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

(Stock Code: 00980)

(1) ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021 ;
AND
(2) SUPPLEMENTAL INFORMATION IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

As at 30 June 2021, the Group recorded the following:

- Revenue amounted to approximately RMB13,238 million, representing a decrease of approximately 5.7% year on year. Same store sales decreased by approximately 7.90% year on year, in which the hypermarket segment decreased by approximately 9.64%, the supermarket segment decreased by approximately 8.28% and the convenience store segment increased by approximately 32.99%.
- Gross profit amounted to approximately RMB1,619 million, representing a decrease of approximately 20.0% year on year. Gross profit margin was approximately 12.23%. Consolidated income margin was approximately 22.71%.
- Operating profit amounted to approximately RMB107 million and operating profit margin was approximately 0.81%. Profit attributable to the shareholders of the Company amounted to approximately RMB20 million. Basic earnings per share amounted to approximately RMB0.02.
- The total number of outlets reached 3,254. During the period under review, the Group opened 161 new outlets, including three hypermarkets, 91 supermarkets (including 25 directly-operated stores and 66 franchised stores) and 67 convenience stores (including six directly-operated stores and 61 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 2021

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2021

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

| | | 30 June 2021 (Unaudited) RMB'000 | 31 December 2020 (Audited) RMB'000 |
|---|-----------|---|---|
| Capital and reserves | | | |
| Share capital | | 1,119,600 | 1,119,600 |
| Reserves | | 353,144 | 333,067 |
| | | <u>1,472,744</u> | <u>1,452,667</u> |
| Equity attributable to owners of the Company | | | |
| Non-controlling interests | | 314,640 | 302,427 |
| | | <u>1,787,384</u> | <u>1,755,094</u> |
| Total equity | | | |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 100,395 | 101,947 |
| Lease liabilities | | 6,075,951 | 6,247,684 |
| | | <u>6,176,346</u> | <u>6,349,631</u> |
| Current liabilities | | | |
| Trade payables | <i>13</i> | 3,232,441 | 3,889,797 |
| Bank borrowing | | – | 20,000 |
| Other payables and accruals | | 1,636,485 | 1,974,422 |
| Lease liabilities-current | | 946,874 | 856,082 |
| Contract liabilities | | 8,126,173 | 8,138,152 |
| Deferred income | | 3,696 | 5,916 |
| Amounts due to Shanghai Bailian (<i>Note 1</i>) | | 18,417 | 36,234 |
| Amounts due to fellow subsidiaries | | 60,794 | 28,131 |
| Amounts due to associates | | 1,059 | 1,394 |
| Amounts due to other related parties | | – | 2 |
| Tax payable | | 99,765 | 165,899 |
| | | <u>14,125,704</u> | <u>15,116,029</u> |
| Total liabilities | | <u>20,302,050</u> | <u>21,465,660</u> |
| Net current liabilities | | <u>(7,914,019)</u> | <u>(8,419,853)</u> |
| Total equity and liabilities | | <u>22,089,434</u> | <u>23,220,754</u> |

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 2021, the Group has net current liabilities of RMB7,914,019,000 (31 December 2020: RMB8,419,853,000). Taking into account of the Group’s ability to withdraw the non-current unrestricted term deposits of RMB2,410,300,000, the historical settlement and addition pattern of the coupon liabilities (included in contract liabilities), the directors of the Company consider the liquidity risk is significantly reduced and the Group is able to be continued as a going concern.

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

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements:

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

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

3. REVENUE AND OTHER REVENUE

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

Disaggregation of revenue from contracts with customers

Type of Revenue

| | Six months ended 30 June | |
|---|---------------------------------------|---------------------------------------|
| | 2021 (Unaudited) <i>RMB'000</i> | 2020 (Unaudited) <i>RMB'000</i> |
| Revenue | | |
| Sales of merchandises | <u>13,238,371</u> | <u>14,036,644</u> |
| Services | | |
| Income from suppliers | 837,165 | 757,436 |
| Royalty income from franchised stores | 21,163 | 19,307 |
| Commission income from coupon redemption in other retailers | <u>553</u> | <u>1,015</u> |
| | <u>858,881</u> | <u>777,758</u> |
| | <u>14,097,252</u> | <u>14,814,402</u> |

Timing of revenue recognition

| | | |
|--------------------|--------------------------|--------------------------|
| At a point in time | 13,238,924 | 14,037,659 |
| Over time | <u>858,328</u> | <u>776,743</u> |
| | <u>14,097,252</u> | <u>14,814,402</u> |

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

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

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

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

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

| | Six months ended 30 June | |
|---|---------------------------------|----------------|
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Segment results | 201,015 | 322,479 |
| Unallocated interest income | 26,001 | 25,154 |
| Unallocated income and other gains and losses | (7,500) | 1,874 |
| Unallocated expenses | (112,930) | (106,386) |
| Share of profits of associates | 18,238 | 19,891 |
| | <hr/> | <hr/> |
| Profit before taxation | <u>124,824</u> | <u>263,012</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, other gains and losses and expenses (including certain interest income relating to funds managed centrally). This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Information on segment assets and liabilities is not disclosed since these information are not used by CODM in assessing the performance of reportable segments.

5. OTHER INCOME AND OTHER GAINS AND LOSSES

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

notes:

- (i) The Group received unconditional subsidies from the PRC local government as an encouragement for operation of certain subsidiaries in certain regions of the PRC.
- (ii) The Group recognises the amount by reference to a ratio which is derived from historical information that represents proportion of the coupons issued by the Group to coupons not yet utilized by the customers for over five years. The breakage amounts are recognised as revenue from contract liabilities according to HKFRS 15.

6. OTHER EXPENSES

| | Six months ended 30 June | |
|---|--------------------------|----------------|
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Impairment loss recognised on right-of-use assets | – | 40,000 |
| Impairment loss recognised on property, plant and equipment | – | 8,000 |
| Store closure expenses | 199 | 19,782 |
| Others | 4,130 | 4,009 |
| | <u>4,329</u> | <u>71,791</u> |

7. FINANCE COSTS

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Interest expenses on lease liabilities | 142,379 | 148,508 |
| Interest expenses on borrowing | 102 | 200 |
| | <u>142,481</u> | <u>148,708</u> |

8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at:

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

9. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|--|--------------------------|-----------------------|
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Current tax on PRC Enterprise Income Tax (“EIT”) | 67,195 | 134,455 |
| Deferred tax credit | <u>(2,491)</u> | <u>(17,473)</u> |
| | <u>64,704</u> | <u>116,982</u> |

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

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%. Certain subsidiaries are taxed at preferential rate of 15% as those entities which are located in specific provinces of Western China up to year 2030. In addition, certain subsidiaries which are qualified as small low-profit enterprises are entitled to enjoy preferential EIT rate with ranging 2.5% to 7.5%.

As of 30 June 2021, the Group had unused tax losses of RMB3,554,242,000 (31 December 2020: RMB3,420,557,000) for which no deferred tax asset had been recognised due to the unpredictability of future profit streams.

10. DIVIDEND

The directors do not recommend the payment of an interim dividend for both interim periods.

11. EARNINGS PER SHARE – BASIC

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

| | Six months ended 30 June | |
|--|-----------------------------|-----------------------------|
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| <i>Earnings</i> | | |
| Profit for the period attributable to owners of the Company | <u><u>20,077</u></u> | <u><u>58,327</u></u> |
| | | |
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| <i>Number of shares</i> | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | <u><u>1,119,600,000</u></u> | <u><u>1,119,600,000</u></u> |

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

12. 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 2021 (Unaudited) RMB'000 | 31 December 2020 (Audited) RMB'000 |
|------------------|---|---|
| 0 – 30 days | 377,188 | 178,780 |
| 31 – 60 days | 1,554 | 1,252 |
| 61 – 90 days | 1,372 | 3,255 |
| 91 days – 1 year | 927 | 177 |
| | <u>381,041</u> | <u>183,464</u> |

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.

13. TRADE PAYABLES

The aging analysis of trade payables at the end of the reporting period, arising mainly from purchase of merchandise with credit terms ranging from 30 to 60 days (31 December 2020: 30 to 60 days), is as follows:

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

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

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

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

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

Financial Review

Revenue

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

Gross Profit

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

Other Revenue

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

Other Income and Other Gains and Losses

During the period under review, the Group's other income and other gains amounted to approximately RMB253 million, representing a year-on-year decrease of approximately RMB10 million, or approximately 3.9%.

Distribution and Selling Expenses

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

Administrative Expenses

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

Other Expenses

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

Share of Profits of Associates

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

Profit before Taxation

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

Income Tax

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

Profit Attributable to Shareholders of the Company

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

Liquidity and Financial Resources

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

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

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 30 June 2021, there were no arbitrage financial instruments in issue by the Group.

Growth of Each Retail Business

Hypermarkets

During the period under review, the Group's hypermarket segment continued to upgrade and iterate on the hypermarket 2.0 community neighbourhood centre, deepened the stereotype of the 3.0 PLUS model, created customer experience with diversified market and catering scenarios, accelerated the construction of digital store system while actively improving online operation capability. However, due to the impact of consumer spending tendencies in the post-epidemic period and shop closures in 2020 and during the period under review, the hypermarket segment of the Group recorded a revenue of approximately RMB7,250,452 thousand, representing a year-on-year decrease of approximately 9.6% and accounting for approximately 54.8% of the Group's revenue. Same store sales had a year-on-year decrease of approximately 9.64%. During the period under review, the hypermarket segment recorded a gross profit of approximately RMB887,355 thousand, representing a year-on-year decrease of approximately RMB306,409 thousand. As a result of the increase in promotional activities, revenue from suppliers increased by RMB40,138 thousand year on year. Rental income from leasing of shop premises recorded a year-on-year increase of RMB74,468 thousand. The consolidated income amounted to approximately RMB1,788,485 thousand, representing a year-on-year decline of approximately RMB190,964 thousand. The aggregate of distribution and selling expenses and administrative expenses amounted to approximately RMB1,544,130 thousand, representing a year-on-year decrease of approximately RMB3,276 thousand. The finance cost dropped by RMB7,395 thousand year on year. The segment operating profit amounted to approximately RMB136,311 thousand, representing a year-on-year decrease of approximately RMB114,359 thousand; and the operating profit margin declined year on year by 1.25 percentage points to approximately 1.88%.

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

Supermarkets

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

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

Convenience stores

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

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

Analysis of Financial Results

| | Six months ended 30 June | | Year-on-year change (%) |
|--|---------------------------------|-------------------|------------------------------------|
| | RMB million | | |
| | 2021 | 2020 | |
| Revenue | 13,238 | 14,037 | -5.7 |
| Gross profit | 1,619 | 2,024 | -20.0 |
| Consolidated income | 3,006 | 3,245 | -7.4 |
| Operating profit | 107 | 243 | -56.2 |
| Income tax expense | 65 | 117 | -44.7 |
| Profit attributable to shareholders of the Company for the period | 20 | 58 | -65.6 |
| Basic earnings per share (<i>RMB</i>) | 0.018 | 0.052 | -65.6 |
| Dividend per share (<i>RMB</i>) | Not to distribute | Not to distribute | N/A |

Capital Structure

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

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

Details of the Group's Pledged Assets

As at 30 June 2021, the Group did not pledge any assets.

Foreign Exchange Risks

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

Share Capital

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

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

Development of Sales Network: Segment and End Models Expansion

During the period under review, the Group focused on core regions and core segments, enhanced its presence in the Yangtze River Delta region, deployed community sales network resources, strengthened franchise business, and steadily advanced the opening and renewal of outlets. The Group opened a total of 161 new stores, including 34 new directly-operated stores and 127 new franchised stores. 128 new stores were located in the Yangtze River Delta region and accounted for 79.5% of the new stores. On the other hand, the Group adapted to changes in market environment, continued to prudently review the stores and improved the overall quality of the physical outlets. As a result, 99 stores were closed, including 23 directly-operated stores and 76 franchised stores.

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

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

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

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

| | Hypermarkets | Supermarkets | Convenience Stores | Total |
|---------------------|--------------|--------------|-----------------------|--------------|
| Direct operation | 140 | 735 | 333 | 1,208 |
| Franchise operation | – | 1,436 | 610 | 2,046 |
| Total | <u>140</u> | <u>2,171</u> | <u>943</u> | <u>3,254</u> |

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

Product Portfolio Planning and Supply Chain Construction

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

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

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

Private-label Brand

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

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

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

Excellent Implementation to Improve Operational Capability

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

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

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

Brand Revamp

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

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

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

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

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

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

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

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

Digital Drive

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

The Group endeavoured to promote the digitalised management and operation. Leveraging internet, big data, artificial intelligence, and other advanced technologies, the Group promoted the "integrated and visualised" consolidation and improvement of supply chain system to support the digitalised operation capability in new retail. It accelerated supply chain integration, and built an integrated supply chain information system with the internet architecture to cover the whole process of supply chain including products, operation, logistics, B2B, collaborative replenishment, settlement and financial services. The Group continued to improve the Lianhua big data platform, realised the whole-process visualisation and the timeliness of the business data and improved the value-added data service capacity.

Strategy and Planning

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

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

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

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

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

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

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

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

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

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

SUBSEQUENT EVENTS

From 1 July 2021 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 2021.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the six months ended 30 June 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) has considered and reviewed the accounting principles and practices adopted by the Group and has discussed the matters in relation to internal control and financial reporting with the management, including the review of the unaudited condensed interim accounts for 2021 of the Group. The Audit Committee is of the view that the interim accounts of the Group for the six months ended 30 June 2021 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 in respect of the non-executive directors' regular attendance and active participation in Board meetings and attendance to general meetings:

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

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

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

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

In addition, Ms. Zhang Shen-yu, a non-executive Director and Mr. Lee Kwok Ming, Don, an independent non-executive Director, were unable to attend the 2020 annual general meeting of the Company (the “**Annual General Meeting**”) convened on 17 June 2021 due to their other work duties. The Company has provided the relevant materials relating to the Annual General Meeting to all Directors of the Board before the meeting. All ordinary resolutions were passed smoothly at the Annual General Meeting. The Company had sent the related minutes to all Directors of the Board after the Annual General Meeting so any Director who was unable to attend the meeting was able to understand the resolutions passed at the meeting.

Supplemental Information in relation to the Annual Report for the Year Ended 31 December 2020

Reference is made to the annual report of the Group for the year ended 31 December 2020 (the “**2020 Annual Report**”). The information disclosed below is supplemental to, and should be read in conjunction with the 2020 Annual Report.

In addition to the information provided in the 2020 Annual Report, the Board would like to provide further information and breakdown in relation to the other income and other gains and losses of the Group for the year ended 31 December 2020 (together with comparative figures for 2019).

Other Income and Other Gains and Losses

| | Year ended 31/12/2020 RMB'000 | Year ended 31/12/2019 RMB'000 |
|--|-------------------------------------|-------------------------------------|
| Interest income on bank balances and term deposits | 279,694 | 220,674 |
| Government grants | 96,394 | 56,622 |
| (Loss) gain on change in fair value of financial assets at FVTPL | (3,822) | 91,751 |
| Dividends from financial assets at FVTPL | 769 | 530 |
| Gain on disposal of property, plant and equipment and right-of-use assets | 288,435 | 153,771 |
| Salvage sales | 30,680 | 35,020 |
| Income from breakage | 21,944 | 34,796 |
| Coupon charges | 15,439 | 17,729 |
| Penalty income | 9,354 | 9,822 |
| Others | 30,424 | 31,067 |
| | <u>769,311</u> | <u>651,782</u> |

The supplemental information provided in this announcement does not affect other information contained in the 2020 Annual Report and, save as disclosed above, the contents of the 2020 Annual Report remain unchanged.

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

Shanghai, the People's Republic of China, 30 August 2021

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

Executive Director: Chong Xiao-bing;

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.