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

Interim Report 2022

Stock Code：0980

Contents

Corporate Information

Directors

Executive Director

Mr. Chong Xiao-bing

Non-Executive Directors

Mr. Pu Shao-hua *(Chairman)*
Mr. Shi Xiao-long *(Vice Chairman)*
Mr. Xu Hong (Resigned on 28 March 2022)
Mr. Xu Pan-hua
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)*
Mr. Shi Xiao-long
Mr. Chen Wei
Mr. Zhao Xin-sheng

Strategic Committee

Mr. Pu Shao-hua *(Chairman)*
Mr. Shi Xiao-long
Mr. Xu Hong (Resigned on 28 March 2022)
Mr. Xu Pan-hua
Mr. Chong Xiao-bing
Ms. Zhang Shen-yu

Nomination Committee

Mr. Pu Shao-hua *(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. Li Feng *(Chairman)*
Ms. Tang Hao
Ms. Tian Ying-jie

Joint Company Secretaries

Ms. Xu Xiao-yi
Ms. Leung Shui Bing

Authorized Representatives

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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Shanghai, PRC

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Shareholders' Enquiries

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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

Management Discussion and Analysis

Operating Environment

In the first half of 2022, the global economy was extremely weak due to the complex and volatile international situation, multiple crises and conflicts and the COVID-19 pandemic. China was faced with both internal and external pressures in the first half of 2022, as the conflict between Russia and Ukraine continuously escalated and China's economy struggled with the unexpected COVID-19 outbreaks in multiple regions of the country. China's economy maintained overall stability in the first quarter of 2022, with the gross domestic product (GDP) growing by 4.8% year on year and the total retail sales of consumer goods increasing by 3.3% year on year. In April and May 2022, the international environment and the COVID-19 development in Shanghai, Jilin and other regions intensified the downward pressure on the economy, and the two months witnessed the total retail sales of consumer goods decreasing by 11.1% and 6.7% year on year, respectively. In June 2022, with the Chinese government's efficient epidemic prevention measures and a series of policy measures to stabilize growth, the COVID-19 pandemic was basically contained, the economy was gradually recovering, and the consumption market showed a strong momentum of recovery, with the total retail sales of consumer goods achieving a turnaround and increasing by 3.1% year on year.

In the first quarter of 2022, Shanghai, Jiangsu, Zhejiang and Anhui all recorded over RMB1 trillion of GDP, and Shanghai witnessed its GDP growing by 3.1% as compared to the same period of last year. Seriously affected by the COVID-19 pandemic in the second quarter of 2022, Shanghai saw materially limited investment, consumption, and imports and exports, and its GDP of the quarter decreased by 13.7% year on year. As a result of COVID-19 resurgence in Shanghai, Jiangsu's GDP of the second quarter of 2022 decreased by 1.1% year on year, and Zhejiang's GDP of the second quarter of 2022 was essentially flat, only growing by 0.1% year on year.

As 80% of the Group's stores were located in the Yangtze River Delta, the Group's business was seriously affected by the COVID-19 pandemic in the first half of 2022. Particularly in April and May 2022 when Shanghai imposed static control citywide, most of the Group's stores in Shanghai were closed temporarily, and the stores in Zhejiang and Jiangsu were also affected to some extent. During the serious outbreak, the Group has made concerted efforts to ensure supplies while strictly implementing epidemic prevention measures in accordance with relevant requirements. The sales for ensuring supplies achieved by stores in Shanghai during the pandemic effectively offset the operating loss caused by business suspension.

Great Success of Chinese New Year Promotion

At the beginning of 2022, to seize the opportunities in the peak season of Chinese New Year promotion, the Group developed a series of plans, including the Chinese New Year Promotion Competition, with the brand slogan of "Living wholeheartedly" (「用心過好生活」) and the theme of "Blessings of the Auspicious Year of Tiger" (「福聚虎運年」). Employees from all departments and regions actively promoted the 84-day campaign for the Chinese New Year of 2022. To offer a new experience to customers and attract the youth, the Group introduced numerous new products during the campaign, and launched S-grade marketing activities including "Big Sales at the Start of New Year" (「開門紅大促」), "New Year Greetings with RMB1 Billion Lucky Money" (「十億紅包大拜年」), "RMB10 Million Lucky Money" (「迎新千萬紅包」) and "Employees' Privilege Purchase" (「員工內購會」) during the Chinese New Year peak season and expanded the impact of these activities to all regions through the media. The promotions adopted multiple marketing tactics, including membership marketing, community marketing and e-commerce marketing, and integrated the marketing, purchasing, operation and the logistics through online and offline channels, significantly improving the sales. The Group's reputation was also greatly enhanced by taking advantage of the popular social issues.

Responsibility of a Stated-owned Enterprise in Ensuring Supply during the Epidemic

During the period under review, the Group, as a state-owned enterprise, mobilized all available resources, coordinated all segments, promoted the work through multiple channels and leveraged the expertise and advantages of core segments to ensure supplies. In the first half of 2022, especially in the second quarter when Shanghai was severely affected by the COVID-19 pandemic, the Group took prompt measures to integrate all the segments, and adjust the mindset, the organization, the procedures and the actions. Faced with the severe situation of logistics, the Group unified its mindset and action across all levels, acted decisively in the management of lockdown zones, gathered all available forces, coordinated and allocated social resources, properly prepared plans for ensuring supplies during epidemic and adjusted the relevant measures in due course. During the epidemic, the Group made every effort to ensure supplies to the government, enterprises and all business segments, which totaled over RMB1 billion. The sales remarkably increased, reflecting the Group's sense of responsibility as a state-owned enterprise, and significantly offset the loss caused by business suspension due to the pandemic.

Financial Review

Revenue

During the period under review, the Group's revenue was approximately RMB13,585 million, representing a year-on-year increase of approximately RMB347 million, or approximately 2.6%. The Group's revenue for the first quarter of 2022 was approximately RMB7,870 million, representing a year-on-year increase of approximately RMB234 million, or approximately 3.1%. In the second quarter of 2022, due to the serious epidemic situation in Shanghai and surrounding areas, especially in Shanghai, most stores were closed for nearly two months. Given that, the Group organized forces in a timely manner, coordinated and implemented social resources, and took measures to ensure commodities supply during the epidemic. The sales for ensuring commodities supply made up for the decline in revenue caused by store closures. The revenue of the Group for the second quarter amounted to approximately RMB5,715 million, representing a year-on-year increase of approximately RMB113 million, or approximately 2.0%.

Gross Profit

During the period under review, the Group's gross profit was approximately RMB1,799 million, representing a year-on-year increase of approximately RMB180 million, or approximately 11.1%. Gross profit increased mainly due to a year-on-year increase in sales. During the period under review, the overall gross profit margin of the Group was approximately 13.24%, representing an increase of approximately 1.01 percentage points as compared with the gross profit margin of 12.23% for the corresponding period of last year, mainly due to the decrease in promotional activities as well as the decrease in loss of fresh produce category during the epidemic, as a result of which, the gross profit margin from sales increased.

Other Revenue

During the period under review, the Group's other revenue was approximately RMB1,012 million, representing a year-on-year decrease of approximately RMB123 million, or approximately 10.9%. In the second quarter of 2022, affected by the epidemic, there were some stores closed in Shanghai and surrounding areas, and the operation of tenants was also largely affected, reflected in the withdrawal of tenants and rental default. To retain tenants and ensure rental incomes, the Group discussed with tenants about rental reduction or exemption in accordance with the principle of sharing the pandemic risk and the government's policies on rental reduction or exemption, and offered tenants certain rental reductions or exemptions. During the period under review, our revenue from merchant solicitation decreased by approximately RMB95 million as compared with the corresponding period of last year. In addition, as a result of the decrease in promotional activities during the epidemic, our revenue from suppliers decreased by approximately RMB29 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 RMB216 million, representing a year-on-year decrease of approximately RMB37 million, mainly due to the year-on-year decrease in subsidy income of approximately RMB19 million as well as the year-on-year decrease in interest income of approximately RMB17 million as a result of the decrease in the interest rate on deposit.

Distribution and Selling Expenses

During the period under review, the Group's distribution and selling expenses amounted to approximately RMB2,322 million, representing a year-on-year decrease of approximately RMB3 million, or approximately 0.1%.

Administrative Expenses

During the period under review, the Group's administrative expenses amounted to approximately RMB377 million, representing a year-on-year decrease of approximately RMB46 million, or approximately 10.9%. During the period under review, the Group continued to strengthen the overall management of budgets as well as the management and control of expenses, upgraded the whole-chain system of cost management and control. Upon excluding the expenses relating to the epidemic prevention and control, the expenses continued to decrease year on year.

Other Expenses

During the period under review, the Group's other expenses amounted to approximately RMB28 million, representing a year-on-year increase of approximately RMB24 million, mainly due to the relevant impairment provision accrued by the Group for the closure of individual stores in the first half of the year.

Share of Results of Associates

During the period under review, the Group's share of losses of associates amounted to approximately RMB23 million, representing a year-on-year decrease of approximately RMB41 million. Among which, the relevant investment gains of Shanghai Carhua Supermarket Co., Ltd., an associate of the Group, decreased by approximately RMB39 million year on year.

Profit before Taxation

During the period under review, the Group's profit before taxation amounted to approximately RMB131 million, representing a year-on-year increase in profit of approximately RMB6 million, or approximately 5.2%.

Income Tax

During the period under review, the Group's income tax expense was approximately RMB71 million, representing a year-on-year increase of approximately RMB6 million.

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 RMB13,700 thousand, representing a year-on-year decrease of approximately RMB6,377 thousand, or approximately 31.8%. Based on the 1,119.6 million shares issued by the Group, the basic earnings per share were approximately RMB0.01.

Liquidity and Financial Resources

As at 30 June 2022, the Group's cash and balance at bank amounted to approximately RMB7,250,074 thousand. During the period under review, the net inflow of cash and balance at bank amounted to approximately RMB498,648 thousand, which was mainly the cash inflows from operating activities.

For the six months ended 30 June 2022, the accounts payable turnover period of the Group was approximately 52 days, and the inventory turnover period was approximately 40 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 30 June 2022, there were no arbitrage financial instruments in issue by the Group.

Gearing Ratio

As at 30 June 2022, the Group's cash and cash equivalents were mainly held in Renminbi without any other bank borrowings. The balance of loan nature in the amount due to fellow subsidiaries was approximately RMB200 million.

As at 30 June 2022, the gearing ratio of the Group (the gearing ratio is calculated by dividing total interest-bearing liabilities by total equity) was approximately 14.3% (31 December 2021: 47.8%).

Growth of Each Retail Business

Hypermarkets

During the period under review, the revenue of the hypermarket segment for the first quarter amounted to approximately RMB4,088 million, representing a year-on-year decrease of approximately RMB111 million. Among them, Huashang Store, one of our key stores in Zhejiang, was closed and relocated due to the expiration of the lease in March 2021, reducing the revenue by approximately RMB186 million year on year, while the revenue for the first quarter would record a year-on-year increase of RMB75 million excluding this factor. In the second quarter, due to the impact of pandemic lockdown and control measures, some stores of the hypermarket segment in Shanghai and surrounding areas were temporarily closed, and the stores had offset the effect of store closure through actively working with surrounding communities to organize the commodities supply business. During the period under review, the total revenue of the hypermarket segment slightly decreased to approximately RMB7,143 million, representing a year-on-year decrease of approximately RMB107 million, or approximately 1.5%, accounting for 52.6% to the Group's revenue.

During the period under review, the hypermarket segment recorded a gross profit of approximately RMB956 million, representing a year-on-year increase of approximately RMB69 million. Gross profit margin increased by approximately 1.14 percentage points year on year to approximately 13.38%, mainly due to the decrease in promotional activities as well as the less loss of fresh produce category relating to the sales of commodities supply during the epidemic, as a result of which, the gross profit margin increased. The hypermarket segment recorded a consolidated income of approximately RMB1,733 million, representing a year-on-year decrease of approximately RMB55 million, mainly due to the rental income decreased by approximately RMB63 million year on year as a result of the epidemic. The consolidated income margin decreased 0.41 percentage point year on year.

During the period under review, the aggregate of distribution and selling expenses and administrative expenses of the hypermarket segment amounted to approximately RMB1,466 million, representing a year-on-year decrease of approximately RMB78 million. The hypermarket segment recorded an operating profit of approximately RMB140 million, representing a year-on-year increase of approximately RMB4 million in profit. Operating profit margin increased by 0.08 percentage point year on year to approximately 1.96%.

	As at 30 June	
	2022	2021
Gross Profit Margin (%)	**13.38**	12.24
Consolidated Income Margin (%)	**24.26**	24.67
Operating Profit Margin (%)	**1.96**	1.88

Supermarkets

During the period under review, the supermarket segment seized the peak sales season of the Spring Festival in the first quarter of 2022 and recorded a revenue of approximately RMB3,214 million, representing an increase of approximately RMB250 million or approximately 8.4% year on year. In the second quarter of 2022, most of the supermarket stores in Shanghai were closed for nearly two months due to the epidemic, but those stores took advantage of their close proximity to communities to actively provide commodities supply for communities and enterprises to make up for the sales gap. On the other hand, Hangzhou Lianhua Huashang Group Co., Ltd., a subsidiary of the Company, has acquired Zhejiang Bailian Supermarket Co., Ltd. (浙江百聯超市有限公司) since January this year, and recorded a revenue of approximately RMB293 million. During the period under review, the supermarket segment of the Group recorded a revenue of approximately RMB5,553 million, representing an increase of approximately RMB454 million or approximately 8.9% year on year, accounting for approximately 40.9% of the Group's revenue.

During the period under review, the supermarket segment recorded a gross profit of approximately RMB755 million, representing a year-on-year increase of RMB119 million or 18.8%. Gross profit margin increased by 1.13 percentage points year on year to 13.60%. The recorded consolidated income was approximately RMB1,160 million, representing an increase of approximately RMB106 million year on year, among which, a year-on-year decrease of RMB31 million was recorded in rental income due to the pandemic. The consolidated income margin increased by 0.20 percentage point year on year.

During the period under review, the supermarket segment recorded an operating profit of approximately RMB124 million, representing an increase of approximately RMB57 million year on year. The operating profit margin increased by 0.92 percentage point to approximately 2.23%.

	As at 30 June	
	2022	2021
Gross Profit Margin (%)	**13.60**	12.47
Consolidated Income Margin (%)	**20.88**	20.68
Operating Profit Margin (%)	**2.23**	1.31

Convenience stores

During the period under review, the convenience store segment focused on strengthening infrastructure construction and increasing the introduction of personalized and new products to cater to young consumers' preference for their fast-moving consumer goods. In the first quarter of 2022, the convenience store segment recorded a revenue of approximately RMB452 million, representing a year-on-year increase of approximately RMB23 million. During the epidemic in the second quarter of 2022, the convenience store segment in Shanghai was under lockdown and closed for a long time with limited commodity categories, the stores had less commodities supply business, and the income was affected to a certain extent. The convenience store segment recorded a revenue of approximately RMB705 million, representing a year-on-year decrease of approximately RMB86 million, accounting for approximately 5.2% of the Group's revenue.

During the period under review, the convenience store segment recorded a gross profit of approximately RMB84 million, representing a year-on-year decrease of approximately RMB3 million. The gross profit margin increased by 0.91 percentage point to approximately 11.93%. The recorded consolidated income was approximately RMB115 million, representing a year-on-year decrease of approximately RMB13 million, and the consolidated income margin slightly increased by 0.04 percentage point year on year to approximately 16.25%.

During the period under review, due to the impact of the epidemic, the operating loss of the convenience store segment was approximately RMB12 million, representing a year-on-year increase of approximately RMB21 million in loss from the same period of last year, and the operating profit margin decreased by 2.83 percentage points to approximately –1.74%.

	As at 30 June	
	2022	2021
Gross Profit Margin (%)	**11.93**	11.02
Consolidated Income Margin (%)	**16.25**	16.21
Operating Profit Margin (%)	**–1.74**	1.09

Capital Structure

As at 30 June 2022, 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 RMB1,029,888 thousand to approximately RMB1,043,588 thousand, which was primarily attributable to the profit of approximately RMB13,700 thousand recorded in the period.

Details of the Group's Pledged Assets

As at 30 June 2022, 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 2022, 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

Contingent Liabilities

As at 30 June 2022, the Group did not have any material contingent liabilities.

Development of Sales Network: Enhancement of Business Integration

During the period under review, the Group focused on core regions and core business segment, and continued to enhance its presence in the Yangtze River Delta. With the two main formats of standard supermarkets and hypermarkets occupying the regional advantageous network resources, the Group enhanced the franchise business and made steady progress in opening new stores and renewing contracts. In the first half of 2022, the Group opened a total of 203 new stores, including 133 directly-operated stores and 70 new franchised stores. Among which, 172 were located in the Yangtze River Delta and accounted for 84.73% of the new stores. On the other hand, the Group adapted to changes in the market environment, continued to prudently review the stores and improved the overall quality of the physical outlets. As a result, 146 stores were closed.

During the period under review, the hypermarket segment accelerated its strategic transformation. The overall transformation strategy was designed with the aim of "optimizing layout, enhancing experience, diversification, profit growth and staying focused" through "miniaturizing" hypermarkets, thereby developing the new model of boundless retail by integrating merchant solicitation with hypermarkets.

During the period under review, the supermarket segment improved the store building standards to control the costs of building stores. Having completed the Handbook for Building Supermarkets (1.0 Version), the Group developed the Standards for Transformation to 3.0 supermarket with reference to the practices of leading companies, with the emphasis on products and interior decorations but less renovations, and improved the renovation plan in a reasonable manner. In addition, the Group established the budget assessment system for all expenses of 2022 and completed preparation works for the pilot program of energy conservation and emission reduction (cold chain system), so as to control the costs of building stores.

During the period under review, the convenience store segment focused on strengthening infrastructure. The Group relaunched the directly-operated store development project, with vigorous efforts in searching special business premises that meet the characteristics of convenience stores; strengthened the personalized display and increased the candy toys, cultural creativity and China Chic categories with distinctive features to cater to the preferences of young consumers; adopted multiple marketing and referral tactics, closely integrated with communities and focused on sales via referral of sharing groups. The measures above played a significant role in ensuring supplies during the epidemic.

Amid the COVID-19 pandemic, the Group strove to improve the risk resistance capability. The Group optimized the structure of the omni-channel categories, launched the function that integrated B2C model with delivery-to-home goods, strengthened cooperation with third-party platforms, and developed new marketing channels. Meanwhile, the Group improved the group buying operation procedures, diversified the channels of group buying, and expanded the marketing channels of gift vouchers, achieving sales growth.

As at 30 June 2022, the Group had 3,336 stores in total. Approximately 84.95% of the Group's stores were located in Greater East China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	138	773	352	1,263
Franchise operation	–	1,473	600	2,073
Total	138	2,246	952	3,336

Note: Date as at 30 June 2022.

Supply Chain Layout Optimization

During the period under review, the Group continued to optimize its categories. On the one hand, the Group focused on the introduction of new products of high quality and sales performance tracking. The Group implemented a compulsory commodity elimination system to eliminate the worst-performing products and replace poor-selling products, and continued to explore new categories and products, so as to upgrade with the high-quality, healthy and convenient products with attractive appearances. In the Chinese New Year promotion, the proportion of new product sales increased by more than 100%; new products made great contribution to the Group's action of ensuring supplies during the epidemic. On the other hand, the Group accelerated the development of its own brands and increased the share of its own brands in the sales. The essential goods of its own brands made a significant contribution to ensure the supplies during the epidemic, improving the sales of its own brand products.

During the period under review, the Group further advanced the optimization and hierarchical management of suppliers. One of the efforts was to create an optimized supplier layout through performance assessment and compulsory elimination of inefficient suppliers, so as to improve the Group's performance to the greatest extent. The newly introduced suppliers played a positive role in ensuring supplies during the epidemic. Another was to continue to advance the introduction of suppliers of direct supply, automatic control/purchase and the transition from direct delivery to distribution, and to strengthen cooperation with JBP brands and direct supply partners for mutual benefits and win-win outcome.

The Group was committed to improving consolidated income during the period under review. For procurement, to respond to price hike in the market, the Group enhanced the bargaining strength in respect of the purchase prices of products, ensured the purchase protection and negotiated with suppliers about balance settlement; added channels to monitor the subsequent tracking process and comprehensively reviewed the fees previously incurred to ensure all purchased goods were accepted in due course. For sales, the Group adopted multiple marketing tactics to further improve sales performance while ensuring gross profit. Particularly for store sales, measures were taken to improve the gross margin of key categories. During the period under review, the Group recorded year-on-year improvement in both consolidated income and gross margin.

During the period under review, the Group vigorously promoted the marketing and trading plan. The Group set clear marketing schedules, themes, objectives, plans and implementation details, and improved the quality of selection of DM 1-class products. In the meantime, the Group strategically adjusted and reduced the frequency of big promotions and improved the promotion efficiency; attached importance to the product selection and the negotiation for discounts of delivery-to-home business, thereby improving the performance of delivery-to-home business.

During the period under review, the Group continued to optimize fresh produce supply chain, took measures to ensure the fresh produce supply and boosted the development of its own brand fresh produce. The Group formulated the business strategy and the progress plan for the year, established the close cooperation pattern for logistics, operation and procurement as well as the product quality tracking mechanism, and set clear responsibilities on each of relevant personnel. While improving merchandise and supply chain management, the Group did a good job to ensure the supply plan and adjusted relevant measures in due course during the epidemic in Shanghai.

Digital Transformation

During the period under review, the Group continued the system iteration, accelerated the establishment of digital stores nationwide and launched the consultancy project. By developing and improving the launching plans, preparing hardware and providing trainings, the Group helped digital stores of other regions to be in service as soon as possible. The Group's existing digital store system iteration included new modules of "issue reporting and tracking" and "key function"; launched the digital transformation consultancy project to improve the team's perception of digitalization and business management standard by leveraging digitalization and digital intelligence through business research, learning and field observation.

Employment, Training and Development: Organization and Incentive Schemes

As at 30 June 2022, the Group had a total of 29,448 employees, representing an increase of 1,668 employees during the period under review, mainly due to the completion of the merger of Zhejiang Bailian Supermarket Co., Ltd. (浙江百聯超市有限公司). Total employment expenses amounted to approximately RMB1,194.15 million.

During the period under review, the Group, on the one hand, further promoted the organizational integration of the head office and the segment headquarters, and optimized its staffing and the procedures, so as to continually improve management efficiency and reduce labor costs. On the other hand, the Group promoted performance assessment that covered all employees, improved the performance assessment for management team, and took the results of performance assessment as the basis for annual bonus, promotion or demotion, pay rise and further development.

During the period under review, the Group further adjusted the organizational structure and promoted organizational reform, in line with the organization's strategic development. To improve management efficiency, the Group reviewed the responsibilities of each department, set clear responsibility boundaries for all departments, and controlled the management personnel arrangement.

During the period under review, the Group continued with the standardization of salary and benefits. The annual salary system for rankings above the assistant to department director was fully implemented and the monthly salary system was in progress and will be fully implemented in the third quarter of 2022. Meanwhile, the Group promoted the performance-driven culture, adjusted the incentive mechanism and set the measures of performance assessment incentive scheme for all departments of the headquarters and all business segments. The Group continued to develop the store partnership scheme to stimulate the motivation and initiative of front-line employees.

During the period under review, the Group focused on core businesses to help the front-line talents to develop key capabilities; provided trainings for application of digital store system in line with the progress of digital store project; designed and arranged a series of trainings for management trainees, management candidates with great potential, reserve management, partners and managers of franchised stores, focused on the Eagle Series development programs, so as to empower the building of talent pipeline.

Guarantee of Development and Merchant Solicitation

During the period under review, the overall expansion of sales network of the Group did not meet expectations as it was affected by the COVID-19 pandemic, but the number of stores maintained the net increase. In the second quarter of 2022, the development of sales network in Shanghai was seriously affected by the pandemic, which delayed some of the work for selecting and determining the sites for stores. As the pandemic was gradually contained in June, the sales network development department of the Group stepped up efforts to expand the sales network and strived to achieve the annual goal in this regard.

In the first quarter of 2022, as it optimized the strategic deployment, further developed special channels, promoted strategic cooperation, developed the light asset model and built key projects, the Group helped stores to reduce costs and improve efficiency, and continuously lower the vacancy rate, achieving satisfactory progress in sales network expansion. In the meantime, since 2021, the Group has been gradually optimizing, streamlining and improving work procedures for the merchant soliciting business, some stores of the hypermarket segment have made certain achievements in the transformation of merchant soliciting business through inter-departmental collaboration. In the second quarter of 2022, due to business suspension of stores in the pandemic, tenants suffered great losses and the Group's rent collection was also significantly affected. To retain tenants and ensure rental incomes, the Group discussed with tenants about rental reduction or exemption in accordance with the principle of sharing the pandemic risk and the government's policies on rental reduction or exemption, and offered tenants certain rental reductions or exemptions. Meanwhile, the Group actively discussed with owners of premises about offering certain rental reductions or exemptions to the stores in accordance with the principle of sharing the pandemic risk.

Improvement of Logistics and Commodity Efficiency

During the period under review, as affected by the pandemic in Shanghai, facing the severe challenges of logistics, the Group responded quickly to facilitate efficiency recovery. Facing sudden lockdown management, the party and government team of the logistics company changed their mindset with a sense of crisis to break the ice, taking the lead to stay in the lockdown storage area to inspire the enthusiasm and strength of cadres for mindset changes. In the meanwhile, they carried out organizational reform, organized all available resources, coordinated and allocated social resources, and changed process to meet the demand of all segment stores during the lockdown period to the maximum extent to ensure supplies during the special period. Under the special order mechanism, 50% of staff undertook 100% of the workload and won the tough battle during the special period by overcoming various difficulties.

Improvement of Consumer Experience and Marketing Capability

During the period under review, the Group significantly improved sales performance and enhanced brand reputation. Based on consumer demand, various activities with highlights were carried out by strengthening S-grade marketing and integrating online and offline segments. The year-on-year sales growth rate during the S-grade marketing period was much higher than the annual average growth rate. At the same time, the Group continued to increase brand exposure and reputation through popular social issues, brand revamp and public media.

During the period under review, the Group enhanced the operation of membership system and private domain traffic, and continued to improve membership promotion driven by big data, thereby promoting new membership traffic accumulation and repurchase. The Group planned in advance and aggressively captured resources from third parties. In addition, the Group vigorously developed the management and operation of enterprise WeChat community and integrated group buying and the function of Douhui Group (兜薈團) through enterprise WeChat community to gradually realize centralized management and decentralized operation. The Group promoted the omni-channel community tool, namely Douhui Group (兜薈團), to continuously meet needs from new scenarios by relying on the "flexible and compatible" characteristics of its mini-program.

Comprehensive Budget Management and Cost Control

During the period under review, the Group continued to enhance comprehensive budget management and cost control, upgrade its full-chain cost control system and deepen its analysis and evaluation mechanism. By improving comprehensive budget management system, the Group streamlined processes, standardized approvals, improved information system construction and strengthened line control of budget items. Upon excluding the expenses relating to the epidemic, total expenses across all business segments declined significantly, representing a year-on-year decrease and a decrease in the percentage of cost to budget.

Process Reconstruction and Strong Execution Guarantee

During the period under review, the Group continued to optimize systems and processes, accelerated process building and optimization, and improved operational efficiency by Feishu system. The Group optimized division of duties among departments by streamlining various management systems and operational processes; collated key business processes of the existing systems and the existing Lianhua information system structure to explore and establish a technology-backed system with efficient implementation; collaborated to track and optimize the implementation of the price change process for highly sensitive products by tracking the implementation of operational processes, and sorted out the systems and processes of various departments, so as to improve the management standards of systems and processes.

During the period under review, the Group strengthened safety inspection, enhanced the building of a production safety system and clarified the requirements on production safety, food safety, disinfection and pandemic prevention during resumption of work and production. The Company and subordinate segments regularly deployed a series of special safety work such as special rectification action on production safety, special inspection of hidden risks and food safety trainings. The Group upgraded food safety information traceability and directly-operated supermarkets realized traceability through QR code on the food label. The Group regularly inspected licenses of suppliers and commodities and updated the construction of B2B license system. During the pandemic, to ensure the quality and safety of the supplies, the Group formulated emergency plans and preventive and control measures at both the headquarters and stores to empower the segments to ensure supply.

Strategy and Planning

In the second half of 2022, as the pandemic was brought under control in China, and a package of policies and measures to stabilize the economy took effect, China's economy is expected to maintain its recovery. The consumer market is also expected to continue to develop towards a positive direction.

With the changes in consumer demand and behaviors brought by the pandemic, the momentum of China's consumption pattern upgrade continues to grow, the retail industry tends to develop into a more efficient retail model and new consumption highlights will continue to emerge under the clear trend of consumption upgrade towards digitalization, high quality and personalization. Generation Z has become the mainstay of consumption, and the consumption potential of the silver haired generation is yet to be developed; the overseas consumption is shifting to the domestic market, and online and offline consumption have been deeply integrated; brick-and-mortar retail stores have become part of the urban infrastructure. The Group, as part of China's brick-and-mortar retail industry, will seize the opportunity amid the K-shaped recovery in the post-pandemic retail market to increase its proportion of online consumption while enhancing the offline shopping experience; step up efforts to the operation of communities, online communities and groups, and promote the layout and construction of a 15-minute convenient living circle; ensure commodity supplies for people's livelihood and health; and highlight self-satisfying consumption, bringing consumers products with better quality, better experiences and more unique values, so as to strive for high quality development.

Therefore, in the second half of 2022, the Group will continue to follow its vision of "based in the Yangtze River Delta, leveraging advantageous network resources in regions which are dominated by the two principal segments of supermarket and hypermarket to integrate national and regional complementary supply chain system, and thus to develop a whole-area sales network integrating online and offline sales and regain the leading position", adhere to the focus of annual work on "segment integration and improvement, supply chain layout optimization, digital transformation, and organization and incentive scheme", and capitalize on five supporting systems, namely, "guarantee of development and merchant solicitation", "improvement of logistics and commodity efficiency", "improvement of consumer experience and marketing capability", "comprehensive budget management and cost control", and "process reconstruction and strong execution guarantee", so as to achieve more progress and breakthroughs when pursuing sustainable development in the consumer goods retail industry.

Disclosure of Interests

Directors, Supervisors and Chief Executive of the Company

As at 30 June 2022, 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 2022, 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 2022, 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 2022, 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 2022, (i) Mr. Pu Shao-hua, the Chairman and a non-executive Director of the Company, was the president and deputy secretary of the Party Committee of Bailian Group; (ii) Mr. Shi Xiao-long, the Vice Chairman and a non-executive director of the Company, was the executive director of the economic operation department of Bailian Group; (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 Shanghai Bailian; (v) Mr. Li Feng, a supervisor and the chairman of the supervisory committee of the Company, was the senior director of the audit and risk control centre of Bailian Group, a supervisor of Shanghai Bailian and the chairman of the supervisory committee of Shanghai First Pharmaceutical Co., Ltd. (上海第一醫藥股份有限公司); and (vi) Ms. Tian Ying-jie, a supervisor of the Company, was the general manager of the financial management department of Shanghai Bailian.

2. Alibaba Group Holding Limited holds 100% of the shares in Taobao Holding Limited, Taobao Holding Limited holds 100% of the shares in Taobao China Holding Limited, Taobao China Holding Limited holds 100% of the shares in Taobao (China) Software Co., Ltd., 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) held 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 2022 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 2022.

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 (the "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 the 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 (the "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 2022 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 2022.

Purchase, Sale or Redemption of Shares

For the six months ended 30 June 2022, 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, has discussed the matters in relation to internal control and financial reporting with the management, and has reviewed the unaudited condensed interim accounts for the six months ended 30 June 2022 of the Group. The Audit Committee has no disagreement with the accounting principles and practices adopted by the Group.

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 making specific enquiries to all 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 B.2.2 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 C.1.6 of the Code in respect of the non-executive Directors' regular attendance and active participation in Board meetings and general meetings:

Mr. Xu Hong, the then non-executive Director, and Mr. Wong Tak Hung, a non-executive Director, were unable to attend the eighth meeting of the seventh session of the Board convened on 28 March 2022 by the Company due to their other work duties.

Mr. Wong Tak Hung, a non-executive Director, was unable to attend the ninth meeting of the seventh session of the Board convened on 28 March 2022 by the Company due to his other work duties.

Ms. Zhang Shen-yu, a non-executive Director, was unable to attend the tenth meeting of the seventh session of the Board convened on 16 June 2022 by the Company due to her other work duties.

Ms. Zhang Shen-yu, a non-executive Director, was unable to attend the eleventh meeting of the seventh session of the Board convened on 30 August 2022 by the Company due to her 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, was unable to attend the 2021 annual general meeting of the Company ("Annual General Meeting") convened on 16 June 2022 due to her other work duties. The Company has provided the relevant materials relating to the Annual General Meeting to all Directors of the Board before the meeting. All ordinary resolutions were passed smoothly at the Annual General Meeting. The Company had sent the related minutes to all Directors of the Board after the Annual General Meeting so any Director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

Change in Information of Directors

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

Name of Director		Details of Changes
Mr. Xu Hong	–	Resigned as a non-executive Director of the Company on 28 March 2022
Mr. Xu Pan-hua	–	Appointed as a non-executive Director of the Company on 28 March 2022

Please see the announcements of the Company dated 28 March 2022 and 16 June 2022 for the biographical details of the relevant Directors. Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

By Order of the Board
Mr. Pu Shao-hua
Chairman

30 August 2022, Shanghai, the PRC

Report on Review of Condensed Consolidated Financial Statements

Deloitte. 德勤

TO THE SHAREHOLDERS 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 46, which comprise the condensed consolidated statement of financial position as of 30 June 2022 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 2022

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022

	NOTES	Six months ended 30 June 2022 (Unaudited) RMB'000	Six months ended 30 June 2021 (Unaudited) RMB'000
Revenue	3	**13,585,003**	13,238,371
Cost of sales		**(11,786,043)**	(11,619,642)
Gross profit		**1,798,960**	1,618,729
Other revenue	3	**1,011,654**	1,134,883
Other income and other gains and losses	5	**216,343**	252,639
Distribution and selling expenses		**(2,322,341)**	(2,325,440)
Administrative expenses		**(377,057)**	(423,219)
Impairment losses under expected credit loss ("ECL") model, net of reversal	17	**(5,606)**	(4,196)
Other expenses	6	**(27,866)**	(4,329)
Share of results of associates		**(22,643)**	18,238
Finance costs	7	**(140,137)**	(142,481)
Profit before taxation	8	**131,307**	124,824
Income tax expense	9	**(71,181)**	(64,704)
Profit for the period		**60,126**	60,120
Total comprehensive income for the period		**60,126**	60,120
Profit for the period attribute to:			
Owners of the Company		**13,700**	20,077
Non-controlling interests		**46,426**	40,043
		60,126	60,120
Total comprehensive income for the period attributable to:			
Owners of the Company		**13,700**	20,077
Non-controlling interests		**46,426**	40,043
		60,126	60,120
Earnings per share – basic	11	**RMB0.012**	RMB0.018

Condensed Consolidated Statement of Financial Position

At 30 June 2022

	NOTES	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	12	**3,493,866**	3,341,988
Construction in progress	12	**10,585**	9,740
Right-of-use assets	12	**5,990,465**	6,386,548
Goodwill	12	**149,938**	127,953
Intangible assets	12	**114,748**	127,336
Interests in associates		**679,777**	703,205
Financial assets at fair value through profit or loss ("FVTPL")	13	**44,167**	52,229
Finance lease receivables		**212,458**	237,571
Term deposits	14	**2,935,720**	3,980,870
Deferred tax assets		**9,253**	8,045
Other non-current assets	15	**121,578**	286,186
		13,762,555	15,261,671
Current assets			
Inventories		**2,425,312**	2,839,495
Finance lease receivables-current		**49,350**	46,245
Prepaid rental		**2,674**	441
Trade receivables	16	**398,106**	145,386
Deposits, prepayments and other receivables		**723,733**	715,302
Financial assets at FVTPL	13	**996,100**	997,618
Amounts due from ultimate holding company	18	**8**	15,028
Amounts due from fellow subsidiaries	18	**45,734**	37,933
Amounts due from associates	19	**326**	251
Term deposits	14	**2,222,050**	577,100
Cash and cash equivalents		**2,092,304**	2,193,456
		8,955,697	7,568,255
Total assets		**22,718,252**	22,829,926

At 30 June 2022

	NOTES	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Capital and reserves			
Share capital	20	**1,119,600**	1,119,600
Reserves		**(76,012)**	(89,712)
Equity attributable to owners of the Company		**1,043,588**	1,029,888
Non-controlling interests		**354,209**	224,509
Total equity		**1,397,797**	1,254,397
Non-current liabilities			
Deferred tax liabilities		**137,271**	120,359
Lease liabilities		**5,360,915**	5,741,487
		5,498,186	5,861,846
Current liabilities			
Trade payables	21	**4,104,619**	3,467,986
Tax payable		**157,845**	103,336
Other payables and accruals	22	**1,642,976**	2,060,971
Lease liabilities		**1,056,423**	911,399
Contract liabilities		**8,581,111**	8,540,256
Deferred income		**564**	1,475
Amount due to ultimate holding company	18	**11,709**	–
Amounts due to fellow subsidiaries	18	**265,258**	626,409
Amounts due to associates	19	**1,764**	1,851
		15,822,269	15,713,683
Total liabilities		**21,320,455**	21,575,529
Total equity and liabilities		**22,718,252**	22,829,926
Net current liabilities		**(6,866,572)**	(8,145,428)
Total assets less current liabilities		**6,895,983**	7,116,243

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2022

	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 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
At 1 January 2022 (audited)	1,119,600	258,353	(235,497)	559,800	(672,368)	1,029,888	224,509	1,254,397
Total comprehensive income for the period	–	–	–	–	13,700	13,700	46,426	60,126
Dividends to non-controlling shareholders	–	–	–	–	–	–	(22,069)	(22,069)
Acquisition of a subsidiary (note 26)	–	–	–	–	–	–	105,343	105,343
At 30 June 2022 (unaudited)	1,119,600	258,353	(235,497)	559,800	(658,668)	1,043,588	354,209	1,397,797

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 2022 and 2021 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 2022

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash from operating activities	**1,586,891**	141,328
Investing activities		
Proceeds on disposal of interest in an associate	**1,289**	–
Placement of unrestricted term deposits	**(1,935,000)**	(255,000)
Withdrawal of unrestricted term deposits	**1,335,000**	270,000
Purchase of property, plant and equipment and construction in progress	**(101,079)**	(276,721)
Purchase of intangible assets	**(1,357)**	(4,856)
Proceeds on disposal of financial assets at FVTPL	**204,297**	57,478
Purchase of fair value gain on financial assets at fair value through profit or loss	**(200,000)**	–
Proceeds on disposal of property, plant and equipment and intangible assets	**50,794**	8,576
Net cash outflow on acquisition of a subsidiary	**(60,527)**	–
Net cash used in investing activities	**(706,583)**	(200,523)
Cash used in financing activities		
Dividends paid to non-controlling shareholders	**(120,344)**	(29,130)
New bank borrowings raised	**400,000**	–
Repayment of borrowing	**(800,000)**	(20,000)
Repayments of lease liabilities	**(461,116)**	(649,204)
Net cash used in financing activities	**(981,460)**	(698,334)
Net decrease in cash and cash equivalents	**(101,152)**	(757,529)
Cash and cash equivalents at 1 January	**2,193,456**	2,010,276
Cash and cash equivalents at 30 June	**2,092,304**	1,252,747

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

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 2022, the Group has net current liabilities of RMB6,866,572,000 (31 December 2021: RMB8,145,428,000). Taking into account of the Group's ability to withdraw the non-current unrestricted term deposits of RMB2,215,300,000, 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.

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

A significant event and transaction in the current interim period

As 80% of the Group's stores were located in the Yangtze River Delta, the Group's business was seriously affected by the COVID-19 pandemic in the first half of 2022. Particularly in April and May 2022 when Shanghai imposed static control citywide, most of the Group's stores in Shanghai were closed temporarily, and the stores in Zhejiang and Jiangsu were also affected to some extent. During the serious outbreak, the Group has made concerted efforts to ensure supplies while strictly implementing epidemic prevention measures in accordance with relevant requirements. The sales for ensuring supplies achieved by stores in Shanghai during the pandemic effectively offset the operating loss caused by business suspension.

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 2022 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

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	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Sales of merchandises	**13,585,003**	13,238,371
Services		
Income from suppliers	**807,917**	837,165
Royalty income from franchised stores	**19,207**	21,163
Commission income from coupon redemption in other retailers	**3,120**	553
	830,244	858,881
	14,415,247	14,097,252

Timing of revenue recognition

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
At a point in time	**13,588,123**	13,238,924
Over time	**827,124**	858,328
	14,415,247	14,097,252

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	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue from contracts with customers	**14,415,247**	14,097,252
Rental income from leasing of shop premises	**181,410**	276,002
Total revenue and other revenue	**14,596,657**	14,373,254

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	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000	**2022 (Unaudited) RMB'000**	2021 (Unaudited) RMB'000
Hypermarkets	**7,773,972**	7,982,073	**139,985**	136,311
Supermarkets	**5,905,912**	5,465,778	**123,618**	67,044
Convenience stores	**729,720**	824,775	**(12,250)**	8,621
Other operations	**187,053**	100,628	**326**	(10,961)
	14,596,657	14,373,254	**251,679**	201,015

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	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Segment results	**251,679**	201,015
Unallocated interest income	**15,332**	26,001
Unallocated income and other gains and losses	**(6,987)**	(7,500)
Unallocated expenses	**(106,074)**	(112,930)
Share of results of associates	**(22,643)**	18,238
Profit before taxation	**131,307**	124,824

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 results 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	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Interest income on bank balances and term deposits	**125,207**	141,845
Government subsidies (note i)	**19,753**	38,801
Loss on change in fair value of financial assets at FVTPL	**(5,283)**	(7,988)
Gain on disposal of right-of-use assets and property, plant and equipment	**28,555**	26,913
Salvage sales	**13,284**	15,258
Income from breakage (note ii)	**8,826**	5,746
Coupon charges	**5,563**	7,732
Penalty income	**4,400**	8,198
Membership income	**2,428**	6,105
Others	**13,610**	10,029
	216,343	252,639

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	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Impairment loss recognised on right-of-use assets	**12,766**	–
Store closure expenses	**9,210**	199
Others	**5,890**	4,130
	27,866	4,329

7. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest expenses on lease liabilities	**126,530**	142,379
Interest expenses on borrowings	**10,244**	102
other	**3,363**	–
	140,137	142,481

8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at:

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
After charging:		
Amortisation and depreciation		
Amortisation of intangible assets – software (note 12)	**11,617**	9,857
Depreciation of property, plant and equipment (note 12)	**178,826**	161,108
Depreciation of right-of-use assets (note 12)	**507,203**	554,088
	697,646	725,053
Cost of inventories recognised as an expense	**11,786,043**	11,619,642
Impairment loss recognised on right-of-use assets (note 6)	**12,766**	–
Allowance for credit losses	**5,606**	4,196
Staff costs	**1,194,152**	1,191,348
Write-down (reversals) of inventories	**500**	(977)
After crediting:		
Share of results of associates		
Share of (loss) profit before taxation	**(21,958)**	24,731
Less: Share of taxation	**685**	6,493
	(22,643)	18,238

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax on PRC Enterprise Income Tax ("EIT")	**90,517**	67,195
Deferred tax credit	**(19,336)**	(2,491)
	71,181	64,704

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 2022, the Group had unused tax losses of RMB3,028,190,000 (31 December 2021: RMB3,448,816,000) 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	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings		
Profit for the period attributable to owners of the Company	**13,700**	20,077

	Six months ended 30 June	
	2022	2021
	(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 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/ Termination	(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
Opening carrying amount as at 1 January 2022	3,341,988	9,740	6,386,548	127,953	127,336	255,289
Additions	88,884	3,247	284,047	–	1,357	1,357
Acquisition of a subsidiary (note 26)	284,178	–	41,744	21,985	–	21,985
Transfers	2,402	(2,402)	–	–	–	–
Disposals/ Termination	(44,760)	–	(201,905)	–	(2,328)	(2,328)
Depreciation/ amortisation charge (note 8)	(178,826)	–	(507,203)	–	(11,617)	(11,617)
Impairment (note a)	–	–	(12,766)	–	–	–
Closing carrying amount as at 30 June 2022 (unaudited)	3,493,866	10,585	5,990,465	149,938	114,748	264,686

(a) 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 impairment of RMB12,766,000 was recognised.

13. FINANCIAL ASSETS AT FVTPL

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Non-current		
Unlisted equity investments (note a)	797	1,872
Equity securities listed on Shanghai Stock Exchange	43,370	50,357
	44,167	52,229
Current		
Equity securities listed on Shanghai Stock Exchange	2,610	2,518
Unlisted financial products (note b)	993,490	995,100
	996,100	997,618
Total	1,040,267	1,049,847

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 loss on change in fair value of RMB922,000 (six months ended 30 June 2021: gain of RMB135,000), credited to "other income and other gains and losses".

14. TERM DEPOSITS

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Non-current:		
Restricted term deposits	720,420	1,820,570
Other non-current unrestricted term deposits	2,215,300	2,160,300
	2,935,720	3,980,870
Current:		
Restricted term deposits	1,101,050	1,100
Other current unrestricted term deposits	1,121,000	576,000
	2,222,050	577,100

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 2022, restricted term deposits amounting to RMB1,821,470,000 (31 December 2021: RMB1,821,670,000 are placed by the Group as a security for coupons issued to customers and are not available for other use by the Group.

15. OTHER NON-CURRENT ASSETS

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Interest receivable	121,578	194,386
Payment for acquisition of equity interests in subsidiary	–	91,800
	121,578	286,186

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 government for guaranteeing supply and wholesalers with credit terms ranging from 30 to 60 days.

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
0 – 30 days	367,811	142,429
31 – 60 days	32	2,048
61 – 90 days	420	401
91 days – one year	29,843	508
	398,106	145,386

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 LOSSES UNDER ECL MODEL, NET OF REVERSAL

	Six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Impairment loss recognised in respect of		
Trade receivables	5,322	3,659
Other receivables	284	537
	5,606	4,196

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 2022 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2021.

18. AMOUNTS DUE FROM (TO) ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES

As of 30 June 2022, the balance of amounts due to fellow subsidiaries amounting to RMB200,000,000 was loan in nature with interest rate of 4% (31 December 2021:RMB600,000,000, with interest rate of 4%). The remaining amounts due from (to) ultimate holding company/fellow subsidiaries was trade in nature, unsecured, interest free, with credit terms ranging from 30 to 60 days (31 December 2021: 30 to 60 days). As at 30 June 2022, balances of amounts due from (to) fellow subsidiaries are all aged within 90 days (31 December 2021: 90 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 2021: 90 days) and the credit terms of the trade balances range from 30 to 90 days (31 December 2021: 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 2021, 31 December 2021 and 30 June 2022	1,119,600,000	1,119,600
Issued and fully paid:		
As at 1 January 2021, 31 December 2021 and 30 June 2022	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 2021: 30 to 60 days), is as follows:

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
0 – 30 days	**1,329,545**	1,494,703
31 – 60 days	**970,042**	718,851
61 – 90 days	**325,222**	366,786
91 days – one year	**1,479,810**	887,646
	4,104,619	3,467,986

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 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Payroll, staff welfare and other staff cost payable	**242,950**	332,811
Value added tax and other payable	**106,558**	84,451
Deposits from lessees, franchisees and other third parties	**319,709**	315,614
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	**6,882**	14,390
Prepayments received from franchisees and other third parties	**479,646**	811,367
Payables for acquisition of property, plant and equipment and low value consumables	**102,274**	108,158
Store closure provision	**148,205**	139,953
Accruals	**221,469**	149,277
Dividend payable to non-controlling interests	**–**	98,275
Other miscellaneous payables	**15,283**	6,675
	1,642,976	2,060,971

23. CAPITAL COMMITMENTS

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (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	**52,595**	155,106

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	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Sales to fellow subsidiaries	**274,500**	375,295
Purchases from associates Sanming Taige Information Technology Co., Ltd. (三明泰格信息技術有限公司)	**2,083**	1,508
Purchases from fellow subsidiaries	**81,934**	143,642
Purchases from other related parties	**–**	153
Rental income from fellow subsidiaries	**13,116**	19,495
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	**2,319**	2,933
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	**3,300**	4,827
Interest expenses on lease liabilities charged by fellow subsidiaries	**3,167**	3,676
Property management fee charged by fellow subsidiaries	**6,349**	7,429
Interest income earned from a fellow subsidiary	**5,914**	10,783
Interest expenses charged by a fellow subsidiary	**10,244**	–
Platform usage fee charged by fellow subsidiaries	**18,419**	16,971
Logistics material rental fee charged by fellow subsidiaries	**1,308**	1,150
Logistics distribution service fee charged by fellow subsidiaries	**88**	4,656
Logistics distribution income from the other related parties	**1,662**	–
Logistics and delivery fee charged by other related parties	**2,692**	1,519
Service and platform usage fee charged by other related parties	**14,857**	7,577
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account	**10,023**	10,009
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account upon redemption of membership points by the customers	**3,600**	4,304

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 2021.

24. RELATED PARTY TRANSACTIONS (Continued)

(ii) Related party balances

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

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Cash and cash equivalents in a fellow subsidiary	941,683	539,008
Unrestricted term deposits in a fellow subsidiary	200,000	–
Borrowing from a fellow subsidiary	200,000	600,000
Investment and wealth management cooperation with a fellow subsidiary	993,490	794,640
The summary of lease liabilities and lease receivables to/from related party is as follows:		
Lease liabilities payable to fellow subsidiaries	162,775	167,373

(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, jointly controlled or significantly influenced 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, deposits placement, and bank borrowing with other Government Related Entities.

In view of the nature of the retail business operated by the Group, the directors of the Company 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	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**5,309**	4,913
Post-employment benefits	**193**	292
Other long-term benefits	**245**	108
	5,747	5,313

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)
	30/06/2022 RMB'000	31/12/2021 RMB'000			
1) Investments in unlisted financial products which are managed by licensed financial institutions in the PRC classified as financial assets at FVTPL in the consolidated statement of financial position	Assets – 993,490	Assets – 995,100	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 – 45,980	Assets – 52,875	Level 1	Quoted bid prices in an active market	N/A
3) Unquoted equity investments classified as financial assets at FVTPL	Assets – 797	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. ACQUISITION OF A SUBSIDIARY

In January 2022, Lianhua Huashang Group Co., Ltd. ("Lianhua Huashang") completed the acquisition of 60% interest in Zhejiang Bailian Supermarket Co., Ltd. ("Zhejiang Bailian Supermarket"). Zhejiang Bailian Supermarket is principally engaged in the supermarkets, hypermarkets and convenience stores business and was acquired with the objective of rapid expansion and enhancing the Group's market share in Zhuji. The acquisition has been accounted for as acquisition of business using the acquisition method.

Consideration transferred

	RMB'000
Cash	**180,000**

Acquisition-related costs amounting to RMB19,000 have been excluded from the consideration transferred and have been recognised directly as an expense in the period within the "other expenses" line item in the condensed consolidated statement of profit or loss.

Assets and liabilities recognised at the date of acquisition

	RMB'000
Property, plant and equipment	**284,178**
Right-of-use assets	**41,744**
Deposits, prepayments and other receivables	**38,055**
Inventories	**83,023**
Trade receivables	**5,529**
Bank balances and cash	**10,173**
Other payables and accruals	**(4,083)**
Lease liabilities	**(41,744)**
Trade payables	**(109,464)**
Contract liabilities	**(5,586)**
Taxation payable	**(1,825)**
Deferred tax liabilities	**(36,642)**
Total	**263,358**

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB6,639,000 at the date of acquisition had gross contractual amounts of RMB6,639,000. There were no expected non-recoverable contractual cash flows at acquisition date.

The purchase price was apportioned according to the fair value of the property, plant and equipment.

26. ACQUISITION OF A SUBSIDIARY (Continued)

Non-controlling interests

The non-controlling interest 40% in Zhejiang Bailian Supermarket recognised at the acquisition date was measured by reference to the fair value of the proportionate share of recognised amounts of net assets of Zhejiang Bailian Supermarket and amounted to RMB105,343,000.

Goodwill arising on acquisition

	RMB'000
Consideration transferred	180,000
Less: recognised amounts of net assets acquired	158,015
Goodwill arising on acquisition	21,985

Goodwill arose on the acquisition of Zhejiang Bailian Supermarket because the acquisition would make synergy effects by enhancing the Group's market share in Zhuji. This benefit is not recognised from goodwill because it does not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflows arising on acquisition of Zhejiang Bailian Supermarket

	RMB'000
Consideration paid in cash	162,500
Less: bank balances and cash acquired	10,173
Payment for acquisition of equity interests in subsidiary (note 15)	91,800
	60,527

Impact of acquisition on the results of the Group

Included in the profit for the interim period is loss of RMB21,000 attributable to the additional business generated by Zhejiang Bailian Supermarket. Revenue for the interim period includes RMB292,579,000 generated from Zhejiang Bailian Supermarket.

27. 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 Aug 2022.