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

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

(Stock Code: 00980)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

As at 30 June 2020, the Group recorded the following:

- Revenue amounted to RMB14,037 million, representing an increase of approximately 4.1% year on year. Same store sales increased by approximately 1.23% year on year.

- Gross profit amounted to approximately RMB2,024 million, representing an increase of 11.1% year on year. Gross profit margin was approximately 14.42%. Consolidated income margin was approximately 23.12%.

- Operating profit amounted to approximately RMB243 million and operating profit margin was 1.73%. Profit attributable to the shareholders of the Company amounted to approximately RMB58 million. Basic earnings per share amounted to RMB0.05.

- The total number of outlets reached 3,339. During the period under review, the Group opened 135 new outlets, including one hypermarket, 95 supermarkets (including 23 directly-operated stores and 72 franchised stores) and 39 convenience stores (including two directly-operated stores and 37 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 2020

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

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

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

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

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

Application of amendments to HKFRSs

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

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

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

Accounting policy newly applied by the Group during the current period

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

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

3. REVENUE AND OTHER REVENUE

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

Disaggregation of revenue from contracts with customers

Type of Revenue	**Six months ended 30 June**	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue		
Sales of merchandises	**14,036,644**	13,487,505
Services		
Income from suppliers (service income)	**757,436**	854,271
Royalty income from franchised stores	**19,307**	19,410
Commission income from coupon redemption in other retailers	**1,015**	1,783
	777,758	875,464
Total	**14,814,402**	14,362,969

Timing of revenue recognition

At a point in time	**14,037,659**	13,530,859
Over time	**776,743**	832,110
Total	**14,814,402**	14,362,969

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

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

4. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

5. OTHER INCOME AND OTHER GAINS AND LOSSES

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

notes:

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

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

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

6. OTHER EXPENSES

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

7. FINANCE COSTS

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

8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at:

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

9. INCOME TAX EXPENSE

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

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

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

As of 30 June 2020, the Group had unused tax losses of RMB3,013,650,000 (31 December 2019: RMB3,370,430,000) for which no deferred tax asset had been recognised due to the unpredictability of future profit streams.

10. DIVIDEND

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

11. EARNINGS PER SHARE – BASIC AND DILUTED

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

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,119,600,000**	1,119,600,000

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

12. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

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

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

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

13. TRADE RECEIVABLES

The aging analysis of the trade receivables net of allowance for credit losses at the end of the reporting period, arising principally from sales of merchandise to franchised stores and wholesalers with credit terms ranging from 30 to 60 days. The following is an analysis of trade receivables by age, presented based on the invoice date, which approximated the revenue recognition date.

	30 June 2020 (Unaudited) *RMB'000*	31 December 2019 (Audited) *RMB'000*
0 – 30 days	**287,648**	161,692
31 – 60 days	**2,104**	963
61 – 90 days	**974**	1,432
91 days – one year	**495**	344
	291,222	164,431

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

14. TRADE PAYABLES

The aging analysis of trade payables at the end of the reporting period, arising mainly from purchase of merchandise with credit terms ranging from 30 to 60 days (31 December 2019: 30 to 60 days), is as follows:

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

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

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

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

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

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

Financial Review

Revenue

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

Gross Profit

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

Other Revenue

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

Other Income and Other Gains and Losses

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

Distribution and Selling Expenses

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

Administrative Expenses

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

Other Expenses

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

Share of Profits of Associates

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

Profit before Taxation

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

Income Tax Expense

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

Profit Attributable to Shareholders of the Company

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

Liquidity and Financial Resources

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

For the six months ended 30 June 2020, the accounts payable turnover period of the Group was 60 days, and the inventory turnover period was approximately 38 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 30 June 2020, there were no arbitrage financial instruments in issue by the Group.

Growth of Each Retail Business

Hypermarkets

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

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

Supermarkets

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

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

Convenience stores

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

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

Analysis of Financial Performance

	For the six months ended 30 June RMB million		
	2020	2019	Year-on-year changes (%)
Turnover	**14,037**	13,488	4.1
Gross profit	**2,024**	1,822	11.1
Consolidated income	**3,245**	3,454	–6.0
Operating profit	**243**	263	–7.5
Taxation	**117**	123	–4.8
Profit for the period attributable to shareholders of the Company	**58**	44	32.7
Basic earnings per share *(RMB)*	**0.052**	0.039	32.7
Dividend per share *(RMB)*	**Not distributed**	Not distributed	–

Capital Structure

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

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

Details of the Group's Pledged Assets

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

Foreign Exchange Risks

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

Share Capital

As at 30 June 2020, the issued share capital of the Company was as follows:

Class of Shares	Number of Issued Shares	Percentage
Domestic Shares	715,397,400	63.90
Unlisted Foreign Shares	31,602,600	2.82
H Shares	372,600,000	33.28
Total	1,119,600,000	100.00

Contingent Liabilities

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

Development of Sales Network: Segment End Models and Expansion

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

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

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

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

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

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

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

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

Product Portfolio Planning and Supply Chain Construction

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

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

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

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

Private-label Brand

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

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

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

Excellent Implementation to Improve Operational Capability

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

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

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

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

Brand Revamp

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

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

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

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

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

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

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

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

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

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

Digital Drive

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

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

Strategy and Planning

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

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

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

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

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

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

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

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

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

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

SUBSEQUENT EVENTS

From 1 July 2020 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 2020.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the six months ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has considered and reviewed the accounting principles and practices adopted by the Group and has discussed the matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2020 of the Group. The Audit Committee is of the view that the interim accounts of the Group for the six months ended 30 June 2020 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 (THE "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 and supervisors of the Company. After making specific enquiries of 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 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. Qian Jian-qiang, the then non-executive Director, was unable to attend the 13th meeting of the sixth session of the Board convened on 31 March 2020 by the Company due to his other work duties.

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

Ms. Xu Zi-ying, a non-executive Director, and Ms. Zhang Shen-yu, a non-executive Director, were unable to attend the second meeting of the seventh session of the Board convened on 28 August 2020 by the Company due to their other work duties.

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

For Provision A.6.7 of the Code, Ms. Xu Zi-ying, a non-executive Director, Mr. Qian Jian-qiang, the then non-executive Director and Ms. Zheng Xiao-yun, the then non-executive Director, were unable to attend the 2019 annual general meeting of the Company (the "**Annual General Meeting**") convened on 22 June 2020 due to their other work duties. The Company has provided the relevant materials relating to the Annual General Meeting to all Directors of the Board before the meeting. All ordinary resolutions were passed smoothly at the Annual General Meeting. The Company had sent the related minutes to all Directors of the Board after the Annual General Meeting so any Director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

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

Shanghai, the People's Republic of China, 28 August 2020

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, Zhang Shen-yu, Dong Xiao-chun, and Wong Tak Hung;
Independent non-executive Directors:	Xia Da-wei, Lee Kwok Ming, Don, Chen Wei and Zhao Xin-sheng.