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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 2023

FINANCIAL HIGHLIGHTS

As at 30 June 2023, the Group recorded the following:

- Revenue amounted to RMB11,772 million, representing a decrease of approximately 13.3% year on year, and same store sales decreased by approximately 12.2% year on year. The hypermarket segment decreased by approximately 26.5%, the supermarket segment increased by approximately 1.8% and the convenience store segment increased by approximately 16.7%.

- Gross profit amounted to approximately RMB1,487 million, representing a decrease of approximately 17.3% year on year. Gross profit margin was approximately 12.63%. Consolidated income margin was approximately 23.65%, representing an increase of approximately 1.37 percentage points year on year.

- Operating profit amounted to approximately RMB85 million, and operating profit margin was approximately 0.72%, representing a decrease of approximately 0.41 percentage point year on year. Loss attributable to the shareholders of the Company amounted to approximately RMB116 million. Basic loss per share amounted to RMB0.10.

- The total number of outlets reached 3,362. During the period under review, the Group opened 141 new outlets, including 128 supermarkets (including 42 directly-operated stores and 86 franchised stores) and 13 convenience stores (including 4 directly-operated stores and 9 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 results of associates

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

		Six months ended 30 June	
		2023	2022
		(Unaudited)	(Unaudited and restated)
	NOTES	***RMB'000***	*RMB'000*
Revenue	*3*	**11,771,962**	13,585,003
Cost of sales		**(10,284,780)**	(11,786,043)
Gross profit		**1,487,182**	1,798,960
Other revenue	*3*	**1,040,460**	1,011,654
Other income and other gains and losses	*5*	**256,927**	216,343
Distribution and selling expenses		**(2,181,390)**	(2,322,341)
Administrative expenses		**(397,607)**	(377,057)
Impairment losses under expected credit loss ("**ECL**") model, net of reversal		**(843)**	(5,606)
Other expenses	*6*	**(1,557)**	(27,866)
Share of results of associates		**(75,627)**	(22,643)
Finance costs	*7*	**(118,354)**	(140,137)
Profit before tax	*8*	**9,191**	131,307
Income tax expense	*9*	**(80,177)**	(69,900)
(Loss) profit and total comprehensive (expense) income for the period		**(70,986)**	61,407
(Loss) profit and total comprehensive (expense) income for the period attribute to:			
Owners of the Company		**(116,461)**	14,404
Non-controlling interests		**45,475**	47,003
		(70,986)	61,407
(Loss) earnings per share – basic	*11*	**RMB(0.104)**	RMB0.013

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

	NOTES	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited and restated) RMB'000
Non-current assets			
Property, plant and equipment		**3,339,985**	3,463,791
Construction in progress		**7,298**	4,330
Right-of-use assets		**5,329,647**	5,738,461
Goodwill		**148,017**	148,017
Intangible assets		**122,900**	123,005
Interests in associates		**516,939**	592,814
Financial assets at fair value through profit or loss ("**FVTPL**")		**52,287**	42,319
Finance lease receivables-non-current		**160,410**	188,758
Term deposits		**3,801,260**	2,605,420
Deferred tax assets		**72,085**	69,380
Other non-current assets		**89,391**	82,115
		13,640,219	13,058,410
Current assets			
Inventories		**2,110,016**	3,036,797
Finance lease receivables-current		**46,879**	47,895
Prepaid rental		**5,392**	4,727
Trade receivables	*12*	**228,945**	242,853
Deposits, prepayments and other receivables		**527,535**	696,646
Financial assets at FVTPL		**717,018**	867,164
Amounts due from an ultimate holding company		**8,008**	8
Amounts due from fellow subsidiaries		**35,186**	48,633
Amounts due from an associate		**419**	363
Term deposits		**1,830,965**	1,786,265
Cash and cash equivalents		**2,527,694**	3,198,945
		8,038,057	9,930,296
Total assets		**21,678,276**	22,988,706

	NOTES	**30 June 2023** **(Unaudited)** **RMB'000**	31 December 2022 (Audited and restated) RMB'000
Capital and reserves			
Share capital		**1,119,600**	1,119,600
Reserves		**(372,618)**	(256,157)
Equity attributable to owners of the Company		**746,982**	863,443
Non-controlling interests		**424,841**	382,828
Total equity		**1,171,823**	1,246,271
Non-current liabilities			
Deferred tax liabilities		**131,274**	148,272
Lease liabilities		**4,696,218**	5,108,859
		4,827,492	5,257,131
Current liabilities			
Trade and bills payables	*13*	**4,332,626**	4,525,669
Tax payable		**156,455**	149,412
Other payables and accruals		**1,573,762**	1,963,901
Lease liabilities		**879,074**	896,096
Contract liabilities		**8,663,877**	8,928,208
Amount due to an ultimate holding company		**–**	6,814
Amounts due to fellow subsidiaries		**72,026**	14,051
Amounts due to associates		**1,141**	1,153
		15,678,961	16,485,304
Total liabilities		**20,506,453**	21,742,435
Net current liabilities		**(7,640,904)**	(6,555,008)
Total equity and liabilities		**21,678,276**	22,988,706
Total assets less current liabilities		**5,999,315**	6,503,402

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

1. PRINCIPAL ACTIVITIES

Lianhua Supermarket Holdings Co., Ltd. (the "**Company**") is a joint stock limited company incorporated in the PRC with limited liability. The address of its registered office and principal place of business is Room 713, 7th Floors, No. 1258, Zhen Guang Road, Putuo 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 direct holding company is Bailian Group Co., Ltd ("**Bailian Group**"), a state-owned enterprise established in the PRC, and Shanghai Bailian Group Co., Limited ("**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.

The principal activities of the Company and its subsidiaries (the "**Group**") are operation of chain stores including supermarkets, hypermarkets and convenience stores primarily in the eastern region of the PRC.

As of 30 June 2023, the Group has net current liabilities of RMB7,640,904,000 (31 December 2022: RMB6,555,008,000). Taking into account of the Group's ability to withdraw the non-current unrestricted term deposits of RMB2,780,000,000 (31 December 2022: RMB1,885,000,000), the historical settlement and addition pattern of the coupon liabilities (included in contract liabilities), the directors of the Company consider the liquidity risk has been effectively monitored and the Group is able to be continued as a going concern.

The condensed consolidated financial statements are presented in Renminbi (the "**RMB**"), which is also 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 2023 are the same as those presented in the Group's annual consolidated financial statements for the year ended 31 December 2022.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on or after 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 17 ((including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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

2.1 Impacts and changes in accounting policies on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

2.1.1 Accounting policies

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* ("**HKAS12**") requirements to the lease liabilities and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Continued)

2.1.2 Transition and summary of effects

As disclosed in the Group's annual financial statements for the year ended 31 December 2022, the Group previously applied the HKAS 12 requirements to assets and liabilities arising from a single transaction separately and temporary differences on initial recognition on the relevant assets and liabilities were not recognised due to application of the initial recognition exemption. In accordance with the transition provision:

(i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after 1 January 2022;

(ii) the Group also, as at 1 January 2022, recognised a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use assets and lease liabilities.

The details of the impacts on each financial statement line item and (loss) earnings per share arising from the application of the amendments are set out under "Impacts of application of amendments to HKFRSs on the condensed consolidated financial statements" in this Note. Comparative figures have been restated.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Continued)

2.1.2 Transition and summary of effects (Continued)

Impacts of application of amendments to HKFRSs on the condensed consolidated financial statements

The effects of the changes in accounting policy as a result of application of amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction on the condensed consolidated statement of profit or loss and other comprehensive income and (loss) earnings per share, are as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Impact on (loss) profit and other comprehensive (expense) income for the period		
Impact in income tax expense	**3,194**	1,281
Impact in (loss) profit and total comprehensive (expense) income for the period attributable to:		
Owners of the Company	**2,275**	704
Non-controlling interests	**919**	577

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Impact on basic (loss) earnings per share		
Basic (loss) earnings per share before adjustments	**(0.106)**	0.012
Net adjustments arising from change in accounting policy in relation to deferred tax impact on leasing transactions	**0.002**	0.001
Reported basic (loss) earnings per share	**(0.104)**	0.013

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Continued)

2.1.2 Transition and summary of effects (Continued)

Impacts of application of amendments to HKFRSs on the condensed consolidated financial statements (Continued)

The effects of the changes in accounting policy as a result of application of amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction on the condensed consolidated statement of financial position as at the end of the immediately preceding financial year, i.e. 31 December 2022, are as follows:

	31 December 2022 (Original stated)	Adjustment	31 December 2022 (Restated)
Deferred tax assets	8,520	60,860	69,380
Non-controlling interests	367,270	15,558	382,828
Reserves	(301,459)	45,302	(256,157)
Total effects on equity	1,185,411	60,860	1,246,271

The effect of the changes in accounting policy as a result of application of amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction on the condensed consolidated statement of financial position as at the beginning of the comparative period, i.e. 1 January 2022, is as follows:

	1 January 2022 (Original stated)	Adjustment	1 January 2022 (Restated)
Deferred tax assets	8,045	53,171	61,216
Non-controlling interests	224,509	13,089	237,598
Reserves	(89,712)	40,082	(49,630)
Total effects on equity	1,254,397	53,171	1,307,568

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Impacts on application of Amendments to HKAS 12 Income Taxes International Tax Reform-Pillar Two model Rules

In July 2023, the HKICPA issued the amendments to HKAS 12 to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the "**Pillar Two legislation**"). The amendments require that entities shall apply the amendments immediately upon issuance. The amendments also require that entities shall disclose separately its current tax expense/income related to Pillar Two income taxes, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after 1 January 2023.

The Group is yet to apply the temporary exception during the current interim period because the Group's entities are operating in jurisdictions which the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimable information that helps users of financial statements to understand the Group's exposure to Pillar Two income taxes in the Group's annual consolidated financial statements in which the Pillar Two legislation has been enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

2.3 Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

In addition, the Group will apply Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies* which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's consolidated financial statements for the year ending 31 December 2023.

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.3 Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies (Continued)

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements but is expected to affect the disclosures of the Group's accounting policies in the Group's annual consolidated financial statements for the year ending 31 December 2023.

3. REVENUE AND OTHER REVENUE

The Group is principally engaged in the operation of chain stores for hypermarkets, supermarkets and convenience stores. Analysis of the Group's revenue recognised during the period is as follows:

(i) Disaggregation of revenue from contracts with customers

Type of Revenue

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue		
Sales of merchandise	**11,771,962**	13,585,003
Services		
Income from suppliers (service income)	**784,263**	807,917
Franchising income from franchised stores	**20,542**	19,207
Commission income on coupon redemption at other retail shops	**201**	3,120
	805,006	830,244
	12,576,968	14,415,247

3. REVENUE AND OTHER REVENUE (Continued)

(i) Disaggregation of revenue from contracts with customers (Continued)

Timing of revenue recognition

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
At a point in time	**11,772,163**	13,588,123
Over time	**804,805**	827,124
	12,576,968	14,415,247

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	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue from contracts with customers		
– sales of merchandise	**11,771,962**	13,585,003
Other revenue from contracts with customers - services	**805,006**	830,244
Rental income from leasing of shop premises	**235,454**	181,410
	1,040,460	1,011,654
Total revenue and other revenue	**12,812,422**	14,596,657

(ii) Leases

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
For operating leases:		
Fixed lease payments	**226,615**	170,402
For finance leases:		
Finance income on the net investment in the lease	**8,839**	11,008
Total revenue arising from leases	**235,454**	181,410

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		**Segment results**	
	Six months ended 30 June		**Six months ended 30 June**	
	2023	2022	**2023**	2022
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hypermarkets	**5,873,177**	7,773,972	**122,472**	139,985
Supermarkets	**6,038,883**	5,905,912	**64,766**	123,618
Convenience stores	**852,375**	729,720	**(5,319)**	(12,250)
Other operations	**47,987**	187,053	**(4,626)**	326
	12,812,422	14,596,657	**177,293**	251,679

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

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Segment results	**177,293**	251,679
Share of results of associates	**(75,627)**	(22,643)
Unallocated interest income	**10,147**	15,332
Unallocated gain (loss) on change in fair value of financial assets at FVTPL	**9,969**	(6,987)
Unallocated expenses	**(112,591)**	(106,074)
Profit before tax	**9,191**	131,307

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.

4. **SEGMENT INFORMATION (Continued)**

Segment results did not include share of results of associates, allocation of headquarter income and expenses (including certain interest income relating to funds centrally managed) and unallocated gain (loss) on change in fair value of financial assets at FVTPL. 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	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest income on bank balances and term deposits	**137,337**	125,207
Government grants *(Note i)*	**18,174**	19,753
Gain (loss) on change in fair value of financial assets at FVTPL	**24,829**	(5,283)
Gain on disposal of property, plant and equipment	**1,717**	3,707
Net gain on termination of right-of-use assets and lease liabilities	**23,419**	24,848
Salvage sales	**8,476**	13,284
Income from breakage *(Note ii)*	**6,408**	8,826
Coupon charges	**5,326**	5,563
Penalty income	**17,928**	4,400
Membership income	**2,531**	2,428
Others	**10,782**	13,610
Total	**256,927**	216,343

Notes:

(i) The Group received unconditional grants of RMB18,174,000 (30 June 2022: RMB18,842,000) 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 of breakage at expected redemption rate, which is formulated by reference to the ratio derived from historical information on proportion of coupons issued by the Group but not yet utilised by the customers for certain period of time. The breakage amounts are recognised as revenue from contract liabilities according to HKFRS 15.

6. OTHER EXPENSES

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Impairment losses on right-of-use assets	**–**	12,766
Store closure expenses	**1,363**	9,210
Others	**194**	5,890
	1,557	27,866

7. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest expense on lease liabilities	**111,559**	126,530
Interest expense on a bank borrowing and loan from a fellow subsidiary	**–**	10,244
Others	**6,795**	3,363
	118,354	140,137

8. PROFIT BEFORE TAX

Profit before tax has been arrived at:

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
After charging:		
Amortisation and depreciation		
Amortisation of intangible assets	**16,736**	11,617
Depreciation of property, plant and equipment	**168,037**	178,826
Depreciation of right-of-use assets	**488,348**	507,203
Total amortisation and depreciation	**673,121**	697,646
Cost of inventories recognised as an expense	**10,285,566**	11,786,043
Impairment losses on right-of-use assets recognised (included in other expenses) *(Note 6)*	**–**	12,766
Impairment losses under ECL model, net of reversal	**843**	5,606
Staff costs	**1,127,909**	1,194,152
(Reversals of write down) write-down of inventories	**(786)**	500
Share of results of associates		
Share of loss before tax	**74,639**	21,958
Share of income tax expense	**988**	685
	75,627	22,643

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited and restated)
	RMB'000	*RMB'000*
Current tax on the PRC Enterprise Income Tax ("**EIT**")	**99,868**	92,556
Under (over) provision in prior years	**12**	(437)
Deferred tax credit	**(19,703)**	(22,219)
	80,177	69,900

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on EIT ("**EIT Law**") and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25% up to 2023. Certain subsidiaries are entitled to EIT at preferential rate of 15% as those entities are located in the western China. In addition, certain subsidiaries which are identified as small low-profit enterprises are entitled to enjoy preferential EIT rate ranging from 5% to 10%.

10. DIVIDEND

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

11. (LOSS) EARNINGS PER SHARE – BASIC

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

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited and restated)
	RMB'000	*RMB'000*
(Loss) Earnings		
(Loss) Profit for the period attributable to owners of the Company	**(116,461)**	14,404

11. (LOSS) EARNINGS PER SHARE – BASIC (Continued)

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**1,119,600,000**	1,119,600,000

No diluted (loss) 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 merchandise to wholesalers with credit terms ranging from 30 to 60 days (31 December 2022: 30 to 60 days), presented as follows:

	30 June 2023	31 December 2022
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
0 – 30 days	**221,156**	229,386
31 – 60 days	**2,465**	3,554
61 – 90 days	**3,009**	3,468
91 days – one year	**2,315**	6,445
	228,945	242,853

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 AND BILLS PAYABLES

	30 June 2023	31 December 2022
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Trade payables	**2,832,626**	3,525,669
Bills payables	**1,500,000**	1,000,000
	4,332,626	4,525,669

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 2022: 30 to 60 days), is as follows:

	30 June 2023	31 December 2022
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
0 – 30 days	**901,198**	1,342,254
31 – 60 days	**487,712**	704,211
61 – 90 days	**280,436**	427,381
91 days – one year	**1,163,280**	1,051,823
	2,832,626	3,525,669

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 2023, China's macro-economy stabilized and picked up, with its Gross Domestic Product (GDP) arriving at approximately RMB59.3 trillion, representing a year-on-year growth of 5.5%, while the pace of recovery varied from sector to sector. During the period, the Ministry of Commerce of China meticulously implemented its strategic deployment which prioritized the restoration and promotion of consumption by organizing a series of activities under the theme of the "Year of Consumption Enhancement 2023", aiming to restore and promote consumption in cooperation with all the relevant parties. However, as it takes time for the recuperating macro-economy to conduct its sway on the improvement in employment and income of the residents, there is still room for further release of their power of and confidence in consumption. Particularly, the catering industry, which suffered relatively larger losses previously, benefited from the recovery of the offline consumption and achieved positive growth, while the supermarket and retail sector met with a decline in sales due to intensified competition in the channel. In the first half of 2023, among the retailers on or above the limit, retail sales in convenience stores increased by 8.2% year on year, while that in supermarkets decreased by 0.4% year on year.

Financial Review

Revenue

During the period under review, the Group's revenue was approximately RMB11,772 million, representing a year-on-year decrease of approximately RMB1,813 million, or approximately 13.3%. During the static control and management period of the pandemic in Shanghai and surrounding areas in the corresponding period of last year, the Group actively organized forces and took measures to ensure supply, and the sales for ensuring supplies contributed more than RMB1 billion to the current sales. During the period under review, due to the slow recovery of the supermarket industry after the pandemic, the number of store visitors decreased compared with that before the pandemic. At the same time, due to the impact of the pandemic at the beginning of the year on the peak-sale season of the Spring Festival, the revenue decreased year on year.

Gross Profit

During the period under review, the Group's gross profit was approximately RMB1,487 million, representing a year-on-year decrease of approximately RMB312 million, or approximately 17.3%. The overall gross profit margin of the Group was approximately 12.63%, representing a decrease of approximately 0.61 percentage point as compared with the gross profit margin of 13.24% for the corresponding period of last year, which was mainly due to the low loss of fresh produce in which the sales for ensuring commodities supply accounted for a large proportion in the same period last year.

Other Revenue

During the period under review, the Group's other revenue was approximately RMB1,040 million, representing a year-on-year increase of approximately RMB29 million, or approximately 2.8%. During the period under review, the Group actively carried out merchant solicitation after the pandemic while optimizing and adjusting the layout of shops. The occupancy rate of shops has been gradually increasing, and our revenue from merchant solicitation increased by approximately RMB54 million compared with the same period last year. In addition, due to the decline in revenue, related income from suppliers decreased by approximately RMB24 million compared with the same period last year.

Other Income and Other Gains and Losses

During the period under review, the Group's other income and other gains and losses amounted to approximately RMB257 million, representing a year-on-year increase of approximately RMB41 million, or approximately 18.8%. During the period under review, the Group's interest income and the income of wealth management products and other funds increased by approximately RMB42 million year on year.

Distribution and Selling Expenses

During the period under review, the Group's distribution and selling expenses amounted to approximately RMB2,181 million, representing a year-on-year decrease of approximately RMB141 million, or approximately 6.1%. The Group continued to strengthen comprehensive budget management and standardised control over the entire process of expenses in all business sectors, and the operation expenses continued to decline. Distribution and selling expenses accounted for approximately 18.53% of revenue, representing a year-on-year decrease of approximately 1.44 percentage points.

Administrative Expenses

During the period under review, the Group's administrative expenses amounted to approximately RMB398 million, representing a year-on-year increase of approximately RMB21 million, or approximately 5.5%. Administrative expenses accounted for approximately 3.38% of revenue, representing a year-on-year increase of approximately 0.60 percentage point.

Other Expenses

During the period under review, the Group's other expenses amounted to approximately RMB2 million, representing a year-on-year decrease of approximately RMB26 million, or approximately 94.4%. In the same period last year, an impairment provision was made due to the closure plan of certain stores, and there was no such expenditure during the period under review.

Share of Results of Associates

During the period under review, the Group's share of losses of associates amounted to approximately RMB76 million, representing a year-on-year increase in losses of approximately RMB53 million. During the period under review, Shanghai Carhua Supermarket Co., Ltd., an associate of the Group, recorded a loss of approximately RMB175 million, mainly due to the provision for impairment of assets related to store closures and various compensation payments. The Group recognised an investment loss of approximately RMB79 million on a basis of proportion of investment, representing a year-on-year increase in investment loss of approximately RMB57 million.

Profit before Tax

During the period under review, the Group's profit before tax amounted to approximately RMB9 million, representing a year-on-year decrease in profit of approximately RMB122 million.

Income Tax

During the period under review, the Group's income tax expense was approximately RMB80 million, representing a year-on-year increase of approximately RMB10 million.

Loss Attributable to Shareholders of the Company

During the period under review, the Group's loss attributable to shareholders of the Company amounted to approximately RMB116,461 thousand, representing a year-on-year decrease in profit of approximately RMB130,865 thousand. During the period under review, the net loss rate was approximately 0.99%. Based on the 1,119.6 million shares issued by the Group, the basic loss per share was approximately RMB0.10.

Liquidity and Financial Resources

As at 30 June 2023, the Group's cash and cash equivalents and term deposits amounted to approximately RMB8,159,919 thousand. During the period under review, the net inflow of the Group's cash and cash equivalents and term deposits amounted to approximately RMB569,289 thousand, which was mainly the cash inflows from operating activities.

For the six months ended 30 June 2023, the accounts payable turnover period of the Group was 58 days, and the inventory turnover period was approximately 43 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 30 June 2023, there were no arbitrage financial instruments in issue by the Group.

Gearing Ratio

As at 30 June 2023, the gearing ratio of the Group (the gearing ratio is calculated by dividing total interest-bearing liabilities by total equity) was 0.0% (31 December 2022: 0.0%).

Business Review of Each Retail Business

Hypermarkets

During the period under review, the revenue of the hypermarket segment amounted to approximately RMB5,251 million, representing a year-on-year decrease of approximately RMB1,892 million, or 26.5%, and accounting for approximately 44.6% to the Group's revenue. Due to the impact of guaranteed supply and sales in the corresponding period of last year and the closure of certain outlets because of the expiration of the leases during the period under review, the revenue decreased year on year.

During the period under review, the hypermarket segment recorded a gross profit of approximately RMB733 million, representing a year-on-year decrease of approximately RMB223 million. Gross profit margin increased by approximately 0.58 percentage point year on year to 13.96%. During the period under review, the layout of product categories was adjusted and investment in marketing and promotion optimized, resulting in an increase in gross profit margin. Benefiting from the increase in the store occupancy rate due to the adjustment of outlets and the layout of stores, the rental income of hypermarkets was approximately RMB184 million, representing a year-on-year increase of approximately RMB24 million. During the period under review, the hypermarkets recorded a comprehensive income of approximately RMB1,523 million, a year-on-year decrease of approximately RMB210 million, and the consolidated income margin increased by 4.74 percentage points year on year.

During the period under review, the aggregate of distribution and selling expenses and administrative expenses of the hypermarket segment amounted to approximately RMB1,319 million, representing a year-on-year decrease of approximately RMB147 million. The rationalization of outlets and the whole-process standardized process helped to effectively reduce operating expenses. The hypermarket segment recorded an operating profit of approximately RMB122 million, representing a year-on-year decrease of approximately RMB18 million. Operating profit margin increased by 0.37 percentage point year on year to 2.33%.

As at 30 June	**2023**	2022
Gross Profit Margin (%)	**13.96**	13.38
Consolidated Income Margin (%)	**29.00**	24.26
Operating Profit Margin (%)	**2.33**	1.96

Supermarkets

During the period under review, the supermarket segment targeted fresh food supermarkets in selected communities, and strived to increase customer adhesion by focusing on community services and enriching marketing activities in line with consumer needs. The supermarket segment recorded a revenue of approximately RMB5,650 million, representing an increase of approximately RMB97 million or approximately 1.8% year on year, and accounting for approximately 48.0% of the Group's revenue.

During the period under review, the supermarket segment recorded a gross profit of approximately RMB659 million, representing a year-on-year decrease of approximately RMB96 million or 12.7%. During the period under review, the loss of fresh produce in the supermarket segment increased while the efforts made in marketing and promotion activities were stepped up, and the gross profit margin decreased by 1.94 percentage points year on year to 11.66%. The Group developed the merchant solicitation business in the supermarket segment to reduce the vacancy rate, and the rental income was approximately RMB50 million, an increase of approximately RMB30 million or 146.5% year on year. During the period under review, the supermarket segment recorded a consolidated income of approximately RMB1,109 million, representing a decrease of approximately RMB51 million year on year. The consolidated income margin decreased by 1.25 percentage points year on year.

During the period under review, the supermarket segment recorded an operating profit of approximately RMB65 million, representing a decrease of approximately RMB59 million year on year. The operating profit margin decreased by 1.08 percentage points to approximately 1.15%.

As at 30 June	**2023**	2022
Gross Profit Margin (%)	**11.66**	13.60
Consolidated Income Margin (%)	**19.63**	20.88
Operating Profit Margin (%)	**1.15**	2.23

Convenience stores

During the period under review, the convenience store segment focused on strengthening the fresh produce function of stores and opening up the circulation link of cold chain products to speed up the refresh rate. During the epidemic period in the same period last year, the convenience store segment in Shanghai was under prevention and control and closed for a long time, and the income was affected to a certain extent. The convenience store segment recorded a revenue of approximately RMB823 million, representing an increase of approximately RMB118 million or approximately 16.7% year on year, and accounting for approximately 7.0% of the Group's revenue.

During the period under review, the convenience store segment recorded a gross profit of approximately RMB84 million, basically the same as the same period last year. Affected by the lower gross profit of fresh produce and the increase in marketing and promotional activities, the gross profit margin decreased by 1.67 percentage points to 10.26%. The convenience store segment recorded a consolidated income of approximately RMB120 million, representing a year-on-year increase of approximately RMB5 million, and the consolidated income margin decreased by 1.66 percentage points year on year to 14.59%.

During the period under review, the operating loss of the convenience store segment was approximately RMB5 million, representing a year-on-year decrease in losses of approximately RMB7 million from the same period of last year, and the operating profit margin increased by 1.09 percentage points to -0.65%.

As at 30 June	**2023**	2022
Gross Profit Margin (%)	**10.26**	11.93
Consolidated Income Margin (%)	**14.59**	16.25
Operating Profit Margin (%)	**–0.65**	–1.74

Financial Performance Analysis

	For the six months ended 30 June RMB million		
	2023	2022	Year-on-year change *(%)*
Revenue	**11,772**	13,585	–13.3
Gross Profit	**1,487**	1,799	–17.3
Consolidated Income	**2,785**	3,027	–8.0
Operating Profit	**85**	154	–44.9
Income Tax Expense	**80**	70	14.7
Profit Attributed to Shareholders of the Company for the Period	**–116**	14	–908.5
Basic Earnings per Share *(RMB)*	**–0.104**	0.013	–908.5
Dividend per Share *(RMB)*	**Nil**	Nil	N/A

Capital Structure

As at 30 June 2023, 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 decreased from approximately RMB863,443 thousand to approximately RMB746,982 thousand, which was primarily due to the loss attributable to owners of the Group of approximately RMB116,461 thousand recorded in the period.

Details of the Group's Pledged Assets

As at 30 June 2023, 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 2023, the issued share capital of the Company was as follows:

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

Contingent Liabilities

As at 30 June 2023, the Group did not have any material contingent liabilities.

Segment Transformation and Improvement

During the period under review, the Group maintained its focus on the core regions while striving to expand the accomplishment of its transformation, landing milestone breakthroughs in both the transformation of its hypermarkets and iterative innovation of its supermarkets. In the first half of 2023, the two of our major business segments, i.e. the hypermarkets and supermarkets, continued to lock in advantageous network resources in the region which, coupled with the accelerated rollout of closely-franchised stores, resulted in steady progress in the opening of new stores and renewal of existing stores. In the first half of 2023, the Group opened a total of 141 new stores, including 46 directly-operated stores and 95 franchised stores. Among the newly opened stores, 97 were located in the Yangtze River Delta, accounting for 68.79% of the total. On the other hand, the Group adapted to the changes in the market environment, and continued to prudently streamline its stores and improve the overall quality of its physical outlets by shutting down 131 stores, including 33 directly-operated stores and 98 franchised stores.

During the period under review, our hypermarkets accelerated their paces of transformation and determined the direction known as “miniaturization of hypermarket” featuring streamlined manpower and carefully-selected categories to create “small and gorgeous” Hypermarkets 2.0 with a full range of product offerings catering to people’s daily life. By strengthening brand building, we used high-quality chain stores as the engine to drive the adjustment of the merchant zone, with increased proportion of famous brand names, thereby significantly improving customer flow and operational stability. By reorganizing the structure of room-temperature commodities and introducing fresh food sections, together with packaged fruits and vegetables, a complete range of fresh commodities including aquatic products, pork, beef and mutton, poultry, groceries and pre-prepared dishes, the Group strove to create an integrated community support center to meet the needs of local consumers for their daily lives.

During the period under review, our supermarkets continued their innovation in business transformation by introducing Supermarket 3.0, which is positioned as a selected community-based fresh food supermarket, representing a new round of iteration and experimentation in Lianhua's transformation. We have not only adjusted the product list in accordance with the sales results, but also updated the key categories with whole new products introduced. Our Super Partnership Stores (Food Market Model) further optimized the supermarket partnership mechanism by benefiting, delegating and empowering our partners to ignite their enthusiasm, while adjusting the layout of the supermarkets and focusing on operational results enhancement.

During the period under review, our closely-franchised outlet network was also transformed in an orderly manner. After a series of iterative developments, our closely-franchised model has experienced orderly adjustments in key aspects such as hardware upgrading, image renovation, layout adjustment and merchandise structure optimization. Through the optimization of the merchandise supply chain and empowerment of management experience, the core competitiveness of our closely-franchised stores has been significantly enhanced, with our outlet development model growing more and more sophisticated.

In the first half of 2023, China's consumer market recovered moderately, while the pace of recovery of the supermarket sector was much slower than that of the overall consumption. During the period under review, the Group continued its exploration and innovation whereby, on the one hand, we actively restructured and innovated the existing business segments, and on the other hand, we proactively stepped up the deployment of new stores by developing potential stores in the city, filling in the gaps in the high-quality vacant areas, and fostering capable franchised stores in other provinces and cities. As at 30 June 2023, the Group had a total of 3,362 stores, with approximately 84.47% of them located in Eastern China.

	Hypermarkets	**Supermarkets**	**Convenience Stores**	**Total**
Direct operation	131	798	341	1,270
Franchise operation	–	1,525	567	2,092
Total	131	2,323	908	3,362

Note: Data as at 30 June 2023.

Category Optimization

During the period under review, the Group focused on category optimization and continued to enhance the competitiveness of its products, brands, categories and displays by accelerating product turnover, optimizing product mix and upgrading brand quality. Taking into account the changes in customers' shopping preference, we assiduously explored new products through various channels, digging for advantageous hot-sellers, and rapid introduced missing items and social media celebrated brands. To cater to the preferences of young customers, we have accelerated the changes in the categories of imported products and introduction of new products, while exploring co-branded operation, aiming to enhance the creativity and freshness of our products. We enhanced our support to the strategic categories by focusing on the development of our own proprietary products, and clarified the price grades of our own products against comparable brands, so as to provide our customers with a genuine value-for-money experience and reshape the competitiveness of our own proprietary products in the market. We continued to promote the construction of our fresh food bases by closely monitoring seasonal products, re-launching major single products, emphasizing new products and promoting processed products. We also continuously polished and enriched the bakery and short-term fresh food category to make up for the lack thereof.

System Upgrade

During the period under review, the Group continued to enhance its digitization efficiency and accelerated the iteration and improvement of its digital system. In 2023, after a prudent analysis of the existing business systems and requirements, the Group identified four major modules, namely enhancement of merchandise digitization, optimization of internal supply chain, integration of logistics system and upgrade of financial digitization system, as key tasks for implementation of its digital transformation project in 2023. The Group used digital tools to empower its daily inspections and improve the efficiency of store operation and management; our central warehouse system has go through the survey and confirmation process of automatic replenishment requirements, with an automatic replenishment model as well as replenishment parameters and specifications, and system processes and rules established, laying a solid foundation for the pilot implementation of centralized automatic replenishment at the headquarters in the second half of the year; in terms of the upgrade of the financial system, we have optimized and improved the business-finance middle office from the perspective of the business-finance integration, aiming to achieve closed-loop management of the entire financial control process.

Employment, Training and Development

As at 30 June 2023, the Group had a total of 26,749 employees, a decrease of 1,952 employees during the period under review and the total labor costs amounted to approximately RMB1,244,800 thousand.

During the period under review, the Group further consolidated the overall organizational structure of its headquarters while continuing to focus on business operations, optimizing its internal core business processes and continuously enhancing its operational and management efficiency. The Group further strengthened the centralization advantages of its headquarters by putting regional investment promotion and finance functions under the unified management of the headquarters; we have optimized the functions of the management structure and adjusted the overall structure of the Food and General Merchandise Business Division; strengthened the staffing structure and continued to build a service-oriented and high-performance headquarters; and further optimized the frontline processes, streamlined operations and enhanced the operational efficiency of the stores by leveraging on the measures of the ongoing transformation of the digitalized stores. The Group constantly optimized the staffing standards of its hypermarkets and supermarkets, and continued to increase the proportion of flexible workers, aiming to achieve the objectives of improving manpower efficiency and lowering the labor cost rate.

During the period under review, the Group introduced the contract-based management for core positions which featured dynamic adjustments to the staffing level, aiming to place the suitable and capable candidates in the right positions. We continuously optimized the incentive system for superior performance and fully implemented the system across the Group, aiming to create value, share value and achieve a win-win outcome together with our employees. We have optimized the remuneration management system for front-line employees in stores and deepened the operation of our partnership mechanism by activating multi-modal iteration of our partners, i.e. introducing new partners in the fresh produce category while expanding the scope of partnership, aiming to strengthen our ability to open up new sources of income and cut down on expenses; we also tried out a new management mode known as store consignment, which will help us improve operating performance through the separation of ownership and operation rights. We also optimized the compensation assessment and incentive system for our staff in stores, aiming to enhance the income of our frontline staff. We further deepened the business model transformation by steadily advancing the implementation of our strategic projects, and setting up the Company's key project assessment program to encourage our managers and employees to share and achieve their goals together.

During the period under review, the Group increased its investment in talent acquisition and cultivation. By leveraging its advantages in coordination, the Group has established a platform for the exchange and sharing of talent recruitment information and gradually achieved a balanced allocation of surplus human resources to meet the shortfall among its subordinate enterprises; we insisted on recruitment of management trainees for our stores and headquarters, which will lay a solid foundation for the back-up of core positions at our headquarters and frontline stores; we selected young talents to participate in specialized training and development programs and projects, aiming to empower and cultivate them; we insisted on the post rotation mechanism, and determinedly appointed those who rendered outstanding performance in the appraisal, so as to accelerate the buildup of young managers; we conducted in-depth investigation into the reserve of management of our subordinate enterprises to overcome the challenges we faced together and gradually reshaped a new talent echelon, aiming to optimize our whole-chain cultivation approach covering "selection, cultivation, utilization, and retention".

Overall Marketing Capability Enhancement

During the period under review, the Group endeavored to consolidate resources from various parties to increase the Group's brand influence and enhance the overall performance of its marketing and promotion activities. In the first half of 2023, the Group launched thematic marketing campaigns such as the "20th Anniversary of Bailian" (百聯二十周年慶), "May 5th Shopping Carnival" (五五購物節), "Lighting Up Dream Dinner (Season 4)" (點亮夢想晚餐(第四季)), and "New Product Showcase in Central Store" (中環店新品推薦會) to tap into the different needs of various types of consumers in respect of the scenarios, categories and promotion methods, with a view to refining and expanding the operational mindset. The brand exposure and reputation of Lianhua was strengthened by linking up with Bailian Omni-channel, posting invitations through various platforms of self-media and communities, and attracting traffic through social hotspots and online and offline interaction. The number of readers of hot topics exceeded 1,000,000, and the exposure of the brand's media communication exceeded 69,550,000 with an increasing number of consumers perceiving Lianhua's new products, gaining a better understanding of and developing a greater affinity for the Lianhua brand.

Development and Merchant Solicitation Guarantee

During the period under review, the Group maintained its existing outlets scale and continued to improve its store transformation model. On the basis of sorting out the overall network footprint and stabilizing its scale, the Group has reshaped its network layout to focus on creating a "15-minute community living circle" around market gaps. The Group has innovated its store expansion approach by creating the sixth Fresh Living (生活鮮) store, perfecting the Chongming village store (崇明鄉村店) model, piloting medium-sized hypermarkets, and continuing to replicate and iterate on the close-knit franchise model. During the period under review, the Group proactively launched its merchant solicitation business while optimizing and adjusting the layout of the stores, the merchants' occupancy rate gradually increased, and the revenue from merchant solicitation increased by 29% as compared with the pandemic period in 2022.

Internal Supply Chain Optimization

During the period under review, the Group strengthened its internal supply chain construction and enhanced its logistics arrival and fill rate. The supply chain coordination platform clarified demand, visualized inventory and orders, and enhanced the operation and fulfillment capability of home delivery products. The Group has adopted optimized order allocation and volume collection methods for seasonal switching of core merchandise, adjusted the new products introduction status, tracked the missing core merchandise, and optimized the automatic replenishment system in stores to enhance the arrival and fill rate. The Group optimized its inventory management methods, established inventory clearance practices, sorted out the inventory of the Jiangqiao logistics warehouse and each segment, and carried out inventory clearance based on the life cycle of commodities to shorten the inventory turnover cycle.

Strategy and Planning

Looking ahead to the second half of 2023, the outlook for global economic recovery remains bleak, monetary policies in developed economies are expected to continue to tighten, and China's economic development faces various external challenges. Nevertheless, China's economy is characterized by strong resilience, great potential and vitality, and its long-term positive fundamentals have not changed. Driven by policies to promote consumption, infrastructure and investment in high-tech industries, China's economy is expected to remain within a reasonable range.

In the second half of 2023, the Group will continue to build the upgrade model of the hypermarket segment 2.0, and to replicate the Supermarket 3.0 iterative process to enhance the overall performance of the Company by adopting a store-by-store, step-by-step transformation strategy around the 15-minute community living circle. At the same time, targeting the essential needs and lifestyles of the living circle and family life consumption, we will reorganize the commodities, and fully launch the pilot project of selected supermarkets to form the precise commodity planning and category organization capability of different segments; in terms of the four major scenes around fresh food, namely, baking, light baked goods, deli pasta, and the fruit island, to form a solid module of the successful experience and mode, according to the existing store items and conditions of the business circle, to carry out targeted local empowerment; in terms of marketing, to identify the positioning of the future consumers of Lianhua brand, and to change from the single price marketing system into a bidirectional mode of content operation plus experience for the layout of the marketing operation in a one-stop store.

In the second half of 2023, the Group will focus on category optimization of the ambient supply chain, and combine horizontal and vertical efforts to reshape the category structure of its main segments by focusing on new products, imported products and its own products. At the same time, the Group will strengthen the fresh food supply chain, reduce procurement costs through internal and external integration, enhance self-operating capability through store system empowerment, integrate marketing resources, highlight the selection of seasonal, landmark and pop-up products, and enhance brand exposure. In terms of procurement process, through the adjustment of procurement organization, re-engineering of procurement process, establishment of the 3R department to connect with the latest market dynamics, and piloting the full life cycle management of shopping districts, we have established a highly efficient, convenient, economical, reliable and energetic supply chain network system, and through automatic replenishment to enhance competitiveness to build up the corporate barriers and improve the competitiveness of Lianhua.

In the second half of 2023, the Group will definitely focus on the three aspects of "loss reversal, high-quality development, organization and talent" as its "top priority". The Group will focus on improving business efficiency, reducing costs and increasing efficiency, deepening the "loss reversal and restructuring" plan, optimizing and adjusting the management structure of the headquarters, focusing on the development and restructuring of a number of stores and regions, and closing down stores and regions that have suffered losses for a long period of time. In terms of merchant solicitation, the Group will push forward the development of grid-like network, enhance the coverage of store services, and at the same time increase the proportion of branded merchants, in order to strive for the return of the vacancy rate to the pre-epidemic level by the end of the year.

In the second half of 2023, the Group will continue to leverage the digitalization empowerment to push forward the implementation of the four key projects of digital transformation in 2023, complete the system pilot of merchandise digitization enhancement and internal supply chain optimization project, accomplish the integration of logistics WMS system and financial system upgrade project, and push forward the implementation of the data governance and data platform construction project in Lianhua. Through system upgrading, process optimization and digital empowerment, an efficient, convenient, economical, reliable and dynamic supply chain network system has been established to facilitate the Group's high-quality development and sustainable growth. In terms of manpower, the Group will increase the number of piece-rate workers and improve manpower efficiency through flexible employment. The Group will strengthen its talent pool through organizational consolidation and streamlining of the positions, and realize the plan of strengthening the talent pool of Lianhua through contractual management and transparent appraisal.

In this regard, in the second half of 2023, the Group will adhere to the annual work focus of "3+1: business transformation and upgrading, category optimization, system upgrade, and talent development and incentives", deepen its business development strategy, focus on business efficiency enhancement, and implement detailed measures to ensure the implementation of the five major support and guarantee systems, namely, "development and merchant solicitation guarantee", "internal supply chain optimization", "overall marketing capability enhancement", "comprehensive budget management and management efficiency enhancement", and "headquarter capacity and strong execution guarantee", so as to ensure that the strategies are put into practice, the objectives are translated into actions, and the output is achieved at a high level of quality, thereby realizing breakthroughs in the overall performance of the Group.

SUBSEQUENT EVENTS

From 1 July 2023 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 (the "**Board**") does not recommend the payment of interim dividend for the six months ended 30 June 2023.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the six months ended 30 June 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management, and has reviewed the unaudited condensed interim accounts of the Group for the six months ended 30 June 2023. The Audit Committee has no disagreement with the accounting principles and practices adopted by the Group.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS IN APPENDIX 10 TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE ("LISTING RULES")

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to 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 TO THE LISTING RULES

The Board is pleased to confirm that except for the matters as set out below, the Company has complied with all the code provisions in the "Corporate Governance Code" (the "**Code**") as set out in Part 2 of Appendix 14 to the Listing Rules during the period under review. Apart from the following deviations, none of the Directors is aware of any information that would reasonably indicate that the Company is not or was not for any time of the period under review in compliance with the Code. Details of the deviations are set out as follows:

Provision B.2.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The articles of association of the Company (the "**Articles of Association**") provide that each director shall be appointed at the general meeting of the Company and for a term of not more than 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 contain no express provision for the mechanism of Directors' retirement by rotation, thus deviating from the aforementioned provision of the Code.

For Provision C.1.6 of the Code in respect of the non-executive Directors' regular attendance and active participation in Board meetings and attendance to general meetings:

Ms. Zhang Shen-yu, a non-executive Director, and Mr. Xia Da-wei, an independent non-executive Director, were unable to attend the thirteenth meeting of the seventh session of the Board convened on 28 March 2023 by the Company due to their other work duties.

Ms. Hu Xiao, a non-executive Director, was unable to attend the second meeting of the eighth session of the Board convened on 29 August 2023 by the Company due to her other work duties.

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

In addition, Mr. Xu Pan-hua, the then non-executive Director, was unable to attend the 2022 annual general meeting of the Company ("**Annual General Meeting**") convened on 15 June 2023 due to his other work duties. The Company has provided the relevant materials relating to the Annual General Meeting to all Directors before the meeting. All resolutions were passed smoothly at the Annual General Meeting. The Company had sent the related minutes to all Directors after the Annual General Meeting so any Director who was unable to attend the meeting was able to understand the resolutions passed at the Annual General Meeting.

By order of the Board
Lianhua Supermarket Holdings Co., Ltd.
Pu Shao-hua
Chairman

Shanghai, PRC, 29 August 2023

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

Executive Director:	Chong Xiao-bing;
Non-executive Directors:	Pu Shao-hua, Shi Xiao-long, Hu Xiao, 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.