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(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00980)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

Reference is made to the profit warning announcement of Lianhua Supermarket Holdings Co., Ltd. (the “**Company**”) dated 26 July 2019 (the “**Profit Warning Announcement**”). As stated in the Profit Warning Announcement, the adoption of HKFRS 16 had a material negative impact on the Group’s financial performance. The Group’s net profit for the six months ended 30 June 2019 is expected to decrease significantly as compared to the six months ended 30 June 2018 while the exact impact has not been finalised. Through further reviewing the latest financial information and preparing and finalizing the interim results of the Group for the six months ended 30 June 2019, the ultimate impact of the adoption of HKFRS 16 on the profit for the period confirmed by the auditor of the Company is smaller than the negative influence estimated in the Profit Warning Announcement.

As at 30 June 2019, the Group recorded the following:

- Revenue amounted to RMB13,488 million, representing an increase of approximately 3.1% year on year. The same store sales decreased by approximately 0.40% year on year, in which the hypermarket segment decreased by approximately 0.78%, the supermarket segment increased by approximately 1.20% and the convenience store segment decreased by approximately 1.81%.
- Gross profit amounted to approximately RMB1,822 million, representing a decrease of 3.4% year on year. Gross profit margin was approximately 13.51%. Consolidated income margin was approximately 25.61%.
- Operating profit amounted to approximately RMB263 million and operating profit margin was 1.95%. Profit attributable to the shareholders of the Company amounted to approximately RMB44 million. Basic earnings per share amounted to RMB0.039.
- The total number of outlets reached 3,401. During the period under review, the Group opened 124 new outlets, including, 4 hypermarkets, 104 supermarkets (including 38 directly operated stores and 66 franchised stores) and 16 convenience stores (including 5 directly operated stores and 11 franchised stores).

Note 1: Consolidated income = Gross profit + Other revenue + Other income and other gains and losses

Note 2: Consolidated income margin = (Gross profit + Other revenue + Other income and other gains and losses)/Revenue

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

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	NOTES	RMB'000	RMB'000
Revenue	3	13,487,505	13,078,590
Cost of sales		<u>(11,665,230)</u>	<u>(11,192,251)</u>
Gross profit		1,822,275	1,886,339
Other revenue	3	1,216,259	1,118,453
Other income and other gains and losses	5	415,016	241,072
Distribution and selling expenses		(2,588,062)	(2,604,071)
Administrative expenses		(415,065)	(390,140)
Impairment losses under expected credit loss ("ECL") model, net of reversal		954	(637)
Other expenses		(2,626)	(38,044)
Share of profits of associates		3,099	26,769
Finance costs		<u>(185,778)</u>	<u>–</u>
Profit before taxation	6	266,072	239,741
Income tax expense	7	<u>(122,943)</u>	<u>(111,571)</u>
Profit for the period		<u>143,129</u>	<u>128,170</u>
Total comprehensive income for the period		<u>143,129</u>	<u>128,170</u>
Profit for the period attribute to:			
Owners of the Company		43,965	39,370
Non-controlling interests		<u>99,164</u>	<u>88,800</u>
		<u>143,129</u>	<u>128,170</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		43,965	39,370
Non-controlling interests		<u>99,164</u>	<u>88,800</u>
		<u>143,129</u>	<u>128,170</u>
Earnings per share – basic and diluted	9	<u>RMB0.039</u>	<u>RMB0.035</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2019

		30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
	<i>NOTES</i>		
Non-current assets			
Property, plant and equipment		3,448,322	3,503,796
Construction in progress		26,989	31,279
Right-of-use assets		7,712,233	–
Land use rights		–	838,878
Intangible assets		216,227	210,423
Interests in associates		685,469	682,370
Financial assets at fair value through profit or loss (“FVTPL”)		76,425	52,901
Term deposits		1,615,000	375,000
Prepaid rental		725	49,202
Deferred tax assets		5,034	79,146
Finance lease receivables		438,922	–
Other non-current assets		–	12,834
		<u>14,225,346</u>	<u>5,835,829</u>
Current assets			
Inventories		2,096,036	2,509,078
Trade receivables	10	130,064	175,002
Deposits, prepayments and other receivables		798,623	1,118,289
Amounts due from fellow subsidiaries		7,851	29,556
Amounts due from associates		135	42
Finance lease receivables-current		64,260	–
Financial assets at FVTPL		1,282,064	3,241,214
Term deposits		2,816,000	1,620,000
Cash and cash equivalents		1,844,133	2,661,100
		<u>9,039,166</u>	<u>11,354,281</u>
Total assets		<u><u>23,264,512</u></u>	<u><u>17,190,110</u></u>

(Continued)

		30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
	<i>NOTES</i>		
Capital and reserves			
Share capital		1,119,600	1,119,600
Reserves		1,074,619	1,037,397
Equity attributable to owners of the Company		2,194,219	2,156,997
Non-controlling interests		354,104	302,929
Total equity		2,548,323	2,459,926
Non-current liabilities			
Deferred tax liabilities		65,348	93,210
Lease liabilities		7,197,256	–
		7,262,604	93,210
Current liabilities			
Trade payables	<i>11</i>	3,684,477	4,129,974
Other payables and accruals		1,375,332	2,439,121
Lease liabilities-current		686,725	–
Contract liabilities		7,497,423	7,816,494
Deferred income		14,391	17,082
Amounts due to Shanghai Bailian (as defined in note 1)		–	28,176
Amounts due to fellow subsidiaries		25,305	59,384
Amounts due to associates		1,333	1,156
Amounts due to other related parties		344	785
Tax payable		168,255	144,802
		13,453,585	14,636,974
Total liabilities		20,716,189	14,730,184
Total equity and liabilities		23,264,512	17,190,110
Net current liabilities		(4,414,419)	(3,282,693)
Total assets less current liabilities		9,810,927	2,553,136

1. PRINCIPAL ACTIVITIES

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

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

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

As of 30 June 2019, the Group has net current liabilities of RMB4,414,419,000 (31 December 2018: RMB3,282,693,000). Taking into account of the Group’s ability to withdraw the non-current unrestricted term deposits of RMB1,305,000,000, the historical settlement and addition pattern of the coupon liabilities (included in contract liabilities), the directors of the Company consider the liquidity risk is significantly reduced and the Group is able to be continued as a going concern.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	<i>Leases</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to HKFRS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2015-2017 Cycle</i>

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

2. Impacts and changes in accounting policies of application on HKFRS 16

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring right-of-use assets at date of initial application; and

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is within the range from 3.60% to 3.84%.

	At 1 January 2019 <i>RMB'000</i>
Operating lease commitments disclosed as at 31 December 2018	11,237,168
Operation lease commitments with value-added-tax excluded	10,702,065
Lease liabilities discounted at relevant incremental borrowing rates	8,547,731
<i>Less:</i> Recognition exemption – short-term leases	586,682
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	<u>7,961,049</u>
Lease liabilities as at 1 January 2019	<u><u>7,961,049</u></u>
Analysed as	
Current	609,880
Non-current	<u>7,351,169</u>
	<u><u>7,961,049</u></u>

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	<i>notes</i>	Right-of-use assets <i>RMB '000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		7,961,049
Reclassified from land use rights	(a)	865,136
Reclassified from other non-current assets	(b)	12,834
Reclassified from Prepaid lease payment	(c)	285,403
<i>Less: Accrued lease liabilities at 1 January 2019</i>	(d)	<u>(717,776)</u>
		<u><u>8,406,646</u></u>
By class:		
Leasehold lands		865,136
Land and buildings		<u>7,541,510</u>
		<u><u>8,406,646</u></u>

(a) Upfront payments for leasehold lands in the PRC were classified as land use rights as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of land use rights amounting to RMB26,258,000 and RMB838,878,000 respectively were reclassified to right-of-use assets.

(b) Upfront the prepayments for the leasing of certain buildings from the PRC government were classified as other non-current assets as at 31 December 2018. Upon application of HKFRS 16, other non-current assets of RMB12,834,000 was reclassified to right-of-use assets.

(c) *Prepaid lease payment*

The carrying amount of prepaid lease payment of several operating leases at 31 December 2018 was adjusted to right-of-use assets at transition.

(d) *Rent free period*

These relate to accrued lease liabilities for leases of properties in which the lessors provided rent-free period. The carrying amount of the lease incentive liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

Lease payments increase progressively over lease terms

These relate to accrued lease liabilities of several operating leases for leases of properties in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liabilities was adjusted to right-of-use assets at transition.

As a lessor

In accordance with the transitional provisions in HKFRS 16, except for sub-leases in which the Group acts as an intermediate lessor, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

The following table summarises the impact of transition to HKFRS 16 on retained profits at 1 January 2019.

		Impact of adopting HKFRS 16 at 1 January 2019
	<i>notes</i>	<i>RMB'000</i>
Net equity		
Reverse of deferred taxation for operating lease expenses	<i>(e)</i>	(73,223)
Classification of finance lease rising from sublease	<i>(f)</i>	46,910
		<u><u> </u></u>
Impact on retained earnings at 1 January 2019		(6,743)
Impact on non-controlling interests at 1 January 2019		(19,570)
		<u><u> </u></u>

(e) The Group reversed deferred tax assets arising from the accrued lease liabilities under HKAS 17 upon the initial application of HKFRS 16 since the exemption of initial recognition of deferred tax applied.

(f) The Group classified finance lease rising from sublease which was classified as operating lease under HKAS 17, resulting in the decrease in right-of-use of assets and amounts due from fellow subsidiaries amounting to RMB449,496,000 and RMB6,776,000 and increase in finance lease receivable with amount of RMB503,182,000 in total (included in finance lease receivable of RMB438,922,000 and finance lease receivable-current of RMB64,260,000 respectively).

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under H KFRS 16 at 1 January 2019 RMB'000
Non-current Assets			
Prepaid rental	49,202	(48,387)	815
Land use right	838,878	(838,878)	–
Right-of-use assets	–	7,957,150	7,957,150
Deferred tax assets	79,146	(73,223)	5,923
Finance lease receivables	–	438,922	438,922
Other non-current assets	12,834	(12,834)	–
Current Assets			
Deposits, prepayments and other receivables	1,118,289	(253,513)	864,776
Amounts due from fellow subsidiaries	29,556	(16,537)	13,019
Finance lease receivables – current	–	64,260	64,260
Capital and Reserves			
Reserves	1,037,397	(6,743)	1,030,654
Non-controlling interests	302,929	(19,570)	283,359
Current Liabilities			
Other payables and accruals	2,439,121	(701,353)	1,737,768
Amounts due to fellow subsidiaries	59,384	(16,423)	42,961
Lease liabilities – current	–	609,880	609,880
Non-current liabilities			
Lease liabilities	–	7,351,169	7,351,169

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

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 follow:

Disaggregation of revenue from contracts with customers

Type of Revenue	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Sales of merchandises	<u>13,487,505</u>	<u>13,078,590</u>
Services		
Income from suppliers (service income)	854,271	781,457
Royalty income from franchised stores	19,410	20,400
Commission income from coupon redemption in other retailers	<u>1,783</u>	<u>1,752</u>
	<u>875,464</u>	<u>803,609</u>
Total	<u><u>14,362,969</u></u>	<u><u>13,882,199</u></u>
Timing of revenue recognition		
At a point in time	13,530,859	13,080,342
Over time	<u>832,110</u>	<u>801,857</u>
Total	<u><u>14,362,969</u></u>	<u><u>13,882,199</u></u>

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue from contracts with customers	14,362,969	13,882,199
Rental income from leasing of shop premises	340,795	314,844
Total revenue and other revenue	14,703,764	14,197,043

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)		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Hypermarkets	8,699,336	8,588,598	306,567	235,847
Supermarkets	4,967,950	4,577,184	35,770	104,424
Convenience stores	986,441	984,235	(74,652)	(70,383)
Other operations	50,037	47,026	35,165	(2,042)
	14,703,764	14,197,043	302,850	267,846

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	
	2019	2018
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Segment results	302,850	267,846
Unallocated interest income	28,802	41,714
Unallocated income and other gains and losses	5,461	(3,734)
Unallocated expenses	(74,140)	(92,854)
Share of profits of associates	3,099	26,769
Profit before taxation	<u>266,072</u>	<u>239,741</u>

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

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

Segment results did not include share of profits of associates, allocation of corporate income and 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 are not disclosed as this information is not reported to the CODM as they do not assess performance of reportable segments using information on assets and liabilities.

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest income on bank balances and term deposits	100,506	81,194
Government subsidies (<i>note i</i>)	34,883	26,577
Gain on change in fair value of financial assets at FVTPL	65,584	50,888
Dividends from financial assets at FVTPL	415	–
Gain on disposal of property, plant and equipment (<i>note ii</i>)	134,713	–
Salvage sales	17,101	16,497
Early termination of an operating lease contract by lessor (<i>note iii</i>)	–	24,000
Income from unutilised contract liabilities	26,310	20,623
Others	35,504	21,293
Total	415,016	241,072

notes:

- (i) The Group received unconditional subsidies from the PRC local government as an encouragement for the operation of certain subsidiaries in certain areas.
- (ii) On 31 May 2019, a subsidiary of the Group entered into an agreement with the local government for the dismantlement plan carried out by the local government (the “**Agreement**”). According to the agreement, the government would pay RMB148,849,000 in total as compensation for dismantling the warehouse of the subsidiary. As at 30 June 2019, the relevant procedures as set out in the Agreement have been completed and the compensation has been received, resulting in a gain of RMB135,433,000 on disposal of property, plant and equipment.
- (iii) On 25 January 2018, a subsidiary of the Group entered into an agreement with its lessor on early termination of the lease contract at the request of lessor. According to the agreement, the lessor agreed to pay RMB40,000,000 in total as compensation and the payment schedule is made according to the process of the completion of the termination obligations set out in the early termination contract. The compensation of RMB38,000,000 has been received in 2018 and no farther payment has received up to 30 June 2019.

6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
<i>After charging:</i>		
Amortisation and depreciation		
Amortisation of other non-current assets	–	729
Amortisation of intangible assets – software (included in distribution and selling expenses/administrative expense)	9,449	7,590
Amortisation of land use rights	–	13,184
Depreciation of property, plant and equipment	178,482	190,800
Depreciation of right-of-use assets	552,077	–
	740,008	212,303
Cost of inventories recognised as an expense	11,665,230	11,192,251
Staff costs	1,395,917	1,367,916
<i>After crediting:</i>		
Share of profits of associates		
Share of profit before taxation	7,212	34,738
Less: Share of taxation	4,113	7,969
	3,099	26,769

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax on PRC Enterprise Income Tax ("EIT")	149,916	119,790
Deferred tax credit	(26,973)	(8,219)
	<u>122,943</u>	<u>111,571</u>

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

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

As of 30 June 2019, the Group had unused tax losses of RMB3,285,028,000 (31 December 2018: RMB3,371,750,000) for which no deferred tax asset had been recognised due to the unpredictability of future profit streams.

8. DIVIDEND

The directors do not recommend the payment of an interim dividend for both interim period and the year ended 31 December 2018.

9. EARNINGS PER SHARE – BASIC AND DILUTED

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
<i>Earnings</i>		
Profit for the period attributable to owners of the Company	43,965	39,370

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
<i>Number of shares</i>		
Weighted average number of ordinary shares for the purpose of		
basic earnings per share	1,119,600,000	1,119,600,000

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

10. TRADE RECEIVABLES

The aging analysis of the trade receivables net of allowance for credit losses at the end of the reporting period, arising principally from sales of merchandise to franchised stores and wholesalers with credit terms ranging from 30 to 60 days (31 December 2018: 30 to 60 days) is as follows:

	30 June	31 December
	2019	2018
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Within 30 days	127,577	171,377
31 – 60 days	1,521	1,353
61 – 90 days	185	1,915
91 days – one year	781	357
	130,064	175,002

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.

11. 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 2018: 30 to 60 days) is as follows:

	30 June	31 December
	2019	2018
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Within 30 days	1,799,791	2,178,686
31 – 60 days	583,926	679,871
61 – 90 days	259,926	357,182
91 days – one year	1,040,834	914,235
	3,684,477	4,129,974

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

In the first half of 2019, the situation at home and abroad was complicated and severe and the downward pressure on the Chinese economy increased, resulting in a slight decrease in economic growth rate. Based on the data from the National Bureau of Statistics of the PRC, in the first half of 2019, China's gross domestic product (GDP) achieved a year-on-year growth of 6.3%, representing a decrease of 0.5 percentage point in growth rate compared with the same period of last year. The growth rate in the second quarter was 6.2%, representing a decrease of 0.2 percentage point compared with the first quarter. Overall, the main macroeconomic indicators were in a reasonable range and the economic structure continued to be adjusted and optimized.

Based on the data from the National Bureau of Statistics of the PRC, in the first half of 2019, total retail sales of consumer goods nationwide had a nominal year-on-year growth of 8.4%, representing a decrease of 1.0 percentage point compared to the same period of last year. In particular, by retail segments, the retail sales of supermarkets, department stores, specialty stores and boutiques in the retail units above a designated size had a year-on-year growth of 7.4%, 1.5%, 5.3% and 3.0% respectively in the first half of the year, representing a decrease in growth rate compared to the same period of last year.

Based on the data from the National Bureau of Statistics of the PRC, in the first half of 2019, the national disposable income per capita had an actual growth of 6.5% compared to the same period of last year, representing a year-on-year decrease of 0.1 percentage point in growth rate. The national disposable income per capita for the first half of 2019 was 0.2 percentage point higher than the economic growth rate of the same period of last year. The income growth was basically consistent with the economic growth. In particular, the disposable income per capita of rural residents grew faster than that of urban areas, and the urban-rural income gap was further narrowed. In the first half of 2019, the national consumption expenditure per capita had an actual increase of 5.2% compared to the same period of last year, representing a year-on-year decrease of 1.5 percentage points in growth rate. From the perspective of contribution rate, the contribution rate of consumption growth to economic growth in the first half of 2019 exceeded 60%, the consumption trend index was close to historical high, and the fundamental role of consumption in economic growth was further consolidated.

In the first half of 2019, with a high penetration rate of e-commerce development, the growth of traditional e-commerce slowed down. As continuously driven by the innovation and transformation of physical retail sector, the consumers' experience of increasing life quality through consumption has become a new momentum for business growth, and the scenario-based offline consumption experience was gradually favored by consumers. With the emergence of new consumption patterns, the new retail force that influences online shopping with offline behaviors also gradually expanded.

In the first half of 2019, in the transition era of nationwide consumption, rational consumption and product upgrading, Chinese retail enterprises including the Group strived to drive transformation and innovation with a focus on consumer experience, and reshape the traditional retail value chain to enable consumption upgrade.

Financial Review

Revenue

During the period under review, the Group's revenue was approximately RMB13,488 million, representing a year-on-year increase of approximately RMB409 million, or approximately 3.1%. This was mainly attributable to the Group's newly opened stores and the effects of reform and transformation of existing stores. Revenue generated from the Group's supermarket segment increased by approximately RMB388 million, or approximately 9.1%, compared to the same period of last year. Sales of the same store had a decrease of 0.4%.

Gross profit

During the period under review, the Group's gross profit was approximately RMB1,822 million, representing a year-on-year decrease of approximately RMB64 million, or approximately 3.4%. This was mainly due to the adjustments in product mixes of the Group's hypermarkets, optimization of hypermarkets' layout based on scenario, and a decrease in operational areas. In particular, the gross profit of the hypermarket segment decreased by approximately RMB83 million compared to the same period of last year. During the period under review, the Group strengthened the integration of online and offline business to increase sales by implementing various marketing activities. As a result, the gross profit margin was approximately 13.51%, representing a decrease of approximately 0.91 percentage point from approximately 14.42% for the corresponding period of last year.

Other revenue

During the period under review, the Group's other revenue was approximately RMB1,216 million, representing a year-on-year increase of approximately RMB98 million, or approximately 8.7%. This was mainly because the income from suppliers increased by approximately RMB73 million as compared with that of 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 RMB415 million, representing a year-on-year increase of approximately RMB174 million, or approximately 72.2%, due to the effect of the gains amounting to approximately RMB135 million obtained from the disposal of private land and buildings by Hangzhou Lianhua Huashang Group Co., Ltd. (杭州聯華華商集團有限公司), a subsidiary of the Group.

Distribution and selling expenses

During the period under review, the Group's distribution and selling expenses amounted to approximately RMB2,588 million, representing a year-on-year decrease of approximately RMB16,009 thousand, or approximately 0.6%. The distribution and selling expenses accounted for approximately 19.19% of the revenue, representing a year-on-year decrease of approximately 0.72 percentage point.

Administrative expenses

During the period under review, the Group's administrative expenses amounted to approximately RMB415 million, representing a year-on-year increase of approximately RMB24,925 thousand, or approximately 6.4%. The administrative expenses accounted for approximately 3.08% of the revenue, representing a year-on-year increase of approximately 0.10 percentage point. This was mainly due to a year-on-year increase of approximately RMB31 million in labour costs as a result of the Group's adjustment in management structure as well as the increased performance bonus for certain segments.

Other expenses

During the period under review, the Group's other expenses amounted to approximately RMB2,626 thousand, representing a year-on-year decrease of approximately RMB35,418 thousand, or approximately 93.1%, which mainly resulted from a year-on-year decrease of approximately RMB13 million in the provision for loss from closure of stores.

Share of profits of associates

During the period under review, the Group's share of profits of associates amounted to approximately RMB3,099 thousand, representing a year-on-year decrease of approximately RMB23,670 thousand, or approximately 88.4%, including a year-on-year decrease of approximately RMB8 million in the return on investment of Shanghai Carhua Supermarket Co. Ltd. (上海聯家超市有限公司). After deducting the effects of initial application of Hong Kong Financial Reporting Standards 16 "Leases", the Group's share of profits of associates increased by approximately RMB5 million compared to the same period of last year.

Earnings before interest, taxes, depreciation and amortisation (EBITDA)

During the period under review, the Group's EBITDA amounted to approximately RMB1,192 million, representing a year-on-year increase of approximately RMB740 million, or approximately 163.7%. After deducting the effects of initial application of HKFRS 16 "Leases", the Group's EBITDA amounted to approximately RMB573 million, representing a year-on-year increase of approximately RMB121 million.

Profit before taxation

During the period under review, the Group's profit before taxation amounted to approximately RMB266 million, representing a year-on-year increase of approximately RMB26 million, or approximately 11.0%.

Income tax expense

During the period under review, the Group's income tax expense was approximately RMB123 million, representing a year-on-year increase of approximately RMB11,372 thousand, or approximately 10.2%.

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 RMB43,965 thousand, representing a year-on-year increase of approximately RMB4,595 thousand, or approximately 11.7%. After deducting the effects of initial application of HKFRS 16 "Leases", the profit attributable to shareholders of the Company amounted to approximately RMB121 million, representing a year-on-year increase of approximately RMB81 million. During the period under review, the net profit margin was approximately 0.33%, representing a year-on-year increase of 0.03 percentage point. Based on the 1,119.6 million shares issued by the Group, the basic earnings per share were approximately RMB0.039.

Liquidity and financial resources

During the period under review, the net cash outflow of the Group was approximately RMB816,967 thousand. This was mainly due to the year-on-year decrease in sales of prepaid cards and an increase in funds withdrawal. As at 30 June 2019, cash and various balance at bank amounted to approximately RMB6,275,133 thousand.

For the six months ended 30 June 2019, the accounts payable turnover period of the Group was 59 days and the inventory turnover period was approximately 37 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 30 June 2019, there were no arbitrage financial instruments in issue by the Group.

Growth of each retail business

Hypermarkets

During the period under review, for the hypermarkets segment, the Group focused on the determination and iteration of the segment 3.0 model, creating customer experience with diverse market and catering scenarios, and strengthening operations to accelerate brand revamp. During the period under review, the hypermarket segment of the Group recorded a revenue of approximately RMB7,850,785 thousand, accounting for approximately 58.2% of the Group's revenue, representing an increase of approximately 0.2% compared to the same period of last year. In particular, same store sales had a year-on-year decrease of approximately 0.78%. During the period under review, the hypermarket segment recorded a gross profit of approximately RMB1,041,666 thousand, representing a decrease of approximately RMB83,145 thousand compared to the same period of last year. The consolidated income was approximately RMB2,130,308 thousand, representing an increase of approximately RMB109,380 thousand compared to the same period of last year. The distribution and selling expenses and administrative expenses were approximately RMB1,669,678 thousand altogether representing a decrease of approximately RMB76,490 thousand compared to the same period of last year. Depreciation expenses and rental expenses of stores recorded a year-on-year decrease of approximately RMB80,250 thousand and finance costs recorded a year-on-year increase of approximately RMB151,566 thousand as a result of the effects of initial application of HKFRS 16 "Leases". The segment operating profit was approximately RMB306,567 thousand, representing a year-on-year increase of approximately RMB70,720 thousand. Operating profit margin increased by 0.89 percentage point compared to the same period of last year to approximately 3.90%. After deducting the effects of initial application of HKFRS 16 "Leases", the segment operating profit was approximately RMB377,883 thousand and the operating profit margin was 4.81%.

As at 30 June	2019	2018
Gross Profit Margin (%)	13.27	14.35
Consolidated Income Margin (%)	27.13	25.78
Operating Profit Margin (%)	3.90	3.01

Supermarkets

During the period under review, for the supermarkets segment, the Group proactively developed new stores, strengthened the exploration of new business model, and significantly improved the same store sales of transformed stores. At the same time, the Group enhanced the benefits of members and retained the key members. During the period under review, the supermarket segment of the Group recorded a revenue of approximately RMB4,644,767 thousand, accounting for approximately 34.4% of the Group's revenue, representing a year-on-year increase of approximately RMB388,290 thousand, or approximately 9.1%. In particular, same store sales had a year-on-year increase of approximately 1.2%. During the period under review, the supermarket segment recorded a gross profit of approximately RMB621,596 thousand. The gross profit margin decreased by 0.45 percentage point compared to the same period of last year to 13.38%. The consolidated income was approximately RMB1,026,131 thousand, representing a year-on-year increase of approximately RMB76,836 thousand. The consolidated income margin decreased by 0.21 percentage point compared to the same period of last year to 22.09%. The segment operating profit was approximately RMB35,770 thousand, representing a year-on-year decrease of approximately RMB68,654 thousand. Operating profit margin decreased by 1.68 percentage points to approximately 0.77%. It was mainly due to a year-on-year decrease in depreciation expenses and rental expenses of RMB13,425 thousand and an increase in finance costs of approximately RMB34,212 thousand as a result of initial application of HKFRS 16 "Leases" and an increase in labour cost of approximately RMB61,361 thousand as a result of the increasing number of stores, development of new businesses and other factors. After deducting the effects of initial application of HKFRS 16 "Leases", the segment operating profit was approximately RMB56,556 thousand and the operating profit margin was 1.22%.

As at 30 June	2019	2018
Gross Profit Margin (%)	13.38	13.83
Consolidated Income Margin (%)	22.09	22.30
Operating Profit Margin (%)	0.77	2.45

Convenience Stores

During the period under review, for the convenience store segment, the Group continued to accelerate the introduction of fresh food products and imported products through consumer-oriented diversified development, enhanced brand image and created new consumption scenarios for young consumers. During the period under review, the convenience store segment recorded a revenue of approximately RMB943,827 thousand, representing a year-on-year increase of approximately 0.4% and accounting for approximately 7.0% of the Group's revenue. In particular, same store sales decreased by approximately 1.81% compared to the same period of last year. The convenience store segment recorded a gross profit of approximately RMB151,099 thousand. The gross profit margin decreased by 1.60 percentage points compared to the same period of last year to approximately 16.01%. The consolidated income was approximately RMB202,321 thousand. The consolidated income margin decreased by 1.97 percentage points compared to the same period of last year to approximately 21.44%. The distribution and selling expenses and administrative expenses amounted to approximately RMB279,008 thousand altogether, representing a year-on-year decrease of approximately RMB11,166 thousand. During the period under review, the convenience store segment incurred an operating loss of approximately RMB74,652 thousand with a year-on-year increase in losses of approximately RMB4,269 thousand. The operating profit margin decreased by 0.42 percentage point to approximately -7.91%.

As at 30 June	2019	2018
Gross Profit Margin (%)	16.01	17.61
Consolidated Income Margin (%)	21.44	23.41
Operating Profit Margin (%)	-7.91	-7.49

Analysis of Financial Performance

	For the six months ended 30 June <i>RMB million</i>		Year-on-year changes (%)
	2019	2018	
Revenue	13,488	13,079	3.1
Gross profit	1,822	1,886	–3.4
Consolidated income	3,454	3,246	6.4
Operating profit	263	213	23.5
Taxation	123	112	10.2
Profit for the period attributable to owners of the Company	44	39	11.7
Basic earnings per share (<i>RMB</i>)	0.039	0.035	11.7
Dividend per share (<i>RMB</i>)	Not distributed	Not distributed	–

Capital structure

As at 30 June 2019, the Group's cash equivalents were mainly held in Renminbi. There were no bank borrowings of the Group.

During the period under review, the equity attributable to owners of the Group increased from approximately RMB2,156,997 thousand to approximately RMB2,194,219 thousand, mainly due to the profit in the period of approximately RMB43,965 thousand and the decrease in opening balance by approximately RMB6,743 thousand adjusted for the initial application of HKFRS 16 "Leases".

Details of the Group's pledged assets

As at 30 June 2019, the Group did not pledge any assets.

Foreign exchange risks

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

Share capital

As at 30 June 2019, the issued share capital of the Company was as follows:

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

Contingent liabilities

As at 30 June 2019, the Group did not have any material contingent liabilities.

Development of Sales Network: Development of Segments and End Model

During the period under review, through the two major strategies of scientific site selection and rapid expansion of sales network, the Group, with its foothold in the Yangtze River Delta, promoted its national layout and steadily advanced the opening and renewal of outlets; multiple business segments jointly met consumers' needs in different shopping scenarios. On one hand, the Group actively developed new outlets in key development areas to consolidate its leading position in the market. In the first half of 2019, the Group opened 124 new stores, including 4 newly opened hypermarkets. Among all new supermarkets and convenience stores, 43 were directly-operated stores and 77 were franchised stores. Among the new stores, 96 stores were located in the Yangtze River Delta, accounting for 77.4% of the new stores. On the other hand, the Group adapted to changes in market environment, prudently reorganized the stores and improved the overall quality of the physical stores. As a result, 94 stores were closed, including 31 directly-operated stores and 63 franchised stores.

During the period under review, 4 new hypermarkets were opened, all of which were located in Zhejiang Province. The number of stores recorded a net increase of 3. The hypermarket segment mainly focused on consolidation and promotion of current business. Based on the upgrading of Internet technology and Internet tools, and adoption of Internet mindset, the Group, centering on customer experience, improved operation quality and economic benefits by adjusting the product portfolio, optimizing the scenario setting, upgrading service management, and rationally allocating resources, while exploring the determination and iteration of the high-end whole food market store, or hypermarket 3.0 model.

During the period under review, 104 new supermarkets were opened, including 38 directly-operated stores and 66 franchised stores. 37 supermarkets were closed, including 6 directly-operated stores and 31 franchised stores. The number of stores recorded a net increase of 67. During the period under review, the directly-operated business under the supermarket segment primarily focused on transformation and upgrading. In face of different types of consumption, focusing on the establishment of models of “community convenience stores”(社區便捷), “community fresh produce stores”(社區生鮮) and “selected stores”(精選超市), targeted precise services were provided through adjustment to the product portfolio and the successful experience was gradually replicated and promoted through the gradual improvement of sample stores; meanwhile, the incubation of the new innovative segment of “selected retailing + diversified catering experience” was proactively promoted. For the franchise business, the Group vigorously reshaped the franchise system, proactively developed close-relationship franchised stores and advanced the determination of the new franchise model to promote the win-win cooperation with franchisees.

During the period under review, 16 new convenience stores were opened, including 5 directly-operated stores and 11 franchised stores. 56 stores were closed and the number of stores recorded a net decrease of 40. Oriented by diversified development, the convenience store segment optimized its product portfolio, enriched its product categories and continuously expanded the sales proportion of fresh produce, imported goods and private-label products, while paying attention to consumers’ experience, creating new consumption scenarios for young consumers, enhancing catering models and providing more dynamic services.

As of 30 June 2019, the Group had 3,401 stores in total, representing a net increase of 30 stores compared to the end of 2018. Approximately 82.2% of the Group's stores are located in eastern China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Direct operation	145	644	738	1,527
Franchise operation	—	1,330	544	1,874
Total	<u>145</u>	<u>1,974</u>	<u>1,282</u>	<u>3,401</u>

Note: The data mentioned above were as at 30 June 2019.

Product Category Plan and Supply Chain Construction

During the period under review, the Group completed the product category innovation plan, vigorously implemented the strategies concerning category management and structure adjustment of major categories (TBFF), and focused on optimizing fresh produce and imported product categories. It strengthened the consumer-oriented Joint Business Plan (JBP) strategic cooperation, developed national famous premium brands and created the categories most favoured by consumers.

The Group is committed to promoting the sustainable growth of fresh produce category and creating the leading image of the fresh produce category. The Group established a nationwide joint procurement information exchange platform, established “integrated” joint procurement, which was subject to overall coordination and detailed implementation, to promote the national joint procurement project of the fresh produce bases, forming the core cost advantage of fresh produce. In addition to promoting the sorting and grading of fresh produce products, the Group increased the number and proportion of imported products and optimized the category structure of fresh produce goods, to upgrade fresh produce products. Besides the Group built a central factory of cooked food and baking, and optimized the fresh produce refrigerated logistics. More efforts were exerted on the introduction and promotion of dine-in food and instant food categories. The gradual enhancement of the capacity for research and development of fresh processed products gave rise to gradual formation of the special and advantageous categories of fresh produce.

During the period under review, the Group accelerated the creation of the image as a vendor of a full range of imported products with higher cost performance, expanded the channels of imported products, and increased the proportion of direct procured imported products to improve the marketing capacity of imported products and deepen cooperation with multinational brands. Through analyzing the sales ratio, enhancing the sensitivity of product selection and quickly introducing and creating the strongest category, the Group strived to become the best shopping place with the most comprehensive, latest and most delicious products for consumers.

During the period under review, the Group continued to promote the consumer-oriented JBP strategic cooperation and expanded its sales and increased its profit through the weekly promotion activities of manufacturers. Through streamlining data research, consumer insight, brand building, product innovation, marketing model and other fields, the Group deeply tapped the depth and breadth of JBP strategic cooperation and created incremental opportunities for the layout of JBP strategic cooperation content, dedicated to offering a full range of multi-dimensional new experience for consumers.

Private-label Brands

During the period under review, the Group focused on setting the development path and positioning of its private-label brands. Through reviewing existing private-label brands and strengthening the promotion plan for private-label brands, the Group built a visual strategy system for key brands and increased the sales and proportion of private-label brands. With the clarification of brand positioning and planning and establishment of the high-activity brand positioning in the minds of consumers which has a high degree of relevance to consumers, the Group created a GBB (Good, Better, Best) brand level system.

During the period under review, the Group vigorously built the supply chain for the products of its private-label brands. It focused on major products for people's livelihood and increased development efforts for the high-margin, high-growth and high-potential categories. During the period under review, the Group successfully developed more than 80 new products and intensified supplemental categories including snacks, dried food, daily necessities, textile, and gift boxes for festivals and holidays. Through reasonable planning, the Group introduced differentiated quality categories and met market demands through creation of the supply chain and strengthening the direct purchase at source and of quality products.

During the period under review, the Group deepened coordinated development of various segments and integration of regional resources for the development of private-label brands, and prepared the basic data of resources integration. Relying on the commodity management manual prepared for private-label brands and standardization process for management of multiple regions, the Group maintained the continuous development of each region.

During the period under review, the Group's marketing of private-label brands became more diversified and scenario-based layouts were created. The stores also enhanced the entertaining shopping experience for customers by emphasizing brand quality and telling stories of brand origins, etc.. Meanwhile, the Group maintained close offline and online interaction to keep nationwide brand interconnection among different segments through multiple channels.

Excellent Implementation to Improve Operational Capability

During the period under review, the Group continued to promote the improvement of operational standards and services, and focused on improving logistics efficiency and the overall efficiency of the supply chain.

During the period under review, the Group reviewed the existing operational procedures, and, based on the implementation of actual operation of different types of business districts, continuously learned the peers' practical experience to supplement the detailed rules, optimized and improved the operational standards and facilitated the promotion of operational standard models. According to the concepts of current new supermarkets, new types and new services, the Group conducted training on implementation theory and practical operational skills of operational standards to strengthen the professional level and quality of employees in implementation of operational standards and promote the improvement of operation level.

During the period under review, the Group strengthened cross-department collaboration and improved and deepened the implementation system of key projects. The Group adopted unified systems and statements, and flexibly used existing standardized processes to achieve efficient operations. A cross department joint working group was established to help coordinate the work connection of the new franchised teams and various departments to strengthen internal support. The design and establishment of a KPI (Key Performance Indicator) linkage mechanism centering on the new franchise performance targets strengthened the joint sense of responsibility and participation enthusiasm of related departments.

During the period under review, the Group promoted the implementation of service standards and accelerated the service image enhancement of stores. As customers are the basis for improving performance, the Group adhered to the customer-oriented business philosophy, transformed the intermediary function of traditional retailers into the organizer and service provider of the consumers based on the core characteristics of the new retail, to improve the service configuration of stores and the service standards of stores.

During the period under review, the Group formulated a performance improvement plan based on the characteristics of various commodity categories, and created quality fresh produce, competitive room temperature categories and commodities with area-effectiveness. Through the scenario-based solution of three meals a day and the creation of scenarios, the Group created a business model with all retail elements, i.e. consumers, goods and space, to improve the quality of fresh produce and empower the sales of fresh produce. On the basis of strengthening operational implementation standards, the Group developed reasonable seasonal instruction manuals to highlight core and key single products, and optimized business capabilities to create competitive room temperature categories. By subdividing the customer base and business segments, the Group iteratively promoted the improvement of quality, optimization of products and enrichment of categories, and developed commodities with area-effectiveness.

During the period under review, the Group continued to improve its logistics efficiency and expand service support business. The optimization of the organizational structure improved the efficiency of online and offline collaborative operations and the level of distribution services. The Group improved the automatic replenishment system for central warehouse and enhanced the product satisfaction rate through technical means. Scientific and rational transportation and loading and unloading strategies were developed based on the advanced technical equipment and management concepts, to further reduce operating costs, improve operational efficiency, and ensure the quality of delivered commodities.

During the period under review, the Group focused on developing cross-sector and cross-industry alliance strategies. The Group proactively engaged in interaction and cooperation with external quality resources, established long-term, planned and mutually beneficial partnerships and built a close cooperative relationship with UnionPay, Alipay and WeChat. In addition, the Group proactively expanded cooperation with card issuing banks and other third-party payments to form a multi-payment marketing network, and explored cross-industry cooperation with life and entertainment related service providers.

Brand Revamp

During the period under review, the Group developed a full set of brand strategies covering business description, vision, mission, brand value, brand characteristics and brand slogans. Lianhua brand was redefined centering on the corporate vision of “For our community to admire us more each day” (“讓消費者更喜愛我們”). The Group updated the color of brand logo with the tagline of “Live the good Life” (“用心過好生活”) and determined “The 3-goodness” mission (“三好”使命) of “To offer better products, better experiences, and better Living every day” (“好商品，好體驗，構建人情好生活”) to build the brand image of Lianhua. At the same time, the Group prepared new standardized storefront signboards based on brand revamp and built uniform refreshed performance and experience of the brand in stores. Through the refreshment and transformation of brand logo, color themes, fonts, graphics, symbols and other details, the basic visual system after the revamp of Lianhua brand was determined.

During the period under review, the Group fully leveraged on its brand refreshment advantages and launched branded integration themed activities to deliver brand temperature to consumers. The New Year event themed “Wishful Year Around You”(心意年在身邊) and the 28th anniversary brand event themed “Light up the good life”(點亮好生活) presented the category story in a more consumer-friendly way, deepening consumers’ impression and improving sales performance. Meanwhile, the presentation of key micro-scenarios combined with related category solutions increased the association with Lianhua brand. By strengthening digital communication and cooperation with third parties, the Group quickly enhanced the brand awareness and reputation. Besides, the Group emphasized the consistency of brand positioning to increase consumers’ preference and activeness for the brand.

During the period under review, the Group reshaped the Lianhua membership system cooperated with suppliers to create exclusive event days for Lianhua members, to increase members’ activities and loyalty for the brand. At the same time, the Group’s internal brand awareness activities were carried out to strengthen employees’ understanding of the brand and to make employees become loyal members.

Incentive Mechanism, Corporate Culture and Digital Drive

As of 30 June 2019, the Group had a total of 36,482 employees, representing a decrease of 1,479 employees. Total employment expenses amounted to approximately RMB1,403,630 thousand.

During the period under review, the Group further promoted the contractual mechanism reform and improved innovation on incentive mechanism. On the basis of the contract-based management of senior management of the Company, the Group further promoted the implementation of the contractual assessment mechanism for key positions. For the supermarket segment, the store partner system was implemented as a pilot scheme, which was proactively supported by the employees of the Group and greatly promoted the enhancement of store performance.

During the period under review, the Group fully implemented the initiative to show care to entry-level employees and continued to implement the incentive model of sharing incremental income with all staff. It formulated the annual star team and value employee selection plan, to set examples and convey positive energy; the success of the Company's 28th anniversary celebration and cultural festival promoted the implementation of corporate culture. Furthermore, the Group launched a brand training camp and set up a joint KPI incentive mechanism to promote brand refreshment and brand building.

During the period under review, the Group focused on building consumer-oriented corporate culture and conducted core business training and special training on new retail digitalization. It made full use of the internal training resources to strengthen the cultivation of internal trainers and the development of new courses.

During the period under review, the Group exerted great efforts on building a flat organizational structure to enhance the organizational strength of the core departments, and continually improved and optimized the organizational structure, to intensify the functions of the core business units. It attached importance to the configuration design of new organizational structure and improved the response speed of the new organization to promote the exploration of new business model and planning and implementation of digital store projects.

During the period under review, the Group strengthened the establishment of innovative talent and back-up talent pool, and selected young reserve cadres through secondment, rotation, and incubation of innovation projects. Meanwhile, the Group increased talent reserve for core positions of stores and established a front-line talent pool. In line with the development of organizations, the Group implemented the Eyas Growth Program (雛鷹成長計劃) for personnel on core positions and management trainees at the headquarters of the Group.

During the period under review, the Group emphasized digital drive. It completed the demand survey and development of digitalized store system, and endeavoured to promote the pilot implementation and promotion of digitalized stores. The launch and promotion of the ERP (Enterprise Resource Planning) system was vigorously propelled due to the completion of the summarization of process optimization design scheme and assessment of implementation scheme of the ERP system of supply chain. The Group enhanced the visualization function of the stores of all segments, promoted the optimization and improvement of Lianhua big data platform; and completed the comprehensive promotion of the franchise contract platform and function enhancement and development of the new franchise model system.

During the period under review, the Group accelerated the promotion of omni-channel sales, combined and integrated various types of retail channels, and conducted cross-channel sales as well as thematic full-scale rebate activities and synchronized offline promotions to stimulate customers' desire to purchase. All employees were encouraged to promote the way of purchase through scanning QR code, resulting in a new high in terms of daily sales volume and number of orders of delivery-to-home business.

During the period under review, the Group proactively progressed towards the target of cost reduction and efficiency enhancement, and focused on improving corporate management and control capabilities. It strengthened tax planning to reduce tax expenditures and management costs. The labour cost was strictly controlled through scientific personnel allocation. The procurement cost was reduced through collective bidding for asset purchase. During the period under review, the Group put many efforts on safe production, continued to promote the creation of "trustworthy supermarkets"(守信超市), and fully achieved the creation goals. It strengthened the management of commodity access, and implemented the whole process control of product quality. Moreover, it improved the long-term mechanism of safety management, strengthened safety inspection and training, and proactively organized training on safety knowledge and special drills for employees.

Strategy and Planning

In the second half of 2019, in respect of the international environment, the growth rate of the world economy and trade is expected to slow down, and the geopolitical instability and economic operational risks will increase. As to the domestic environment, the solution of the long-standing structural and institutional contradictions in China is a step-by-step process, and China's economic operation is exposed to new downward pressure. However, with the stable employment and rapid income growth of urban and rural residents and the further implementation of policies and measures by the Chinese government in terms of substantial reduction of taxes and expenses, further opening up, improvement and promotion of consumption system and mechanism, acceleration of the renovation of old urban communities, etc., the consumption potential of residents will be continuously released. It is expected that the consumer market will maintain a steady and upward trend in the second half of the year.

Therefore, in the second half of 2019, the Group will uphold the faith of “unity as a group, growth with passion” with a focus on “determination and expansion of the segments and end model, product portfolio planning and supply chain construction, private-label brand, excellent implementation and brand revamp” along with the incentive mechanism, organizational system, capital structure and corporate culture-driven and digital-driven approach with a view to further fostering the mindset of future growth and capturing market and innovation opportunities, thereby consistently optimizing the operation of the Group.

In the second half of 2019, with respect to the determination and expansion of the segments and end model, the Group will open its first high-end whole food market store of hypermarket 3.0 model, while steadily promoting the transformation and upgrading of existing stores. The Group will continue to promote the standardization and modularization of three types of stores, i.e. community selective store, community fresh produce store and convenience traffic store, and proactively incubate innovative models, while accelerating the improvement and determination of the close franchise model. More efforts will be made on commodities, external channels and platforms, and big brand innovation linkage, and the Group will introduce consumers to online stores through the physical stores with strong experience and high visit frequency to achieve substantial growth of online transactions and accelerate promotion of omni-channel sales.

In the second half of 2019, in respect of product category plan and supply chain construction, the Group will step up its efforts in advancing and implementing category strategies and promote the sales growth and consolidated income growth of major categories (TBFF) to create the image of imported product categories of higher cost performance. In-depth cooperation with suppliers will be further strengthened in terms of marketing and major products for people's livelihood to promote the implementation of the strategic cooperation in respect of consumer-oriented JBP strategic cooperation.

As to private-label brand development in the second half of 2019, the Group, based on the emphasis of brand development strategies, will deepen category optimization and SKU optimization templates and build GBB private-label brand structure and visual system of Lianhua brands; it will accelerate the development of new products and creation of new categories and improve their popularity and competitiveness, to promote sales of private-label brands.

In the second half of 2019, the Group will continue to promote excellent implementation, create quality fresh produce, optimize and upgrade room temperature commodities, and comprehensively improve logistics efficiency and service support business expansion capabilities.

In the second half of 2019, the Group will further gain insight into consumer demand and promote brand revamp; it will deepen the loyalty of consumers and employees for the brand; it will integrate and rationally allocate internal resources and optimize the content and quality of member activities in a more effective way, to enhance member experience, thus promoting membership growth and promotion of sales to members; relying on the power of brand and advantages of outlets, the Group will accumulate cross-industry resources to promote sales growth.

In the second half of 2019, in line with business promotion requirements, the Group will promote contract implementation and partner projects and continuously improve incentive mechanism innovation. It will implement annual star team and value employee selection and build employee communication platform, to strengthen the care for front-line entry level employees. The organizational reform will be driven to improve work efficiency and strengthen labour cost control. The Eagle Talent Program (雄鷹成才計劃) (high-potential talent training) and Eyas Growth Program (雛鷹成長計劃) (new college students training) will be offered to accelerate talent training and introduction and strengthen talent team construction.

In the second half of 2019, the Group will continue to promote the launch and promotion of digital store system, enhance the data analysis function of Lianhua big data platform and realize the omni-channel sales and internet-based customer experience and marketing through digital empowerment.

Subsequent Events

From 1 July 2019 to the date of the announcement of interim results, 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 payment of interim dividend for the six months ended 30 June 2019.

Purchase, Sale or Redemption of Shares

For the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Audit Committee

The audit committee of the Company (the “**Audit Committee**”) has considered and reviewed the accounting principles and practices adopted by the Group and has discussed the matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2019 of the Group. The Audit Committee is of the view that the interim accounts of the Group for the six months ended 30 June 2019 is in compliance with the applicable accounting standards, the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Laws of Hong Kong, and the Company has made sufficient disclosures thereof.

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

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

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

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

Provision A.4.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The articles of association of the Company provides that each Director shall be appointed at the general meeting of the Company and for a term of not more than three years, and is eligible for re-election. Having taken into account the continuity of the implementation of the Company’s operation and management policies, the articles of association contains no express provision for the mechanism of Directors’ retirement by rotation, thus deviating from the aforementioned provision of the Code.

For Provision A.6.7 of the Code:

Mr. Lee Kwok Ming, Don, an independent non-executive Director, was unable to attend the ninth meeting of the sixth session of the Board convened on 29 March 2019 by the Company due to his other work duties.

Ms. Xu Zi-ying, a non-executive Director, was unable to attend the tenth meeting of the sixth session of the Board convened on 12 June 2019 by the Company due to her other work duties.

Mr. Qian Jian-qiang, a non-executive Director, was unable to attend the eleventh meeting of the sixth session of the Board convened on 29 August 2019 by the Company due to his other work duties.

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

For Provision A.6.7 of the Code, Ms. Xu Zi-ying, a non-executive Director, was unable to attend the 2018 annual general meeting (the “AGM”) of the Company convened on 12 June 2019 due to her other work duties. The Company has provided the relevant materials relating to the AGM to all Directors of the Board before the meeting. All ordinary resolutions were passed smoothly at the AGM. The Company had sent the related minutes to all Directors of the Board after the AGM so any Director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

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

Shanghai, PRC, 29 August 2019

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

Executive Director: Xu Tao;

Non-executive Directors: Ye Yong-ming, Xu Zi-ying, Xu Hong, Qian Jian-qiang, Zheng Xiao-yun, and Wong Tak Hung;

Independent non-executive Directors: Xia Da-wei, Lee Kwok Ming, Don, Chen Wei and Zhao Xin-sheng.