the complicated and volatile environment at home and abroad, China continued to consolidate and expand the achievements of epidemic control and economic and social development, and implement the macro-policy in an accurate manner. As a result, the economy continued to recover steadily, production and demand continued to rebound, employment and commodity prices remained stable in general, the new economic drivers grew rapidly, while quality and efficiency improved steadily. The overall market outlook was expected to be positive with major macroeconomic indicators staying within a reasonable range, and economic development demonstrating a trend of steady consolidation and improvement. According to the data of National Bureau of Statistics of the PRC, China's gross domestic product (GDP) reported a year-on-year increase of 12.7% in the first half of 2021, representing a two-year average growth rate of 5.3%. In terms of quarters, the first quarter reported a year-on-year increase of 18.3%, representing a two-year average growth rate of 5.0%; while the second quarter increased year on year by 7.9%, representing a two-year average growth rate of 5.5%.

In the first half of 2021, China has carried out various measures to stabilize and expand consumption, as a result, the consumer market has shown a general trend of steady and continuous recovery. Based on the data of National Bureau of Statistics of the PRC, total retail sales of consumer goods nationwide rose by 23.0% year on year in the first half of 2021, representing a two-year average growth rate of 4.4%. The contribution rate of consumption to economic growth was 61.7% in the first half of 2021, playing an important role in supporting the stable recovery of the economy, while the consumer market showed a number of development highlights. Because of the low base in the first half of last year, national disposable income per capita rose by 12.0% in real terms in the first half of 2021, representing a two-year average growth rate of 5.2% in real terms, slightly lower than the economic growth rate for the same period. Growth in residents' income was roughly the same with economic growth. National consumption expenditure per capita rose by 17.4% in real terms. Residents' consumption structure continued to upgrade due to rising income level. The upgrade from commodity consumption to service consumption and the increasing larger proportion of service consumption, is one of the strongest evidences. In the first half of 2021, service consumption accounted for 52.5% of China's residential consumption, 3.2 percentage points higher year on year. In the first half of 2021, the consumer price index (CPI) ascended moderately by 0.5% as compared with the corresponding period of last year.

In the first half of 2021, along with the coming of post-epidemic era and the recovery of consumer demand, different consumption concepts and patterns have emerged, and the consumption and channels have growing diversified and fragmented. According to the data of National Bureau of Statistics of the PRC, in the first half of 2021, national online retail sales recorded a year-on-year growth of 23.2%, representing a two-year average growth rate of 15.0%, among which, online retail sales of physical goods rose by 18.7%, representing a two-year average growth rate of 16.5%, and accounted for 23.7% of total retail sales of consumer goods.

In the era of "retail as omni-channel", and with the strong rise of young consumers, there has been a trend of diversified, individualized, and niche consumption, plus stronger demand for socially interactive consumption has emerged, all accelerating consumers' use of and reliance on digital consumption. Physical retailers including the Group have accelerated their digital transformation, focusing on building a consumer-centric supply chain system and exploring consumer experience, with an aim to lead the growth of consumption in the new retail era.

Financial Review

Revenue

During the period under review, the Group's revenue was approximately RMB13,238 million, representing a year-on-year decrease of approximately RMB799 million, or approximately 5.7%, and same store sales decreased by approximately 7.90%. The decrease was mainly due to the outbreak of the COVID-19 pandemic, which limited the daily consumption channels of residents, resulting in a significant growth in the Company's online and offline businesses during the corresponding period in 2020. Since the second half of 2020, due to the impact of the pandemic and other complex factors, the residents' income growth has slowed down, and they further moved to online shopping, resulting in further pressure on the brick-and-mortar retail industry. Among the Group's three segments, the hypermarket segment was particularly affected, with revenue decreasing from approximately RMB8,017 million during the corresponding period of last year to approximately RMB7,250 million, representing a year-on-year decrease of approximately RMB767 million.

Gross Profit

During the period under review, the Group's gross profit was approximately RMB1,619 million, representing a year-on-year decrease of approximately RMB405 million, or approximately 20.0%. Mainly due to the increased pressure on offline brick-and-mortar retail operations in the post-epidemic period, the Company further increased its promotional efforts to boost sales and the gross profit of merchandise was affected to a certain extent. The overall gross profit margin of the Group was approximately 12.23% in the first half of 2021, representing a decrease of approximately 2.19 percentage points as compared with the gross profit margin of 14.42% for the corresponding period of last year. In conjunction with increased promotions, the Company negotiated with suppliers to increase charges on promotional subsidy, and as a result, revenue from suppliers increased by approximately RMB80 million in the first half of 2021 as compared with the corresponding period of last year.

Other Revenue

During the period under review, the Group's other revenue was approximately RMB1,135 million, representing a year-on-year increase of approximately RMB176 million, or approximately 18.4%. During the same period in 2020, the Company's revenue from merchant solicitation was greatly affected by the withdrawal of tenants and the exemption of rent due to the epidemic. However, since the second half of 2020 when the epidemic was effectively alleviated, the Company's merchant solicitation rate has gradually increased, and the revenue from merchant solicitation in the first half of 2021 increased by approximately RMB95 million as compared with the corresponding period of last year. In addition, as a result of the increase in promotional activities, the Company's revenue from suppliers increased by approximately RMB80 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 RMB253 million, representing a year-on-year decrease of approximately RMB10 million, or approximately 3.9%.

Distribution and Selling Expenses

During the period under review, the Group's distribution and selling expenses amounted to approximately RMB2,325 million, representing a year-on-year decrease of approximately RMB38 million, or approximately 1.6%. Distribution and selling expenses accounted for approximately 17.57% of the revenue, representing a year-on-year increase of approximately 0.73 percentage point.

Administrative Expenses

During the period under review, the Group's administrative expenses amounted to approximately RMB423 million, representing a year-on-year increase of approximately RMB8 million, or approximately 1.8%. Administrative expenses accounted for approximately 3.20% of the revenue, representing a year-on-year increase of approximately 0.24 percentage point.

Other Expenses

During the period under review, the Group's other expenses amounted to approximately RMB4 million, representing a year-on-year decrease of approximately RMB68 million, or approximately 94.0%, which was mainly attributable to the provision for loss of approximately RMB70 million for closure of stores for the corresponding period of last year.

Share of Profits of Associates

During the period under review, the Group's share of profits of associates amounted to approximately RMB18 million, representing a year-on-year decrease of approximately RMB2 million.

Profit before Taxation

During the period under review, the Group's profit before taxation amounted to approximately RMB125 million, representing a year-on-year decrease of approximately RMB138 million, or approximately 52.5%.

Income Tax

During the period under review, the Group's income tax expense was approximately RMB65 million, representing a year-on-year decrease of approximately RMB52 million, or approximately 44.7%.

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 RMB20,077 thousand, representing a year-on-year decrease of approximately RMB38,251 thousand, or approximately 65.6%. During the period under review, the net profit margin was approximately 0.15%, representing a year-on-year decrease of approximately 0.26 percentage point. Based on the 1,119.6 million shares issued by the Group, the basic earnings per share were approximately RMB0.02.

Liquidity and Financial Resources

During the period under review, the net cash outflow of the Group was approximately RMB757,529 thousand, mainly affected by the net cash outflow from the short-term increase in accounts receivable and prepayments required for business promotion, and the net cash outflow from investments such as the payment for purchase and construction of a logistics base in the previous period and the expansion of new shops during the period under review. As at 30 June 2021, cash and balance at bank amounted to approximately RMB6,913,897 thousand.

For the six months ended 30 June 2021, the accounts payable turnover period of the Group was 53 days, and the inventory turnover period was approximately 39 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 30 June 2021, 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 continued to upgrade and iterate on the hypermarket 2.0 community neighbourhood centre, deepened the stereotype of the 3.0 PLUS model, created customer experience with diversified market and catering scenarios, accelerated the construction of digital store system while actively improving online operation capability. However, due to the impact of consumer spending tendencies in the post-epidemic period and shop closures in 2020 and during the period under review, the hypermarket segment of the Group recorded a revenue of approximately RMB7,250,452 thousand, representing a year-on-year decrease of approximately 9.6% and accounting for approximately 54.8% of the Group's revenue. Same store sales had a year-on-year decrease of approximately 9.64%. During the period under review, the hypermarket segment recorded a gross profit of approximately RMB887,355 thousand, representing a year-on-year decrease of approximately RMB306,409 thousand. As a result of the increase in promotional activities, revenue from suppliers increased by RMB40,138 thousand year on year. Rental income from leasing of shop premises recorded a year-on-year increase of RMB74,468 thousand. The consolidated income amounted to approximately RMB1,788,485 thousand, representing a year-on-year decline of approximately RMB190,964 thousand. The aggregate of distribution and selling expenses and administrative expenses amounted to approximately RMB1,544,130 thousand, representing a year-on-year decrease of approximately RMB3,276 thousand. The finance cost dropped by RMB7,395 thousand year on year. The segment operating profit amounted to approximately RMB136,311 thousand, representing a year-on-year decrease of approximately RMB114,359 thousand; and the operating profit margin declined year on year by 1.25 percentage points to approximately 1.88%.

	As at 30 June	
	2021	2020
Gross Profit Margin (%)	**12.24**	14.89
Consolidated Income Margin (%)	**24.67**	24.69
Operating Profit Margin (%)	**1.88**	3.13

Supermarkets

During the period under review, the Group's supermarket segment focused on transformation and upgrading. It consolidated its established foundation while seeking innovation with a focus on the community fresh produce supermarkets. Through category planning and brand revamp, the Group differentiated and created the community-based fresh produce shopping experience with its own characteristics, and reconstructed the store space based on scenario and product portfolio optimisation to improve the effectiveness per square meter. However, the growth of overall sales and new store opening slowed down due to declines in community group purchases and consumers' purchase intention after the pandemic. The Group's supermarket segment recorded a revenue of approximately RMB5,098,648 thousand, representing a year-on-year decrease of approximately RMB37,604 thousand, or approximately 0.7%, and accounting for approximately 38.5% of the Group's revenue. In particular, same store sales had a year-on-year decrease of approximately 8.28%. In the first half of 2021, under the impact of increased marketing and promotion efforts, the supermarket segment recorded a gross profit of approximately RMB635,810 thousand, and the gross profit margin declined year on year by 1.37 percentage points to approximately 12.47%, and the revenue from suppliers increased by RMB40,693 thousand year on year. Rental income from leasing of shop premises recorded a year-on-year increase of RMB21,210 thousand. The consolidated income was approximately RMB1,054,290 thousand, representing a year-on-year decrease of approximately RMB2,435 thousand; and the consolidated income margin increased year on year by 0.11 percentage point to approximately 20.68%. The segment operating profit amounted to approximately RMB67,044 thousand, representing a year-on-year decrease of approximately RMB37,480 thousand, and the operating profit margin declined by 0.73 percentage point to approximately 1.31%.

	As at 30 June	
	2021	2020
Gross Profit Margin (%)	**12.47**	13.84
Consolidated Income Margin (%)	**20.68**	20.57
Operating Profit Margin (%)	**1.31**	2.04

Convenience stores

During the period under review, the overall convenience store segment benefited from "streamlining structure, cutting costs and reducing loss faster" since 2020, accelerated reorganisation of stores with loss in each area, downsized the work force by several measures and controlled operating costs. Meanwhile, in Zhejiang region, the convenience store segment accelerated its integration with the supply chain and operational management of other segments, effectively enhancing its merchandising power and operational efficiency, and turning around the overall loss trend of the convenience store segment in recent years. The convenience store segment recorded a revenue of approximately RMB790,570 thousand, representing a year-on-year increase of approximately 0.4% and accounting for approximately 6.0% of the Group's revenue. In particular, same store sales increased by 32.99% year on year. The convenience store segment recorded a gross profit of approximately RMB87,118 thousand, and the gross profit margin declined by 3.24 percentage points to approximately 11.02%.The consolidated income was approximately RMB128,113 thousand and the consolidated income margin declined by 3.72 percentage points to approximately 16.21%. The aggregate of distribution and selling expenses and administrative expenses amounted to approximately RMB119,016 thousand, representing a year-on-year decrease of approximately RMB68,940 thousand. During the period under review, the convenience store segment recorded an operating profit of approximately RMB8,621 thousand, representing an increase of approximately RMB43,320 thousand as compared with the corresponding period of last year. The operating profit margin rose by 5.50 percentage points to approximately 1.09%.

	As at 30 June	
	2021	2020
Gross Profit Margin (%)	**11.02**	14.26
Consolidated Income Margin (%)	**16.21**	19.93
Operating Profit Margin (%)	**1.09**	–4.41

Capital Structure

As at 30 June 2021, the Group's cash and cash equivalents were mainly held in Renminbi. The Group had no other bank borrowings.

During the period under review, the equity attributable to owners of the Group increased from approximately RMB1,452,667 thousand to approximately RMB1,472,744 thousand, which was primarily attributable to the profit of approximately RMB20,077 thousand recorded in the period.

Details of the Group's Pledged Assets

As at 30 June 2021, 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 2021, the issued share capital of the Company was as follows:

Class of Shares Issued	Number of 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

Development of Sales Network: Segment and End Models Expansion

During the period under review, the Group focused on core regions and core segments, enhanced its presence in the Yangtze River Delta region, deployed community sales network resources, strengthened franchise business, and steadily advanced the opening and renewal of outlets. The Group opened a total of 161 new stores, including 34 new directly-operated stores and 127 new franchised stores. 128 new stores were located in the Yangtze River Delta region and accounted for 79.5% 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, 99 stores were closed, including 23 directly-operated stores and 76 franchised stores.

During the period under review, the hypermarket segment stabilized existing scale and continued its upgrading and iteration of the hypermarket 2.0 community neighbourhood centre with a view to increasing profitability, and focused on building a small store version of the hypermarket 2.0 community centre. The segment optimized the layout of tenants to enhance the additional community functions in the merchant solicitation zone and followed the concept of "community life centre & vibrant hustle and bustle for life" to enhance community service, thereby realizing the transformation and upgrading from "traditional hypermarket" to "community commercial centre". Focusing on the last mile of community business, the segment accelerated the construction of front-end warehouses and polished its operating model so as to enhance operation efficiency. In the first half of 2021, three new hypermarkets were opened, which were all located in Zhejiang province; three hypermarkets were closed, with one located in Shanghai, one located in Jiangsu province and one located in Henan province.

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. Directly-operated stores continued to deepen the category modules for transformed community fresh produce stores, to integrate direct source from bases, online community trends and nutrition and health and other themes into the scenarios to create community fresh produce stores with personalized category scenarios. Franchised stores were selected to expand the tight franchise model, and eligible loose franchised stores were upgraded to be semi-tight to maintain the scale advantage. In the first half of 2021, a total of 91 new supermarkets were opened, including 25 directly-operated stores and 66 franchised stores. 51 supermarkets were closed, including eight directly-operated stores and 43 franchised stores. The number of stores recorded a net increase of 40.

During the period under review, guided by the principle of cutting costs and reducing losses, the convenience store segment sorted out loss-making stores in each region, integrated the existing high-quality stores, tracked user experience, empowered catering models and provided additional services, so as to accelerate the improvement of store operation capability. In the meantime, the convenience store segment synergized the supply chain strengths of other segments and took the initiative to adjust the store portfolio based on the consumers' shopping preference to improve operating performance. In the first half of 2021, 67 new convenience stores were opened, including six directly-operated stores and 61 franchised stores. 45 stores were closed, including 12 directly-operated stores and 33 franchised stores. The number of stores recorded a net increase of 22.

As at 30 June 2021, the Group had 3,254 stores in total, approximately 85.3% of which were located in East China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	140	735	333	1,208
Franchise operation	–	1,436	610	2,046
Total	140	2,171	943	3,254

Note: Data mentioned above are figures as at 30 June 2021.

Product Portfolio Planning and Supply Chain Construction

During the period under review, the Group improved the structure of product portfolio through effective integration of supply chain, with an aim to develop "quality fresh produce" comprehensively. The Group strengthened direct procurement from sources, introduced resources of the leading bases, and upgraded the regional procurement system. The Group also enhanced the internal supply chain synergy and improved the performance of advantageous products. By strengthening the nationwide joint procurement, expanding the fresh produce value chain, digging deep into product portfolio resources and clarifying the quality standard with one standard for one product, the Group established clear corporate product value to promote the sustainable development of fresh produce category.

During the period under review, the Group continued to improve its category allocation and promote its category solidification, and continued to accelerate the introduction of new products and the replacement of old products to improve the single product efficiency. As a result of the shift in consumption habits in the post-epidemic era, the performance of the daily necessities, products for people's livelihood and disinfection products categories was weaker than that of the last year. By reviewing existing product items and conducting research on consumer reach data, the Group proactively adjusted its product portfolio while controlling the supply shortage rate of products and shortening turnover days to improve consumer perception and sales of core product categories, thereby realizing the brand value of the enterprise.

During the period under review, the Group continued to enhance its control of the supply chain, strategically deploying quality resources. Through the JBP (Joint Business Plan) strategic cooperation, the JBP synergy mechanism was formed and leading product portfolio suppliers were introduced for the joint creation of exclusive marketing activities. Leveraging on the resources from suppliers and third-parties, the Group secured better resources and enhanced strengths of joint brand operation. Through comprehensive strategic cooperation with brand owners in new retail fields including the big data empowerment and the experience innovation, the Group aimed to enhance its overall procurement capabilities, improve its department store scenarios and optimize its product categories, so as to build the supply chain model, thus fostering differentiated business advantages of the enterprise.

Private-label Brand

During the period under review, the Group continuously optimized and improved private-label brands based on enterprise strategy, and streamlined the nationwide organization and working mode of private-label brands. The Group improved its organizational and sales capacities of private-label brands in multiple dimensions, ranging from order placement, product display, online and offline promotion, to SOP (Standard Operation Procedure) regulation, and established the mechanism of selecting, benchmarking, evaluating and eliminating for private-label brands, thus creating improving and more brand applications.

During the period under review, the Group actively promoted its private-label brand according to different consumption potential and characteristics of target customers, focusing on the building of private-label brands series of "Lianhua Quality"(聯華質造), "Excellence Offering"(優饗), and "Quality Life"(優品生活) with core market competitiveness. The Group first promoted private-label branding among department store categories in the supermarket segment, and gradually expanded private-label brands' influence on consumers. In the meantime, the Group reviewed the supply chain of private-label brands on regular basis, built a nationwide procurement structure for private-label brands, established a team for fresh produce private-label brands, continuously developed and introduced source suppliers, integrated and developed regional resources, and achieved resource sharing. By analyzing the market potential, developing innovative product portfolios, the Group continuously expanded the private-label brand products in Shanghai, Zhejiang and other regions, thereby built high-quality omni-channel categories.

During the period under review, the Group further improved the marketing strategy for private-label brand category, and integrated brand visualization elements into the marketing and promotion of private-label brands by combining its brand positioning. Based on the branding visual style, the Group designed a home service publicity image to enhance the recognition of Lianhua's private-label brands among consumers. Leveraging on the "May 5th Shopping Festival"(五五購物節) with Shanghai characteristics, the offline and online promotion activities of private-label brand category were launched simultaneously to attract consumers of different age groups, enabling them to feel the heartfelt and quality company of Lianhua's private-label brands.

Excellent Implementation to Improve Operational Capability

During the period under review, the Group comprehensively improved the marketing planning and activity mechanism, created diversified marketing scenarios and atmosphere, and actively promoted whole-area sales. Focusing on consumers' mind and staying result-oriented, the Group strengthened its planning, focused on implementation, continued to deepen "Brand Economy", improved the effectiveness of marketing activities, iterated the marketing pattern, and cooperated with JBP suppliers to launch theme marketing activities. With deliberate plans and careful execution, the Group boosted the business performance with increasing customer flow and orders. The Group deeply cultivated whole-chain membership system, developed community and group buying businesses in an all-round manner, built we media ecosystem, and accumulated private traffic. Meanwhile, the Group further promoted the online and offline integration, strengthened the digital contract fulfillment capability, reconstructed digital SOP, took the opportunity of system and process optimisation to review, improve and adjust operation procedures, and improved the delivery-to-home business by focusing on core indicators including shelf share, stock-out rate and order-picking time.

During the period under review, the Group improved the internal supply chain process, which created synergies and boosted the performance of advantageous products. It further improved the structure of fresh produce category, made innovative of product selection by incorporating seasonal trends, considered both commonalities and differences of online and offline products and therefore built Lianhua Quality Fresh Produce. The Group attached greater importance to the group buying of communities where businesses were operated, seized market opportunities and utilised the resources of industry leaders to promote online sales and improve the overall dynamic sales rate of fresh produce.

During the period under review, the Group improved the logistics operation efficiency by integrating Lianhua's internal supply chain. It better leveraged the advantages of Jiangqiao Logistic Base to comprehensively satisfy the logistics demands of stores and suppliers and to fully support the development of core businesses. Taking the opportunity of consolidating Lianhua's existing offline store network, the Group implemented O2O (Online To Offline) integration, achieved inventory, information and distribution sharing, and offered services to member companies, other enterprises and government organisations. It continuously improved the warehousing and distribution efficiency, advanced the transition from direct delivery to distribution, further decreased the inventory turnover days, vigorously developed the third-party logistics business, actively explored new retail logistics, enabled the reconstruction of business procedures by digitalisation, and improved the market-oriented operation performance.

Brand Revamp

During the period under review, the Group continued to revamp the brand system from consumers' perspectives with the vision of "Increase our consumers' loyalty to us". While the unified brand strategy remained as the core, the Group took operation requirements into account, improved the nationwide brand management procedures, accelerated the implementation of brand system planning and built the brand volume in an all-round manner, so that it would convey the brand positioning to consumers with a new look, bring refreshing shopping experience to consumers and forge more meaningful and warmer connections between consumers and Lianhua.

During the period under review, the Group, based on consumer phycology and behavior logic, promoted the consumer-oriented S-grade marketing integration and built the marketing model with user experience as the core. Highlighting the 30th anniversary of Lianhua, the Group shaped the 30th Anniversary Brand Signature to enable production promotion. It developed a new operation model, managed Lianhua Select Live Streaming Channel, and launched a series of theme activities including "May 5th Shopping Festival" and "Lighting up Dream Dinner" to attract the engagement of young consumers; introduced hot topics and news and cultivated followers' reading habits to increase page views and the overall exposure and thereby to improve the effectiveness of product promotion and marketing activities.

During the period under review, the Group strengthened the membership system and the private traffic operation, and sought opportunities to realise multipoint reach. In response to the trend that consumers' online availability increased, the Group vigorously developed online channels, expanded sources of membership through traffics of third-party platforms, and strongly promoted Plus membership by offering registration gifts and "Benefiting All" packages. It developed the pilot programme of 3-month Supermarket Membership Operation Scheme, which defined the life cycle of membership and managed members in groups, deepened the operation of third-party payment platforms, established closed cooperation with Alipay, UnionPay and other bank platforms, connected the WeChat membership cards across the country to a same system, provided more tools and possibilities to membership marketing, maintained the customer stickiness, and increased traffics to boost sales.

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

As at 30 June 2021, the Group had a total of 29,358 employees, representing a decrease of 2,010 employees during the period under review. Total employment expenses amounted to approximately RMB1,191,350 thousand.

During the period under review, the Group continued to integrate its organizational structure and promote organizational reform in line with the Company's strategic development requirements. Further optimization of the functional structure for marketing, process optimization, financial management and fresh produce procurement was carried out to improve and strengthen organizational functions and enhance organizational effectiveness.

During the period under review, the Group continued to promote the standardization of remuneration and benefits and completed the adjustment and implementation of the annual salary system for the positions of department head assistants and above at the headquarters and the management of segment companies in an orderly manner, while formulating the adjustment standards and plans for the monthly salary system for the employees at headquarters and implementing them in phases. The Group promoted a performance culture, adjusted the Company's incentive model, and developed incentive methods for performance assessment of departments of the headquarters and segments. The store partnership program was continuously promoted to motivate frontline staff.

During the period under review, the Group focused on its core business while conducting the transformation of digital shops and helped frontline talents to grow their key competencies. In line with the implementation of the Company's digital shop project, the Group carried out training on the application of the digital shop system. To build a team of outstanding frontline talents, the Group provided empowerment for partners and franchised store managers, focusing on "operational skills, data analysis and management capabilities".

Digital Drive

During the period under review, the Group focused on 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 digitalisation system and realised the deep integration of online service, offline experience and modern logistics.

The Group endeavoured to promote the digitalised management and operation. Leveraging internet, big data, artificial intelligence, and other advanced technologies, the Group promoted the "integrated and visualised" consolidation and improvement of supply chain system to support the digitalised operation capability in new retail. It accelerated supply chain integration, and built an integrated supply chain information system with the internet architecture to cover 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, realised the whole-process visualisation and the timeliness of the business data and improved the value-added data service capacity.

Strategy and Planning

The year of 2021 is a year when China's economy continuously recovers and return to normal, the first year of "14th Five-Year" Plan and the year in which the timeframes of the two centenary goals converge and the strategic transformation is implemented. In the second half of 2021, China's economy is expected to have stronger internal driving forces, the effects of regular expansionary policies may delay, mid-term and long-term development strategies and projects will be implemented. As the global pandemic situation and the economic conditions settled down, China's macroeconomy is expected to return to normal at a faster pace.

In the second half of 2021, the overall consumption market is expected to recover and develop positively, as China's economy recovers continuously and steadily, the epidemic prevention is more targeted and effective, various policies and measures are implemented, and the consumer confidence improves gradually.

In the second half of 2021, stronger momentum of consumption structure upgrade may bring out more highlights. In the trend of digitalisation of consumer goods retail industry, online retailing will continue to make greater contribution to China's consumption market. Driven by the digitalisation, the consumer goods retail industry will achieve more progress and breakthroughs in the path of innovation, and will promote the quality improvement and capacity expansion of China's consumption market.

In such a context, the Group will continue to follow the vision of "basing on the Yangtze River Delta region, expanding to the whole country, integrating the supply chain effectively to offer a full range of high-quality products, and becoming an omni-channel lifestyle retailer with local spirit" in the second half of 2021. The Group will stick to the key tasks of the year of "improvement of whole-area sales and operation capability, construction of supply chain and improvement of product capability, improvement of consumer experience and marketing capability, cost control and efficiency improvement, procedure reshaping and strong execution guarantee" supported by the dual drive of "organization and incentive mechanism optimization" and "digital intelligence and system optimization". The Group will endeavour to win the three battles of "comprehensively promoting the whole-area sales", "improving consumers' perception of core categories and realising growth in sales of core categories" and "organisational reform, process reconstruction and digitalised operation".

In the second half of 2021, the Group will continue to improve the whole-area sales and the operation capability. It will promote the network expansion, control lease renewal costs and strengthen the quality management. In the process of transformation, the hypermarket segment will focus on fresh produce and categories for people's livelihood, apply the community service concept, attract customer traffic in the process of merchant solicitation reform, and invest more resources to solicit tenants of community services. The supermarket segment will continue to improve the independent operation capability of each category, and leverage digitalisation to improve the operation efficiency of stores. The transformation will focus on promoting modularization and contextualization. The segment will vigorously develop online sales and close-relationship franchising, and strengthen whole-area marketing and category management to improve the product power. The convenience store will adopt measures to narrow the losses and apply diversified marketing resources to improve the performance of products.

In the second half of 2021, the Group will continue to strengthen the construction of supply chain and the improvement of product capability that covers category optimisation and core products. The fresh produce category will further develop the direct purchase from sources and the high-quality resources, seek industry-leading suppliers, and initiate the nationwide joint procurement to build the advantage of closed fresh produce supply chain. It will promote the JBP strategic cooperation, review the key cooperation product resources and advance multi-channel joint procurement to help stores to improve the product quality and diversify consumers' shopping choices. The Group will enhance the development, design and upgrading of private-label brands, take account of consumers' demands for quality improvement and differentiation, accelerate the development of private-label brands and cultivate the advantage of private-label products with Lianhua characteristics.

In the second half of 2021, the Group will continue to improve consumer experience and marketing capability. Considering consumers' shopping routes and habits, the Group will further improve marketing tools and touch points from aspects of marketing, procurement and sales, pursue innovation relentlessly to enable marketing activities and highlight the exposure of key information to ensure targeted and effective marketing activities. It will strengthen the membership system and traffic operation, develop cross-industry cooperation, open gateways to external traffics and cooperate with multiple platforms to attract customers. The Group will conduct in-depth member analysis, take the opportunities of Mid-Autumn Festival, National Day Holiday, 11.11 and 12.12 Shopping Festival, and apply the S-grade marketing to enhance the creativity of marketing activities for each segment, promote group-based targeted marketing, cultivate consumers' mind, improve consumer experience and gradually achieve member consolidation and sales conversion.

In the second half of 2021, the Group will continue to strengthen cost control and efficiency improvement. By improving the employment pattern through reviewing stores' standardised procedures and applying digital tools, and by adopting reasonable designs, the Group will set the standard, reduce costs and achieve productivity improvement, labour cost control and standard rates. It will introduce new technologies and systems, further improve the digital iteration system and promote the digitalised contract fulfillment to improve customer satisfaction. It will advance the intensive warehouse resource operation, accelerate the transition from direct delivery to distribution, develop the third-party operation business, expand the introduction of intelligence technologies and promote the trunk line logistics, so as to improve the logistics operation efficiency and build Lianhua's intelligent new retail logistics system.

In the second half of 2021, the Group will continue to promote organisational structure integration and improve the headquarters' organisation capability. After reviewing the inter-department and cross-departmental procedures within the headquarters, the Group will clarify the structures, functions and staffing of each department, focus on operation with clear objectives set for each level, improve the organisation operation efficiency within the headquarters by the upfronting drivers of system and digitalisation, and build a service-oriented and high-performance headquarters. It will further promote the unified remuneration system, set rules on the contract-based management for key positions and management talents, develop clear performance review targets and promote both incentive and punishment mechanisms. The store partnership scheme will advance the "internal and external trusteeship" on the basis of "strong store & category fission" pattern, to achieve high-quality iteration and promotion.

In the second half of 2021, the Group will continue to promote the digital construction and system improvement. It will make comprehensive deployment for the integrated system of marketing, procurement, sales, distribution and financial services, improve the digital system of hypermarket segment and the digital SOP to improve operation efficiency. It will consolidate the existing achievement of digital store promotion in the supermarket segment, maintain the benefits from improvement in efficiency, and gradually expand the practice to other stores across the country. It will advance the semi-automated control of Jiangqiao Logistics Base in Shanghai, enable stores with digital system operation and operation procedure training, so as to achieve comprehensive improvement of new retail digital management and operation capability.

Disclosure of Interests

Directors, Supervisors and Chief Executive of the Company

As at 30 June 2021, 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 2021, 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
China Galaxy International Asset Management (Hong Kong) Co., Limited (Note 3)	H shares	54,588,000(L)	4.88%	–	14.65%(L)	Investment manager
China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP) (Note 3)	H shares	54,588,000(L)	4.88%	–	14.65%(L)	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
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 2021, 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 2021, 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 2021, (i) Mr. Ye Yong-ming, the Chairman and a non-executive Director of the Company, 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 of the Company, 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, "First Pharmaceutical"); (iii) Ms. Zhang Shen-yu, a non-executive Director of the Company, was a director and the general manager of Shanghai Bailian; (iv) Mr. Dong Xiao-chun, a non-executive Director of the Company, 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, a supervisor of Shanghai Bailian and the chairman of the supervisory committee of First Pharmaceutical.

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. holds 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 interested 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) holds 54,588,000 shares of the Company. Thus, China Galaxy International Asset Management (Hong Kong) Co., Limited directly and indirectly holds approximately 54,588,000 shares of the Company, or approximately 4.88% 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 2021 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 2021.

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 2021 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 2021.

Purchase, Sale or Redemption of Shares

For the six months ended 30 June 2021, 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 2021 of the Group. The Audit Committee considered that the interim accounts of the Group for the six months ended 30 June 2021 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 in respect of the non-executive directors' regular attendance and active participation in Board meetings and attendance to general meetings:

Ms. Zhang Shen-yu, a non-executive Director, was unable to attend the fourth meeting of the seventh session of the Board convened on 29 March 2021 by the Company due to her other work duties.

Ms. Zhang Shen-yu, a non-executive Director and Mr. Lee Kwok Ming, Don, an independent non-executive Director, were unable to attend the fifth meeting of the seventh session of the Board convened on 17 June 2021 by the Company due to their other work duties.

Mr. Ye Yong-ming, a non-executive Director, was unable to attend the sixth meeting of the seventh session of the Board convened on 30 August 2021 by the Company due to his 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.

In addition, Ms. Zhang Shen-yu, a non-executive Director and Mr. Lee Kwok Ming, Don, an independent non-executive Director, were unable to attend the 2020 annual general meeting of the Company (the "Annual General Meeting") convened on 17 June 2021 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 Directors and Chief Executive

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

Name	Details of Changes	
Mr. Xu Tao	–	Resigned as an executive Director and the general manager of the Company on 23 April 2021
Mr. Chong Xiao-bing	–	Appointed as an executive Director and the general manager of the Company on 23 April 2021

Please see the announcement of the Company dated 17 June 2021 for the relevant biographical details. 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

30 August 2021, 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 23 to 44, which comprise the condensed consolidated statement of financial position as of 30 June 2021 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

30 August 2021

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2021

	NOTES	Six months ended 30 June 2021 (Unaudited) RMB'000	 2020 (Unaudited) RMB'000
Revenue	3	**13,238,371**	14,036,644
Cost of sales		**(11,619,642)**	(12,012,937)
Gross profit		**1,618,729**	2,023,707
Other revenue	3	**1,134,883**	958,714
Other income and other gains and losses	5	**252,639**	262,991
Distribution and selling expenses		**(2,325,440)**	(2,363,034)
Administrative expenses		**(423,219)**	(415,634)
Impairment losses under expected credit loss ("ECL") model, net of reversal	17	**(4,196)**	(3,124)
Other expenses	6	**(4,329)**	(71,791)
Share of profits of associates		**18,238**	19,891
Finance costs	7	**(142,481)**	(148,708)
Profit before taxation	8	**124,824**	263,012
Income tax expense	9	**(64,704)**	(116,982)
Profit for the period		**60,120**	146,030
Total comprehensive income for the period		**60,120**	146,030
Profit for the period attribute to:			
Owners of the Company		**20,077**	58,327
Non-controlling interests		**40,043**	87,703
		60,120	146,030
Total comprehensive income for the period attributable to:			
Owners of the Company		**20,077**	58,327
Non-controlling interests		**40,043**	87,703
		60,120	146,030
Earnings per share – basic	11	**RMB0.018**	RMB0.052

Condensed Consolidated Statement of Financial Position

At 30 June 2021

	NOTES	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	12	**3,404,287**	3,407,002
Construction in progress	12	**18,763**	10,234
Right-of-use assets	12	**6,851,870**	6,968,377
Goodwill	12	**127,953**	127,953
Intangible assets	12	**129,108**	133,643
Interests in associates		**678,643**	660,405
Financial assets at fair value through profit or loss ("FVTPL")	13	**50,185**	57,684
Finance lease receivables		**222,693**	254,528
Term deposits	14	**4,230,450**	4,685,800
Prepaid rental		**586**	1,376
Deferred tax assets		**8,822**	7,883
Other non-current assets	15	**154,389**	209,693
		15,877,749	16,524,578
Current assets			
Inventories		**2,205,674**	2,677,659
Finance lease receivables-current		**41,049**	37,291
Trade receivables	16	**381,041**	183,464
Deposits, prepayments and other receivables		**872,541**	613,834
Financial assets at FVTPL	13	**1,991**	59,958
Amounts due from fellow subsidiaries	18	**25,772**	43,617
Amounts due from associates	19	**170**	77
Term deposits	14	**1,430,700**	1,070,000
Cash and cash equivalents		**1,252,747**	2,010,276
		6,211,685	6,696,176
Total assets		**22,089,434**	23,220,754

Condensed Consolidated Statement of Financial Position

At 30 June 2021

	NOTES	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Capital and reserves			
Share capital	20	**1,119,600**	1,119,600
Reserves		**353,144**	333,067
Equity attributable to owners of the Company		**1,472,744**	1,452,667
Non-controlling interests		**314,640**	302,427
Total equity		**1,787,384**	1,755,094
Non-current liabilities			
Deferred tax liabilities		**100,395**	101,947
Lease liabilities		**6,075,951**	6,247,684
		6,176,346	6,349,631
Current liabilities			
Trade payables	21	**3,232,441**	3,889,797
Bank borrowing		**–**	20,000
Other payables and accruals	22	**1,636,485**	1,974,422
Lease liabilities-current		**946,874**	856,082
Contract liabilities		**8,126,173**	8,138,152
Deferred income		**3,696**	5,916
Amounts due to Shanghai Bailian		**18,417**	36,234
Amounts due to fellow subsidiaries	18	**60,794**	28,131
Amounts due to associates	19	**1,059**	1,394
Amounts due to other related parties		**–**	2
Tax payable		**99,765**	165,899
		14,125,704	15,116,029
Total liabilities		**20,302,050**	21,465,660
Total equity and liabilities		**22,089,434**	23,220,754
Net current liabilities		**(7,914,019)**	(8,419,853)
Total assets less current liabilities		**7,963,730**	8,104,725

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

	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 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
At 1 January 2021 (audited)	**1,119,600**	**258,353**	**(235,497)**	**559,800**	**(249,589)**	**1,452,667**	**302,427**	**1,755,094**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**20,077**	**20,077**	**40,043**	**60,120**
Dividends to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(27,830)**	**(27,830)**
At 30 June 2021 (unaudited)	**1,119,600**	**258,353**	**(235,497)**	**559,800**	**(229,512)**	**1,472,744**	**314,640**	**1,787,384**

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 2021 and 2020 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 2021

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash from operating activities	**141,328**	418,378
Investing activities		
Placement of unrestricted term deposits	**(255,000)**	(2,956,000)
Withdrawal of unrestricted term deposits	**270,000**	1,222,000
Purchase of property, plant and equipment and construction in progress	**(276,721)**	(167,187)
Purchase of intangible assets	**(4,856)**	(11,980)
Proceeds on disposal of financial assets at FVTPL	**57,478**	1,263,192
Proceeds on disposal of property, plant and equipment	**8,576**	213,379
Net cash used in investing activities	**(200,523)**	(436,596)
Cash used in financing activities		
New bank borrowing raised	**–**	20,000
Dividends paid to non-controlling shareholders	**(29,130)**	(27,822)
Repayment of bank borrowing	**(20,000)**	–
Capital contribution from non-controlling shareholders of new subsidiary	**–**	2,000
Repayments of leases liabilities	**(649,204)**	(436,738)
Net cash used in financing activities	**(698,334)**	(442,560)
Net decrease in cash and cash equivalents	**(757,529)**	(460,778)
Cash and cash equivalents at 1 January	**2,010,276**	2,198,539
Cash and cash equivalents at 30 June	**1,252,747**	1,737,761

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 2021, the Group has net current liabilities of RMB7,914,019,000 (31 December 2020: RMB8,419,853,000). Taking into account of the Group's ability to withdraw the non-current unrestricted term deposits of RMB2,410,300,000, 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.

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 2021 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2020.

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 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 16	*Covid-19-Related Rent Concessions*
Amendments to HKFRS 9, HKAS 39 HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

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.

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	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Revenue		
Sales of merchandises	**13,238,371**	14,036,644
Services		
Income from suppliers	**837,165**	757,436
Royalty income from franchised stores	**21,163**	19,307
Commission income from coupon redemption in other retailers	**553**	1,015
	858,881	777,758
	14,097,252	14,814,402
Timing of revenue recognition		
At a point in time	**13,238,924**	14,037,659
Over time	**858,328**	776,743
	14,097,252	14,814,402

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

	Six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Revenue from contracts with customers	**14,097,252**	14,814,402
Rental income from leasing of shop premises	**276,002**	180,956
Total revenue and other revenue	**14,373,254**	14,995,358

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	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000	**2021 (Unaudited) RMB'000**	2020 (Unaudited) RMB'000
Hypermarkets	**7,982,073**	8,634,011	**136,311**	250,670
Supermarkets	**5,465,778**	5,439,866	**67,044**	104,524
Convenience stores	**824,775**	822,742	**8,621**	(34,699)
Other operations	**100,628**	98,739	**(10,961)**	1,984
	14,373,254	14,995,358	**201,015**	322,479

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

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

	Six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Segment results	**201,015**	322,479
Unallocated interest income	**26,001**	25,154
Unallocated income and other gains and losses	**(7,500)**	1,874
Unallocated expenses	**(112,930)**	(106,386)
Share of profits of associates	**18,238**	19,891
Profit before taxation	**124,824**	263,012

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, 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 used by CODM in assessing the performance of reportable segments.

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest income on bank balances and term deposits	**141,845**	136,488
Government subsidies (note i)	**38,801**	38,173
(Loss) gain on change in fair value of financial assets at FVTPL	**(7,988)**	10,264
Gain on disposal of right-of-use assets and property, plant and equipment	**26,913**	15,549
Salvage sales	**15,258**	15,900
Income from breakage (note ii)	**5,746**	13,813
Coupon charges	**7,732**	8,100
Penalty income	**8,198**	3,758
Membership income	**6,105**	–
Others	**10,029**	20,946
	252,639	262,991

notes:

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

(ii) 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	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	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	**199**	19,782
Others	**4,130**	4,009
	4,329	71,791

7. FINANCE COSTS

	Six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Interest expenses on lease liabilities	**142,379**	148,508
Interest expenses on borrowing	**102**	200
	142,481	148,708

8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at:

	Six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
After charging:		
Amortisation and depreciation		
Amortisation of intangible assets – software (included in distribution and selling expenses/ administrative expense) (note 12)	**9,857**	8,419
Depreciation of property, plant and equipment (note 12)	**161,108**	170,552
Depreciation of right-of-use assets (note 12)	**554,088**	531,928
	725,053	710,899
Cost of inventories recognised as an expense	**11,619,642**	12,012,937
Allowance for credit losses	**4,196**	3,124
Staff costs	**1,191,348**	1,226,714
(Reversals of) write-down of inventories	**(977)**	430
After crediting:		
Share of profits of associates		
Share of profit before taxation	**24,731**	30,157
Less: Share of taxation	**6,493**	10,266
	18,238	19,891

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax on PRC Enterprise Income Tax ("EIT")	**67,195**	134,455
Deferred tax credit	**(2,491)**	(17,473)
	64,704	116,982

No provision for Hong Kong profits tax has been made as the Group has no 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 up to year 2030. In addition, certain subsidiaries which are qualified as small low-profit enterprises are entitled to enjoy preferential EIT rate with ranging 2.5% to 7.5%.

As of 30 June 2021, the Group had unused tax losses of RMB3,554,242,000 (31 December 2020: RMB3,420,557,000) 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 periods.

11. EARNINGS PER SHARE – BASIC

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings		
Profit for the period attributable to owners of the Company	**20,077**	58,327

	Six months ended 30 June	
	2021	2020
	(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

No diluted earnings per share is presented as there was no dilutive potential ordinary shares in issue for both periods.

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

				Intangible assets		
	Property, plant and equipment RMB'000	Construction in progress RMB'000	Right-of-use assets RMB'000	Goodwill RMB'000	Software RMB'000	Total RMB'000
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
Opening carrying amount as at 1 January 2021	3,407,002	10,234	6,968,377	127,953	133,643	261,596
Additions	164,771	10,496	620,721	–	4,856	4,856
Transfers	1,501	(1,967)	–	–	466	466
Disposals	(7,879)	–	(183,140)	–	–	–
Depreciation/amortisation charge (note 8)	(161,108)	–	(554,088)	–	(9,857)	(9,857)
Closing carrying amount as at 30 June 2021 (unaudited)	3,404,287	18,763	6,851,870	127,953	129,108	257,061

(a) During the prior 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 prior interim period.

(b) The management of the Group conducts 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 management of the Group conducted an impairment review of the Group's property, plant and equipment including construction in progress, right-of-use assets and intangible assets and concluded no impairment was required to recognise.

13. FINANCIAL ASSETS AT FVTPL

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Non-current		
Unlisted equity investments (note a)	**1,872**	1,872
Equity securities listed on Shanghai Stock Exchange	**48,313**	55,812
	50,185	57,684
Current		
Equity securities listed on Shanghai Stock Exchange	**1,991**	2,614
Unlisted financial products (note b)	**–**	57,344
	1,991	59,958
Total	**52,176**	117,642

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 with returns determined by reference to the performance of the underlying instruments including bonds, trusts, cash funds, bond funds or unlisted equity investments and are circulated in the PRC in accordance with the entrusted agreements entered into between the parties involved. The investments in unlisted financial products were measured at fair value at the end of the reporting period, with corresponding gain on change in fair value of RMB135,000 (six months ended 30 June 2020: gain of RMB11,287,000), credited to "other income and other gains and losses".

14. TERM DEPOSITS

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Non-current:		
Restricted term deposits	**1,820,150**	1,200,500
Other non-current unrestricted term deposits	**2,410,300**	3,485,300
	4,230,450	4,685,800
Current:		
Restricted term deposits	**700**	700,000
Other current unrestricted term deposits	**1,430,000**	370,000
	1,430,700	1,070,000

Term deposits are placed with banks in the PRC and 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 2021, restricted term deposits amounting to RMB1,820,850,000(31 December 2020: RMB1,900,500,000) 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 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Structured deposits – current:		
Unrestricted	**–**	100,000

The effective interest rates on those deposits range from 1.80% to 4.99% (31 December 2020: from 3.10% to 4.99%) per annum. The carrying amounts of the deposits approximate their fair value.

15. OTHER NON-CURRENT ASSETS

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Interest receivable	**154,389**	209,693

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

16. TRADE RECEIVABLES

The aging analysis of 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 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
0 – 30 days	**377,188**	178,780
31 – 60 days	**1,554**	1,252
61 – 90 days	**1,372**	3,255
91 days – one year	**927**	177
	381,041	183,464

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.

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

	Six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Impairment loss recognised in respect of		
Trade receivables	**3,659**	2,502
Deposits, prepayments and other receivables	**537**	622
	4,196	3,124

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 2021 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2020.

18. 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 2020: 30 to 60 days). As at 30 June 2021, balances of amounts due from (to) fellow subsidiaries are all aged within 60 days (31 December 2020: 60 days).

19. AMOUNTS DUE FROM (TO) ASSOCIATES

Amounts due from (to) associates represent balances arising from expenses incurred by the Group and purchases of merchandise from associates respectively. Balances are all aged within 90 days (31 December 2020: 90 days) and the credit terms of the trade balances range from 30 to 90 days (31 December 2020: 30 to 90 days). Such balances with associates are unsecured and interest free.

20. SHARE CAPITAL

	Number of share RMB1.00 each	**Share capital** RMB'000
Registered:		
As at 1 January 2020, 31 December 2020 and 30 June 2021	1,119,600,000	1,119,600
Issued and fully paid:		
As at 1 January 2020, 31 December 2020 and 30 June 2021	1,119,600,000	1,119,600

21. 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 2020: 30 to 60 days), is as follows:

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
0 – 30 days	**1,297,998**	1,886,322
31 – 60 days	**584,544**	706,511
61 – 90 days	**276,037**	394,111
91 days – one year	**1,073,862**	902,853
	3,232,441	3,889,797

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.

22. OTHER PAYABLES AND ACCRUALS

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Payroll, staff welfare and other staff cost payable	**225,863**	386,063
Value added tax and other payable	**38,761**	51,059
Deposits from lessees, franchisees and other third parties	**307,636**	307,212
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	**14,312**	16,535
Prepayments received from franchisees and other third parties	**510,147**	627,610
Payables for acquisition of property, plant and equipment and low value consumables	**163,639**	248,576
Store closure provision	**162,055**	190,487
Accruals	**193,366**	137,377
Dividend payable to non-controlling interests	**–**	1,300
Other miscellaneous payables	**20,706**	8,203
	1,636,485	1,974,422

23. CAPITAL COMMITMENTS

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (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	80,216	180,601

24. 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	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Sales to fellow subsidiaries	375,295	312,194
Sales to other related party	1,044	–
Purchases from associates Sanming Taige Information Technology Co., Ltd. (三明泰格資訊技術有限公司)	1,508	1,756
Purchases from fellow subsidiaries	143,642	193,255
Purchases from other related parties	153	1,607
Rental income from fellow subsidiaries	19,495	4,949
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	2,933	2,515
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	4,827	4,624
Right-of-use assets leased from fellow subsidiaries	614	518
Payments of finance cost arising from lease liabilities to fellow subsidiaries	12	7
Property management fee charged by fellow subsidiaries	7,429	6,285
Interest income earned from a fellow subsidiary	10,783	12,011
Platform usage fee charged by fellow subsidiaries	16,971	13,308
Platform usage fee charged by other related party	92	–
Logistics resources leasing fee charged by fellow subsidiaries	1,150	1,213
Logistics and delivery fee charged by fellow subsidiaries	4,656	2,987
Logistics and delivery fee charged by other related parties	1,519	2,261
Service fee charged by other related parties	7,485	–
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account	10,009	11,900
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account upon redemption of membership points by the customers	4,304	4,093

24. RELATED PARTY TRANSACTIONS (Continued)

(i) Related party transactions (Continued)

Other related parties refer to the fellow subsidiaries of the substantial shareholder of the Group.

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 2020.

(ii) Related party balances

The Group entered into a financial services agreement with a fellow subsidiary controlled by Bailian Group on 26 October 2018. Pursuant to the agreement 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 for 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 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Cash and cash equivalents in a fellow subsidiary	501,866	502,535
Unrestricted term deposits in a fellow subsidiary	100,000	350,000
Lease liabilities payable to fellow subsidiaries	195,662	220,557

(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 amounts 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.

24. RELATED PARTY TRANSACTIONS (Continued)

(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	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**4,913**	5,132
Post-employment benefits	**292**	106
Other long-term benefits	**108**	119
	5,313	5,357

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

25. 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).

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	30/06/2021 RMB'000	31/12/2020 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 – Nil**	Assets – 157,344	Level 2	Discounted cash flow was used to capture the present value of the expected future economic benefit that will flow to the Group.	N/A
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 – 50,304**	Assets – 58,426	Level 1	Quoted bid prices in an active market	N/A
3) Unquoted equity investments classified as financial assets at FVTPL	**Assets – 1,872**	Assets – 1,872	Level 3	Fair value of net assets	Fair value of net assets

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.

26. 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 30 August 2021.