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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt about this circular or as to the action you should take, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Lianhua Supermarket Holdings Co., Ltd., you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

- (1) REPORTS OF THE BOARD AND SUPERVISORY COMMITTEE FOR THE YEAR 2020;
- (2) CONSOLIDATED AUDITED FINANCIAL STATEMENTS OF THE COMPANY AND REPORT OF THE INTERNATIONAL AUDITORS FOR THE YEAR 2020;
- (3) PROFIT DISTRIBUTION PROPOSAL FOR THE YEAR 2020;
- (4) PROPOSED APPOINTMENT OF AUDITORS FOR THE YEAR 2021;
- (5) PROPOSED APPOINTMENT OF AN EXECUTIVE DIRECTOR; AND
- (6) MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE INVESTMENT AND WEALTH MANAGEMENT COOPERATION FRAMEWORK AGREEMENT

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



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A letter from the Board is set out on pages 3 to 15 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 16 to 17 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 36 of this circular.

The Company will convene the AGM at 10:00 a.m. on Thursday, 17 June 2021 at the Conference Room, 13th Floor, Bailian Central Plaza, 1258 Zhen Guang Lu, Shanghai, the PRC. The notice of AGM, together with the reply slip and proxy form, has been despatched to the Shareholders on 30 April 2021.

27 May 2021

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## DEFINITIONS

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*In this circular, the following expressions have the meanings set out below unless the context otherwise requires:*

“AGM”	the annual general meeting of the Company for the year of 2020 to be convened at 10:00 a.m. on Thursday, 17 June 2021 at the Conference Room, 13th Floor, Bailian Central Plaza, 1258 Zhen Guang Lu, Shanghai, the PRC
“associates”	has the meaning ascribed to it in the Listing Rules
“Bailian Group”	Bailian Group Co., Ltd.* (百聯集團有限公司), a limited liability company incorporated in the PRC and a substantial Shareholder
“Board”	the board of Directors
“Company”	Lianhua Supermarket Holdings Co., Ltd., a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign shares of nominal value of RMB1.00 each in the registered capital of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	independent board committee of the Company comprising all of the independent non-executive Directors
“Independent Financial Adviser”	Lego Corporate Finance Limited, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Investment and Wealth Management Cooperation Framework Agreement and the continuing connected transactions contemplated thereunder (including the proposed annual caps)

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## DEFINITIONS

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“Independent Shareholders”	the Shareholders, other than Bailian Group and Shanghai Bailian and their respective associates, who will abstain from voting on the relevant resolution in relation to the Investment and Wealth Management Cooperation Framework Agreement (including the proposed annual caps) at the AGM
“Investment and Wealth Management Cooperation Framework Agreement”	the investment and wealth management cooperation framework agreement entered into between the Company and Shanghai Securities on 23 April 2021, details of which are disclosed in the letter from the Board contained herein
“Latest Practicable Date”	20 May 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Bailian”	Shanghai Bailian Group Co., Limited* (上海百聯集團股份有限公司), a substantial Shareholder
“Shanghai Securities”	Shanghai Securities Co., Ltd. (上海證券有限責任公司), a subsidiary of Bailian Group
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“%”	per cent

*The English names of Chinese entities marked with “\*” are translations of their Chinese names and are included in this circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

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## LETTER FROM THE BOARD

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

**(Stock Code: 00980)**

*Executive Director:*

Mr. Chong Xiao-bing

*Non-executive Directors:*

Mr. Ye Yong-ming (*Chairman*)

Ms. Xu Zi-ying (*Vice Chairman*)

Mr. Xu Hong

Ms. Zhang Shen-yu

Mr. Dong Xiao-chun

Mr. Wong Tak Hung

*Independent Non-executive Directors:*

Mr. Xia Da-wei

Mr. Lee Kwok Ming, Don

Mr. Chen Wei

Mr. Zhao Xin-sheng

*Registered Office:*

Room 713, 7th Floor

1258 Zhen Guang Lu

Shanghai

The PRC

*Principal Place of Business*

*in Hong Kong:*

16th Floor, Methodist Building

36 Hennessy Road

Wanchai

Hong Kong

27 May 2021

*To the Shareholders*

Dear Sir or Madam,

- (1) REPORTS OF THE BOARD AND SUPERVISORY COMMITTEE FOR THE YEAR 2020;**  
**(2) CONSOLIDATED AUDITED FINANCIAL STATEMENTS OF THE COMPANY AND REPORT OF THE INTERNATIONAL AUDITORS FOR THE YEAR 2020;**  
**(3) PROFIT DISTRIBUTION PROPOSAL FOR THE YEAR 2020;**  
**(4) PROPOSED APPOINTMENT OF AUDITORS FOR THE YEAR 2021;**  
**(5) PROPOSED APPOINTMENT OF AN EXECUTIVE DIRECTOR; AND**  
**(6) MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE INVESTMENT AND WEALTH MANAGEMENT COOPERATION FRAMEWORK AGREEMENT**

### **I. INTRODUCTION**

The purpose of this circular is to provide you with all the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the proposed resolutions at the AGM.

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## LETTER FROM THE BOARD

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Ordinary resolutions to be proposed at the AGM for the Shareholders to approve include: (i) the report of the Board for the year ended 31 December 2020; (ii) the report of the Supervisory Committee for the year ended 31 December 2020; (iii) the consolidated audited financial statements of the Company and the report of the international auditors for the year ended 31 December 2020; (iv) the profit distribution proposal of the Company for the year ended 31 December 2020 for not distributing final dividend; (v) the re-appointment of Shanghai Certified Public Accountants as the Company's PRC auditors and Deloitte Touche Tohmatsu as the Company's international auditors for the period from the conclusion of the annual general meeting of the Company for the year 2020 to the conclusion of the annual general meeting of the Company for the year 2021 and to authorize the Board to fix their respective remuneration; (vi) the appointment of Mr. Chong Xiao-bing as an executive Director of the seventh session of the Board; and (vii) the major transaction and continuing connected transactions in relation to the Investment and Wealth Management Cooperation Framework Agreement.

For details of the above-mentioned resolutions (i), (ii) and (iii), please refer to the annual report of the Company for the year ended 31 December 2020 despatched on 30 April 2021.

With respect to the resolution regarding the proposed appointment of an executive Director and the resolution regarding the major transaction and continuing connected transactions in relation to the Investment and Wealth Management Cooperation Framework Agreement, references are made to the announcements of the Company dated 23 April 2021. This circular further provides the Shareholders with (i) details of the proposed appointment of an executive Director; (ii) further details of the Investment and Wealth Management Cooperation Framework Agreement; (iii) the letter from the Independent Board Committee in relation to the Investment and Wealth Management Cooperation Framework Agreement; (iv) the letter from the Independent Financial Adviser in relation to the Investment and Wealth Management Cooperation Framework Agreement; and (v) other information as required under the Listing Rules.

## II. PROPOSED APPOINTMENT OF AN EXECUTIVE DIRECTOR

Reference is made to the announcement of the Company dated 23 April 2021 in relation to, among others, the appointment of Mr. Chong Xiao-bing as an executive Director of the Company. In view of the forthcoming expiration of the term of office of Mr. Chong Xiao-bing as an executive Director at the conclusion of the AGM, Bailian Group, as a substantial Shareholder, recommended Mr. Chong Xiao-bing as a candidate of executive Director of the seventh session of the Board. Please refer to Appendix I to this circular for the profile of Mr. Chong Xiao-bing.

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## LETTER FROM THE BOARD

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### III. MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE INVESTMENT AND WEALTH MANAGEMENT COOPERATION FRAMEWORK AGREEMENT

#### 1. Background

Reference is made to the announcement of the Company dated 23 April 2021 in relation to the Investment and Wealth Management Cooperation Framework Agreement entered into between the Company and Shanghai Securities, pursuant to which, the Company and Shanghai Securities agreed on the investment and wealth management cooperation, for a term commencing from 23 April 2021 to 31 December 2023 (both days inclusive).

#### 2. Investment and Wealth Management Cooperation Framework Agreement

The principal terms of the Investment and Wealth Management Cooperation Framework Agreement are set out as below:

##### ***Date***

23 April 2021

##### ***Parties***

- (1) The Company; and
- (2) Shanghai Securities

##### ***Term***

The Investment and Wealth Management Cooperation Framework Agreement is for a term commencing from 23 April 2021 to 31 December 2023 (both days inclusive).

##### ***Investment and Wealth Management Cooperation***

Pursuant to the Investment and Wealth Management Cooperation Framework Agreement, the Company and Shanghai Securities agreed on the investment and wealth management cooperation, including but not limited to investment products, entrusted investment services and other investment cooperation.

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## LETTER FROM THE BOARD

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### *(1) Investment Products*

Shanghai Securities may from time to time recommend and provide its investment products (including but not limited to trust products, monetary funds and asset management plans) to the Group. Assuming the commercial terms offered by Shanghai Securities are comparable to those offered by other independent third parties in the PRC, the Group shall consider the investment products offered by Shanghai Securities on a preferred basis. The Group will purchase the investment products with its legally owned funds pursuant to the specific purchase agreements to be entered into between the Group and Shanghai Securities.

Taking into account the reputation, the asset scale and the investment management experience of Shanghai Securities, the Company is of the view that with equivalent terms and conditions provided by Shanghai Securities, it will be fair and reasonable and in the interests of the Company and its Shareholders as a whole to consider the investment products provided by Shanghai Securities on a preferred basis.

### *(2) Entrusted Investment Services*

The Group will entrust its legally owned funds to Shanghai Securities and Shanghai Securities will provide entrusted investment services (including but not limited to asset-backed securitization service) to the Group pursuant to the specific entrusted investment agreements to be entered into between the Group and Shanghai Securities.

### *(3) Other Investment Cooperation*

The Group and Shanghai Securities may initiate other investment cooperation through negotiation in compliance with relevant laws and regulations.



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## LETTER FROM THE BOARD

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### ***Consideration and Payment***

The pricing of the investment products and entrusted investment services under the Investment and Wealth Management Cooperation Framework Agreement shall be jointly determined by the Group and Shanghai Securities through negotiation on the basis of the market price of the same industry and the principle of fairness and reasonableness, and with reference to the prevailing market terms of similar investment products or entrusted investment services offered by other independent financial institutions in the PRC at the time of entering into the specific agreements under the Investment and Wealth Management Cooperation Framework Agreement. Shanghai Securities has agreed that, in principle, the terms and conditions of the investment products and entrusted investment services offered by Shanghai Securities to the Group shall be no less favourable than those offered by Shanghai Securities to other independent third parties in respect of similar investment products or entrusted investment services. In addition, with a view to ensure the terms and conditions offered by Shanghai Securities will be at least equivalent to those offered by other financial institutions in the PRC, the Company has adopted the internal control measures as disclosed in the section headed “Internal Control and Pricing Policy” below.

The payment shall be made by bank transfer and shall be settled according to the specific situation of each transaction, which shall be in line with the market practice of each specific transaction. Details of the payment terms (including the amount and expenses, payment method and payment time) shall be specified in the individual agreements to be entered into between both parties.

Taking into account that the pricing is negotiated on an arm’s length basis with relevant internal control measures adopted by the Company as disclosed in the section headed “Internal Control and Pricing Policy” below, the Company believes that the transactions to be conducted under the Investment and Wealth Management Cooperation Framework Agreement will be based on normal commercial terms and that the pricing basis thereof is fair and reasonable and is in the interests of the Company and its Shareholders as a whole.

### ***Historical Amount***

The Company and Shanghai Securities did not conduct any similar transactions as those under the Investment and Wealth Management Cooperation Framework Agreement in the past. Therefore, there is no historical amount to be provided.

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## LETTER FROM THE BOARD

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### *Proposed Annual Caps and Basis for Proposed Annual Caps*

Pursuant to the Investment and Wealth Management Cooperation Framework Agreement, the maximum daily investment balance (including expected accrued investment returns) of the Group with Shanghai Securities under the Investment and Wealth Management Cooperation Framework Agreement for each of the three years ending 31 December 2023 are RMB1,000 million, which is determined in accordance with the following factors:

1. Considering that the interest rate for term deposits in commercial banks is experiencing a downturn as affected by the macro-economy, the Company proposed to adjust the capital structure and convert part of the term deposits and idle working capital (if any) of the Group into financial investment so as to realize the maximization of capital interests and returns to Shareholders. As at the Latest Practicable Date, the term deposits of the Group readily to be converted into cash amounted to approximately RMB3,800 million.
2. In addition, with a view to ensure the stable operation of the Group, after taking into account the financial resources, monetary fund and operation needs of the Group, the annual caps are set at RMB1,000 million, which only represent approximately 26% of the term deposits withdrawable on demand. In addition to the aforementioned term deposits withdrawable on demand, the Group also has approximately RMB1,700 million of cash and cash equivalents, which is sufficient to satisfy the daily operation needs of the Group. Therefore, the Directors are of the view that the annual caps are set at a reasonable level and will not affect the daily operation and liquidity of the Group. Besides, before making decisions to enter into any specific purchase agreements or entrusted investment service agreements, the management of the Company will take into consideration a series of factors, such as the readily available cash and bank balance of the Group, the operation capital requirements and debt level of the Group at that time.

The Directors (including the independent non-executive Directors, whose opinion on the matters is set forth in this circular by reference to the advice of the Independent Financial Adviser in this regard) consider that the above proposed annual caps in respect of the transactions contemplated under the Investment and Wealth Management Cooperation Framework Agreement are fair and reasonable.

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## LETTER FROM THE BOARD

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### ***Reasons for and Benefits of Entering into the Investment and Wealth Management Cooperation Framework Agreement***

Considering that the term deposits of the Group readily to be converted into cash has amounted to approximately RMB3,800 million as at the Latest Practicable Date and that the interest rate for term deposits in commercial banks is experiencing a downturn as affected by the macro-economy, the Company proposed to adjust the capital structure and convert part of the term deposits and idle working capital (if any) of the Group into financial investment, which will bring higher returns to the Group compared with fixed term deposits in commercial banks in the PRC. In order to realize the maximization of capital interests with controllable risks, the Group has conducted detailed investigation and comparison in the market. Having considered that Shanghai Securities is one of the most reputable securities companies in the PRC with abundant investment management experiences and the investment risk of the investment products and entrusted investment services provided by Shanghai Securities are quite low based on its historic record, ranking, asset scale and reputation, the Directors are of the view that the financial investment cooperation with Shanghai Securities will enable the Group to effectively improve the efficiency of capital use, better operate the self-owned funds, and realize the maximization of capital interests with controllable risks.

In view of the above, the Directors (including the independent non-executive Directors, whose opinion on the matters is set forth in this circular by reference to the advice of the Independent Financial Adviser in this regard) are of the view that the terms of the Investment and Wealth Management Cooperation Framework Agreement are fair and reasonable, are entered into on normal commercial terms in the ordinary and usual course of business and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### *Internal Control and Pricing Policy*

The Company has adopted the following internal control measures to ensure that the continuing connected transactions are in accordance with the terms of the Investment and Wealth Management Cooperation Framework Agreement and in compliance with the Listing Rules:

1. before entering into each specific purchase agreement or entrusted investment service agreement, the cash settlement personnel of the finance department of the Company will investigate the market terms and conditions, obtain quotations from no less than three independent financial institutions in the PRC, and compare the terms and conditions offered by Shanghai Securities with those offered by other independent financial institutions in the PRC, as so to ensure that the terms and conditions offered by Shanghai Securities are no less favourable than those offered by other independent financial institutions in the PRC in respect of similar investment products or entrusted investment services; in addition, the cash settlement personnel of the finance department of the Company will also compare the terms and conditions offered by Shanghai Securities to the Group with those offered by Shanghai Securities to other independent third parties, so as to ensure that the terms and conditions offered by Shanghai Securities to the Group are no less favourable than those offered by Shanghai Securities to other independent third parties in respect of similar investment products or entrusted investment services;
2. the cash settlement personnel of the finance department of the Company will record the investment balance (including expected accrued investment returns) of the Group with Shanghai Securities under the Investment and Wealth Management Cooperation Framework Agreement on a daily basis to ensure that the maximum daily investment balance (including expected accrued investment returns) does not exceed RMB1,000 million;

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## LETTER FROM THE BOARD

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3. the head of the finance department of the Company will provide advice to the management of the Company who is responsible for approving the entering into of each specific purchase agreement or entrusted investment agreement with Shanghai Securities after reviewing (i) the terms and conditions comparison conducted by the cash settlement personnel as mentioned in paragraph (1) above, (ii) the current operating cash requirements of the Group, and (iii) the investment balance (including expected accrued investment returns) of the Group with Shanghai Securities compared to the cash balance of the Group at that time; in addition, the head of the finance department of the Company will also monitor and ensure that the continuing connected transactions are carried out in accordance with the terms of the Investment and Wealth Management Cooperation Framework Agreement;
4. the external auditors of the Company will conduct an annual review on the pricing and the annual caps of the continuing connected transactions;
5. the audit committee of the Company will review at least twice a year the analysis reports and the improvement measures prepared by the Company's management based on the implementation of the continuing connected transactions by the Company; and
6. the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions.

### **3. General Information**

The Company is principally engaged in retail chain business, including the operation of hypermarkets, supermarkets and convenience stores in the PRC.

Shanghai Securities is a subsidiary of Bailian Group, principally engaged in securities business. As at the Latest Practicable Date, Shanghai Securities is held as to 50%, 24.99%, 16.33% and 7.68% by Bailian Group (a company directly 100% held by Shanghai State-owned Assets Supervision and Administration Commission), Guotai Junan Securities Co., Ltd. (the H shares of which are listed on the Stock Exchange under the stock code 02611 and the A shares of which are listed on the Shanghai Stock Exchange under the stock code 601211), Shanghai Sitico Assets Management Co., Ltd.\* (上海上國投資產管理有限公司)(a company indirectly 69% held by Shanghai State-owned Assets Supervision and Administration Commission), and Shanghai International Group Co., Ltd.\* (上海國際集團有限公司)(a company directly 100% held by Shanghai State-owned Assets Supervision and Administration Commission), respectively.

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## LETTER FROM THE BOARD

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### 4. Listing Rules Implications

As at the Latest Practicable Date, Bailian Group is a substantial Shareholder of the Company, and Shanghai Securities is a subsidiary of Bailian Group. As such, Shanghai Securities is a connected person of the Company. Accordingly, the transactions contemplated under the Investment and Wealth Management Cooperation Framework Agreement constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio (as defined in the Listing Rules) of the proposed annual caps for the transactions contemplated under the Investment and Wealth Management Cooperation Framework Agreement is more than 25% but less than 100%, the investment and wealth management cooperation contemplated under the Investment and Wealth Management Cooperation Framework Agreement constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) of the proposed annual caps for the transactions contemplated under the Investment and Wealth Management Cooperation Framework Agreement is more than 5%, the investment and wealth management cooperation contemplated under the Investment and Wealth Management Cooperation Framework Agreement and the proposed annual caps thereof is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### IV. AGM

The Company will convene the AGM to consider and, if appropriate, to approve: (i) the report of the Board for the year ended 31 December 2020; (ii) the report of the Supervisory Committee for the year ended 31 December 2020; (iii) the consolidated audited financial statements of the Company and the report of the international auditors for the year ended 31 December 2020; (iv) the profit distribution proposal of the Company for the year ended 31 December 2020 for not distributing final dividend; (v) the re-appointment of Shanghai Certified Public Accountants as the Company's PRC auditors and Deloitte Touche Tohmatsu as the Company's international auditors for the period from the conclusion of the annual general meeting of the Company for the year 2020 to the conclusion of the annual general meeting of the Company for the year 2021 and to authorize the Board to fix their respective remuneration; (vi) the appointment of Mr. Chong Xiao-bing as an executive Director of the seventh session of the Board; and (vii) the major transaction and continuing connected transactions in relation to the Investment and Wealth Management Cooperation Framework Agreement.

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## LETTER FROM THE BOARD

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The AGM will be convened at 10:00 a.m. on Thursday, 17 June 2021 at the Conference Room, 13th Floor, Bailian Central Plaza, 1258 Zhen Guang Lu, Shanghai, the PRC. Shareholders who intend to attend the AGM are requested to deliver the reply slip to the office of the secretary to the Board of the Company at 13th Floor, Bailian Central Plaza, 1258 Zhen Guang Lu, Shanghai, the PRC on or before Thursday, 27 May 2021. The proxy form should be completed and returned to the relevant addresses listed on the proxy form in accordance with the instructions printed thereon. Completion and return of the proxy form will not preclude you from attending and voting in person at the AGM should you so wish.

The notice of AGM, together with the reply slip and proxy form, has been despatched to the Shareholders on 30 April 2021.

### **V. VOTING AT THE AGM AND BOARD MEETINGS**

As at the Latest Practicable Date, Bailian Group and its associates (including Shanghai Bailian), held approximately 513,869,400 Shares, representing 45.90% of the issued share capital of the Company. Shanghai Securities, being a subsidiary of Bailian Group and a party to the Investment and Wealth Management Cooperation Framework Agreement, has material interests in the relevant continuing connected transactions. Therefore, Bailian Group and its associates (including Shanghai Bailian), being the close associates of Shanghai Securities, are required to abstain from voting on the relevant resolution to be proposed at the AGM to approve the Investment and Wealth Management Cooperation Framework Agreement (including the proposed annual caps).

Saved as disclosed above, no other Shareholders would be required to abstain from voting to approve the resolution in relation to the Investment and Wealth Management Cooperation Framework Agreement (including the proposed annual caps) at the AGM, and no Shareholders would be required to abstain from voting to approve the resolutions other than that in relation to the Investment and Wealth Management Cooperation Framework Agreement (including the proposed annual caps).

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## LETTER FROM THE BOARD

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The Board has approved the entering into of the Investment and Wealth Management Cooperation Framework Agreement and the corresponding annual caps, and none of the Directors has any material interest in the transactions contemplated thereunder. The Board has also approved the resolutions in relation to (i) the report of the Board for the year ended 31 December 2020; (ii) the report of the Supervisory Committee for the year ended 31 December 2020; (iii) the consolidated audited financial statements of the Company and the report of the international auditors for the year ended 31 December 2020; (iv) the profit distribution proposal of the Company for the year ended 31 December 2020 for not distributing final dividend; (v) the re-appointment of Shanghai Certified Public Accountants as the Company's PRC auditors and Deloitte Touche Tohmatsu as the Company's international auditors for the period from the conclusion of the annual general meeting of the Company for the year 2020 to the conclusion of the annual general meeting of the Company for the year 2021 and to authorize the Board to fix their respective remuneration; and (vi) the appointment of Mr. Chong Xiao-bing as an executive Director of the seventh session of the Board.

Since Mr. Ye Yong-ming, Ms. Xu Zi-ying, Mr. Xu Tao (a then Director as at the date of the Board meeting considering the Investment and Wealth Management Cooperation Framework Agreement), Ms. Zhang Shen-yu and Mr. Dong Xiao-chun are either holding senior positions or are directors in Bailian Group and/or its subsidiaries, they have abstained from voting on the relevant resolution of the Board to approve the entering into of the Investment and Wealth Management Cooperation Framework Agreement. Saved as disclosed above, none of the other Directors was required to abstain from voting to approve the resolution in relation to the Investment and Wealth Management Cooperation Framework Agreement. None of the Directors was required to abstain from voting to approve the resolutions other than that in relation to the Investment and Wealth Management Cooperation Framework Agreement.

### **VI. RECOMMENDATION**

Your attention is drawn to the letter of the Independent Board Committee set out on pages 16 to 17 of this circular, and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 18 to 36 of this circular in respect of the terms of the Investment and Wealth Management Cooperation Framework Agreement.



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## LETTER FROM THE BOARD

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The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the view that the terms of the Investment and Wealth Management Cooperation Framework Agreement, which have been reached after arm's length negotiations between the parties, are on normal commercial terms in the ordinary and usual course of business of the Company, fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed for approving the Investment and Wealth Management Cooperation Framework Agreement.

The Board (including the members of the Independent Board Committee) considers that the terms of the Investment and Wealth Management Cooperation Framework Agreement, which have been reached after arm's length negotiations between the parties, are on normal commercial terms in the ordinary and usual course of business of the Company, fair and reasonable, and are in the interest of the Shareholders and the Company as a whole. The Board also considers that the resolutions in relation to (i) the report of the Board for the year ended 31 December 2020; (ii) the report of the Supervisory Committee for the year ended 31 December 2020; (iii) the consolidated audited financial statements of the Company and the report of the international auditors for the year ended 31 December 2020; (iv) the profit distribution proposal of the Company for the year ended 31 December 2020 for not distributing final dividend; (v) the re-appointment of Shanghai Certified Public Accountants as the Company's PRC auditors and Deloitte Touche Tohmatsu as the Company's international auditors for the period from the conclusion of the annual general meeting of the Company for the year 2020 to the conclusion of the annual general meeting of the Company for the year 2021 and to authorize the Board to fix their respective remuneration; and (vi) the appointment of Mr. Chong Xiao-bing as an executive Director of the seventh session of the Board are in the interest of the Company and the Shareholders as a whole. Therefore, the Board recommends the Shareholders or the Independent Shareholders (as the case may be) to vote in favour of all the resolutions at the AGM.

### VII. ADDITIONAL INFORMATION

Your attention is drawn to the additional information is also set out in the appendices to this circular.

Yours faithfully,  
For and on behalf of the Board of  
**Lianhua Supermarket Holdings Co., Ltd.**  
**Ye Yong-ming**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

**(Stock Code: 00980)**

27 May 2021

*To the Shareholders*

Dear Sir or Madam,

### **MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE INVESTMENT AND WEALTH MANAGEMENT COOPERATION FRAMEWORK AGREEMENT**

We refer to the circular dated 27 May 2021 issued by the Company of which this letter forms part of (the “**Circular**”). Capitalised terms used in this letter shall have the same meaning as those defined in the Circular unless otherwise specified.

We have been authorized by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders in respect of the Investment and Wealth Management Cooperation Framework Agreement, details of which are set out in the section headed “Letter from the Board” contained in the Circular.

We wish to draw your attention to the letter from the Board set out on pages 3 to 15 of the Circular and the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Investment and Wealth Management Cooperation Framework Agreement, set out on pages 18 to 36 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of Lego Corporate Finance Limited as stated in its letter of advice, the terms and conditions of the Investment and Wealth Management Cooperation Framework Agreement, and the business and financial effects of the Investment and Wealth Management Cooperation Framework Agreement on the Company, we consider that the terms of the Investment and Wealth Management Cooperation Framework Agreement which have been reached after arm's length negotiations between the parties, are on normal commercial terms in the ordinary and usual course of business of the Company, fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the AGM in respect of the Investment and Wealth Management Cooperation Framework Agreement (including the proposed annual caps).

Yours faithfully,  
for and on behalf of the  
Independent Board Committee  
**Lianhua Supermarket Holdings Co., Ltd.**  
**Mr. Xia Da-wei**  
**Mr. Lee Kwok Ming, Don**  
**Mr. Chen Wei**  
**Mr. Zhao Xin-sheng**  
*Independent non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which have been prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Investment and Wealth Management Cooperation Framework Agreement (including the transactions contemplated thereunder).*



27 May 2021

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs or Madams,

### **MAJOR AND CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE INVESTMENT AND WEALTH MANAGEMENT COOPERATION FRAMEWORK AGREEMENT**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Investment and Wealth Management Cooperation Framework Agreements (including the transactions contemplated thereunder), details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 27 May 2021 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As disclosed in the Letter from the Board, on 23 April 2021, the Company entered into the Investment and Wealth Management Cooperation Framework Agreement with Shanghai Securities, pursuant to which, the Company and Shanghai Securities agreed on the investment and wealth management cooperation, for a term commencing from 23 April 2021 to 31 December 2023 (both days inclusive).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at the Latest Practicable Date, Bailian Group and its associates (including Shanghai Bailian), held approximately 513,869,400 Shares, representing 45.90% of the issued share capital of the Company. Bailian Group is a substantial Shareholder of the Company, and Shanghai Securities is a subsidiary of Bailian Group. As such, Shanghai Securities is a connected person of the Company. Accordingly, the transactions contemplated under the Investment and Wealth Management Cooperation Framework Agreement constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio (as defined in the Listing Rules) of the proposed annual caps for the transactions contemplated under the Investment and Wealth Management Cooperation Framework Agreement is more than 25% but less than 100%, the investment and wealth management cooperation contemplated under the Investment and Wealth Management Cooperation Framework Agreement constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) of the proposed annual caps for the transactions contemplated under the Investment and Wealth Management Cooperation Framework Agreement is more than 5%, the investment and wealth management cooperation contemplated under the Investment and Wealth Management Cooperation Framework Agreement and the proposed annual caps thereof are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Xia Da-wei, Mr. Lee Kwok Ming, Don, Mr. Chen Wei and Mr. Zhao Xin-sheng (who have no material interest in the relevant continuing connected transactions), will be formed to advise the Independent Shareholders on the Investment and Wealth Management Cooperation Framework Agreement (including the proposed annual caps) in accordance with the Listing Rules.

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, there was no engagement between the Group and Lego Corporate Finance. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we have received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the Investment and Wealth Management Cooperation Framework Agreement (including the transactions contemplated thereunder).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the AGM.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or any of their respective subsidiaries or associates.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving at our recommendation, we have taken into consideration the following principal factors and reasons:

#### 1. Background information of the Group

The Group is principally engaged in retail chain business, including the operation of hypermarkets, supermarkets and convenience stores in the PRC. Set out below are selected financial information of the Company for the three years ended 31 December 2018, 2019 and 2020 as extracted from the annual report of the Company for the year report ended 31 December 2019 (the “**2019 Annual Report**”) and the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”):

	Year ended 31 December		
	2020	2019	2018
	RMB'000	RMB'000	RMB'000
	(unaudited)	(audited)	(audited)
Revenue	26,331,155	25,859,198	25,389,082
Net loss for the year/period	(187,597)	(241,999)	(77,132)

	As at		
	31 December	31 December	31 December
	2020	2019	2018
	RMB'000	RMB'000	RMB'000
	(unaudited)	(audited)	(audited)
Cash and cash equivalents	2,010,276	2,198,539	2,661,100
Current assets	6,696,176	9,492,750	11,354,281
Term deposit	5,755,800	3,936,300	1,995,000
Net assets	1,755,094	2,046,506	2,459,926

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As illustrated in the table above, revenue of the Group amounted to approximately RMB25,859 million for the year ended 31 December 2019, representing an increase of approximately 1.9% as compared to that of approximately RMB25,389 million for the year ended 31 December 2018. According to the 2019 Annual Report, such increase was mainly due to the Group's newly-opened stores and the effects of reform and transformation of existing stores. The revenue of the supermarket segment increased by approximately RMB387 million, or approximately 4.5%, compared to that of last year. According to the 2020 Annual Report, revenue of the Group amounted to approximately RMB26,331 million for the year ended 31 December 2020, representing an increase of approximately 1.8%, mainly due to (i) the Group responded promptly during the outbreak of COVID-19 in the first half of the year to ensure the supply of products for people's livelihood; and (ii) the Group has been actively promoting store operation transformation and store partnership scheme in Shanghai region, driving the revenue of the supermarket segment to achieve a year-on-year increase of approximately RMB613 million, or approximately 6.8%.

Despite the increase in revenue, net loss of the Group increased by approximately 213.7% for the year ended 31 December 2019 as compared to that for the year ended 31 December 2018, which was primarily due to the increase in finance cost of the Group by approximately RMB307 million mainly as a result of the effects of initial application of HKFRS 16 "Leases". The net loss of the Group amounted to approximately RMB188 million for the year ended 31 December 2020, representing a decrease in loss of approximately 22.5% as compared to the previous year.

As at 31 December 2019, cash and cash equivalents of the Group amounted to approximately RMB2,199 million, representing a decrease of approximately 17.4% compared to approximately RMB2,661 million as at 31 December 2018. As at 31 December 2020, cash and cash equivalents of the Group amounted to approximately RMB2,010 million, representing a decrease of approximately 8.6%. The decrease in cash and cash equivalents was mainly due to the year-on-year decrease in sales of prepaid cards and an increase in funds withdrawal. The Group had monitored and maintained a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Group has net current liabilities of approximately RMB5,145 million and approximately RMB8,420 million as at 31 December 2019 and 2020, respectively, compared to approximately RMB3,283 million as at 31 December 2018. Taking into account of the historical settlement and addition pattern of the contract liabilities and the Group's ability of withdrawal of non-current unrestricted term deposits of approximately RMB1,385 million and RMB3,485 million as at 31 December 2019 and 2020, respectively, the management of the Group consider the liquidity risk is significantly reduced and the Group is able to be continued as a going concern. The Group's net assets decreased by approximately 16.8% from approximately RMB2,460 million as at 31 December 2018 to approximately RMB2,047 million as at 31 December 2019, which was mainly due to the increase in total liabilities. The Group's net assets as at 31 December 2020 amounted to approximately RMB 1,755 million, representing a decrease of approximately 14.2%, which was mainly due to the decrease in financial assets.

It is further noted that the Group has continued to build up its balance of term deposit, which increased from approximately RMB1,995 million as at 31 December 2018 to approximately RMB5,756 million as at 31 December 2020. As discussed with the management of the Company, such movement was attributable to the cash management of the Group with an aim to better utilise cash which was in excess of the current operating cash requirements of the Group to get higher interest income. In fact, the interest income on bank balances and term deposits amounted to approximately RMB151 million, RMB221 million and RMB280 million for the three years ended 31 December 2020, which is significant comparing to the net loss of the Company of approximately RMB77 million, RMB242 million and RMB188 million for the three years ended 31 December 2020, respectively.

## **2. Investment and Wealth Management Cooperation Framework Agreement**

### ***2.1. Information on Shanghai Securities***

Shanghai Securities is a subsidiary of Bailian Group Co., Ltd., principally engaged in securities business. As at the Latest Practical Date, Shanghai Securities is held as to 50%, 24.99%, 16.33% and 7.68% by Bailian Group (a company directly 100% held by Shanghai State-owned Assets Supervision and Administration Commission), Guotai Junan Securities Co., Ltd. (the H shares of which are listed on the Stock Exchange under the stock code 02611 and the A shares of which are listed on the Shanghai Stock Exchange under the stock code 601211), Shanghai Sitico Assets Management Co., Ltd\* (上海上國投資產管理有限公司)(a company indirectly 69% held by Shanghai State-owned Assets Supervision and Administration Commission), and Shanghai International Group Co., Ltd.\* (上海國際集團有限公司)(a company directly 100% held by Shanghai State-owned Assets Supervision and Administration Commission), respectively.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### ***2.2. Reasons for and benefit of entering into the Investment and Wealth Management Cooperation Framework Agreement***

With reference to the Letter from the Board, considering that the term deposits of the Group readily to be converted into cash amounted to approximately RMB3,800 million as at the Latest Practicable Date and that the interest rate for term deposits in commercial banks is experiencing a downturn as affected by the macro-economy, the Company proposed to adjust the capital structure and convert part of the term deposits and idle working capital (if any) of the Group into financial investment, which will bring higher returns to the Group compared with fixed term deposits in commercial banks in the PRC. It is noted that the Maximum Daily Investment Balance (as defined below) (including expected accrued investment returns) for the three financial years ending 31 December 2023 represent approximately 26% of the term deposits withdrawable on demand. In addition to the aforementioned term deposits withdrawable on demand, the Group also has approximately RMB1,700 million of cash and cash equivalents as at the Latest Practicable Date, which represented approximately 3.2 months of the total operating expenses of the Group for the year ended 31 December 2020 of RMB6,424 million, being the sum of distribution and selling expenses, administrative expenses, finance cost, and other expenses. Given (i) the nature of the Group's business, which has high cash turnover (i.e. the trade receivables as at 31 December 2020 represented only around 0.7% of the Group's revenue for the year ended 31 December 2020 and the average debtors' turnover days for the year ended 31 December 2020 was approximately 2.4 days), (ii) in addition to the operating cash inflow, the RMB1,700 million cash and cash equivalents as at the Latest Practicable Date represented a buffer of approximately 3.2 months of the total operating expenses of the Group (as defined above) for the year ended 31 December 2020, and (iii) the RMB1,700 million cash and cash equivalents as at the Latest Practicable Date represented approximately 5.2 times of the average net decrease in cash and cash equivalents of approximately RMB325 million for the two years ended 31 December 2020, we concur with the Directors' view that the RMB1,700 million cash and cash equivalents as at the Latest Practicable Date is sufficient to satisfy the current daily operations of the Group. Based on the foregoing, we are of the view that the setting of the Maximum Daily Investment Balance (including expected accrued investment returns) and investment of the Investment Products, the Entrusted Investment Services and the Other Investment Cooperation contemplated under the Investment and Wealth Management Cooperation Framework Agreement will not result in material liquidity risk of the Company.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As disclosed in the paragraph headed “Information on Shanghai Securities” above, Shanghai Securities is one of the most reputable securities companies in PRC. It has built a Shanghai-centered comprehensive business network that radiates to Yangtze River Delta, Pearl River Delta and Beijing-Tianjin-Hebei Economic Circle. The principal business of Shanghai Securities covers both floor market and over-the-counter market, and can provide comprehensive financial services for investors including securities brokerage, wealth management and investment advisory. Having considered the experience and reputation of Shanghai Securities and its ability to provide high-quality services, the Directors are of the view that entrusting Shanghai Securities as the trustee of asset-backed securities or other financial products of the Group is of commercial benefit to the Group as a whole.

Having considered that (i) Shanghai Securities is one of the most reputable securities companies in the PRC with abundant investment management experiences; (ii) the Group has established practice on cash management to utilise cash which was in excess of the current operating cash requirements of the Group to get interest income which is significant to the Group, and such practice was executed in a way that did not affect the normal operation and liquidity requirement of the Group; (iii) the Group will invest only if the yield of similar products or service in PRC of the Investment Products and the Entrusted Investment Services of Shanghai Securities were higher than the interests rate of fixed term deposits currently maintained by the Group; and (iv) the Group is not obliged to purchase the Investment Products, the Entrusted Investment Services and the Other Investment Cooperation recommended by Shanghai Securities, the Directors are of the view, and we concur, that the financial investment cooperation with Shanghai Securities will enable the Group to have greater flexibility on its option on cash management, which potentially generate better finance income to the Company, and the entering into of the Investment and Wealth Management Cooperation Framework Agreement is in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### ***2.3. Principal terms of the Investment and Wealth Management Cooperation Framework Agreement***

The principal terms of the Investment and Wealth Management Cooperation Framework Agreement are summarised as follows:

Date:	23 April 2021
Parties:	(1) The Company; and (2) Shanghai Securities
Term:	The Investment and Wealth Management Cooperation Framework Agreement is for a term commencing from 23 April 2021 to 31 December 2023 (both days inclusive).
Subject matters:	Investment and Wealth Management Cooperation  Pursuant to the Investment and Wealth Management Cooperation Framework Agreement, the Company and Shanghai Securities agreed on the investment and wealth management cooperation, including but not limited to investment products, entrusted investment services and other investment cooperation.

#### **(1) Investment Products**

Shanghai Securities may from time to time recommend and provide its investment products (including but not limited to trust products, monetary funds and asset management plans) to the Group. Assuming the commercial terms offered by Shanghai Securities are comparable to those offered by other independent third parties in the PRC, the Group shall consider the investment products offered by Shanghai Securities on a preferred basis. The Group will purchase the investment products with its legally owned funds pursuant to the specific purchase agreements to be entered into between the Group and Shanghai Securities.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Taking into account the reputation, the asset scale and the investment management experience of Shanghai Securities, the Company is of the view that with equivalent terms and conditions provided by Shanghai Securities, it will be fair and reasonable and in the interests of the Company and its Shareholders as a whole to consider the investment products provided by Shanghai Securities on a preferred basis.

(2) Entrusted Investment Services

The Group will entrust its legally owned funds to Shanghai Securities and Shanghai Securities will provide entrusted investment services (including but not limited to asset-backed securitization service) to the Group pursuant to the specific entrusted investment agreements to be entered into between the Group and Shanghai Securities.

(3) Other Investment Cooperation

The Group and Shanghai Securities may initiate other investment cooperation through negotiation in compliance with relevant laws and regulations.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Consideration and  
Payment:

The pricing of the investment products and entrusted investment services under the Investment and Wealth Management Cooperation Framework Agreement shall be jointly determined by the Group and Shanghai Securities through negotiation on the basis of the market price of the same industry and the principle of fairness and reasonableness, and with reference to the prevailing market terms of similar investment products or entrusted investment services offered by other independent financial institutions in the PRC at the time of entering into the specific agreements under the Investment and Wealth Management Cooperation Framework Agreement. Shanghai Securities has agreed that, in principle, the terms and conditions of the investment products and entrusted investment services offered by Shanghai Securities to the Group shall be no less favourable than those offered by Shanghai Securities to other independent third parties in respect of similar investment products or entrusted investment services. In addition, with a view to ensure the terms and conditions offered by Shanghai Securities will be at least equivalent to those offered by other financial institutions in the PRC, the Company has adopted the internal control measures as disclosed in the section headed “Internal Control and Pricing Policy” in the Letter from the Board.

The payment shall be made by bank transfer and shall be settled according to the specific situation of each transaction, which shall be in line with the market practice of each specific transaction. Details of the payment terms (including the amount and expenses, payment method and payment time) shall be specified in the individual agreements to be entered into between both parties.

To ensure the terms of the Investment Products, the Entrusted Investment Services and the Other Investment Cooperation are on normal commercial terms or on terms no less favorable than the terms and conditions offered by Shanghai Securities to other independent third parties for providing similar investment products, entrusted investment services or other investment cooperation, the Group has implemented internal control measures procedures, details of which are set out in the paragraph headed “Internal Control Procedures and Pricing Policy” in the Letter from the Board.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Based on our review of the internal control measures adopted by the Group, we noted that (i) the cash settlement personnel of the finance department of the Company will investigate the market terms and conditions, obtain quotations from other independent financial institutions in the PRC, and compare the terms and conditions offered by Shanghai Securities with those offered by other independent financial institutions in the PRC, as so to ensure that the terms and conditions offered by Shanghai Securities are no less favourable than those offered by other independent financial institutions in the PRC in respect of similar investment products or entrusted investment services; in addition, the cash settlement personnel of the finance department of the Company will also compare the terms and conditions offered by Shanghai Securities to the Group with those offered by Shanghai Securities to other independent third parties, so as to ensure that the terms and conditions offered by Shanghai Securities to the Group are no less favourable than those offered by Shanghai Securities to other independent third parties in respect of similar investment products or entrusted investment services; (ii) the cash settlement personnel of the finance department of the Company will record the investment balance (including expected accrued investment returns) of the Group with Shanghai Securities under the Investment and Wealth Management Cooperation Framework Agreement on a daily basis to ensure that the maximum daily investment balance (including expected accrued investment returns) does not exceed RMB1,000 million; (iii) the head of the finance department of the Company will provide advice to the management of the Company who is responsible for approving the entering into of each specific purchase agreement or entrusted investment agreement with Shanghai Securities after reviewing (a) the terms and conditions comparison conducted by the cash settlement personnel as mentioned in paragraph (i) above, (b) the current operating cash requirements of the Group, and (c) the investment balance (including expected accrued investment returns) of the Group with Shanghai Securities compared to the readily available cash and bank balance of the Group at that time; in addition, the head of the finance department of the Company will also monitor and ensure that the continuing connected transactions are carried out in accordance with the terms of the Investment and Wealth Management Cooperation Framework Agreement; (iv) the external auditors of the Company will conduct an annual review on the pricing and the annual caps of the continuing connected transactions; (v) the audit committee of the Company will review at least twice a year the analysis reports and the improvement measures prepared by the Company's management based on the implementation of the continuing connected transactions by the Company; and (vi) the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In addition, we also noted that pursuant to the terms of the Investment and Wealth Management Cooperation Framework Agreement, while the Group shall give priority to and consider Shanghai Securities' Investment Products, Entrusted Investment Services and Other Investment Cooperation on a preferred basis if Shanghai Securities and other independent financial institutions in the PRC offer equivalent terms and conditions for providing similar investment products, entrusted investment services and other investment cooperation, the Group is not mandatorily obliged to purchase the Investment Products, the Entrusted Investment Services and the Other Investment Cooperation recommended by Shanghai Securities. Accordingly, the Directors are of the view, and we concur, that giving such priority will not constitute an obligation or commitment of the Group to Shanghai Securities. In light of the above and in particular that the internal control measures adopted by the Group shall be able to ensure fair pricing mechanisms of the Investment Products, the Entrusted Investment Services and the Other Cooperation Investment contemplated under the Investment and Wealth Management Cooperation Framework Agreement, we concur with the Directors that the terms of the Investment and Wealth Management Cooperation Framework Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

### ***2.4 The Annual Caps***

As set out in the Letter from the Board, the Company and Shanghai Securities did not conduct any similar transactions as those under the Investment and Wealth Management Cooperation Framework Agreement in the past. Therefore, there is no historical amount to be provided.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Maximum Daily Investment Balance (including expected accrued investment returns)*

Pursuant to the Investment and Wealth Management Cooperation Framework Agreement, the maximum daily investment balance (including expected accrued investment returns) of the Group with Shanghai Securities under the Investment and Wealth Management Cooperation Framework Agreement (the “**Maximum Daily Investment Balance**”) for each of the three years ending 31 December 2023 are RMB1,000 million.

	For the financial year ending 31 December		
	2021	2022	2023
	(RMB)	(RMB)	(RMB)
Maximum Daily			
Investment Balance	1,000,000,000	1,000,000,000	1,000,000,000

As confirmed by the Directors, the Maximum Daily Investment Balance for the three financial years ending 31 December 2023 are determined with reference to the term deposits of the Group readily to be converted into cash, which amounted to approximately RMB3,800 million as at Latest Practicable Date. Considering the Group’s financial resources, monetary funds and operation needs, including the readily available cash and bank balance of the Group, the operation capital requirements and debt level of the Group, the Company intends to invest part of the readily available cash and bank balance of the Group at Shanghai Securities. The Maximum Daily Investment Balance of RMB1,000 million, which only represent approximately 26% of the term deposits withdrawable on demand as at the Latest Practicable Date and therefore the Directors are of the view that the Maximum Daily Investment Balance are set at a reasonable level and will not affect the daily operation and liquidity of the Group. The Directors confirm that before making decisions to enter into any specific purchase agreements or entrusted investment agreements, the management of the Company will take into consideration a series of factors, such as the readily available cash and bank balance of the Group, the operation capital requirements and debt level of the Group at that time.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As confirmed by the Directors, the Company has no intention to invest all of the cash and bank balance of the Group at Shanghai Securities for the purpose of risk management and liquidity management. We were advised by the Directors that the head of finance department shall provide advice to the management of the Company who is responsible for approving the entering into of each specific purchase agreement or entrusted investment agreement with Shanghai Securities after reviewing, among others, the daily investment balance (including expected accrued investment returns) of the Group with Shanghai Securities. Such measure could ensure that the Company will not enter into any investments for the Investment Products, the Entrusted Investment and the Other Investment Cooperation exceeding the annual caps, which will affect the stable operation of the Group. This measure further ascertains that the Group's operational capital requirements will not be materially affected by its investments for the Investment Products, the Entrusted Investment Services and the Other Investment Cooperation. The Company believes that investing part but not all of the Group's cash and bank balance at Shanghai Securities will provide the Company with more flexibility in relation to liquidity management. Taking the above factors into account, the Company determined that the Maximum Daily Investment Balance should not exceed RMB1,000 million.

In assessing the fairness and reasonableness of the Maximum Daily Investment Balance, we have discussed with the Directors as to the basis and assumptions adopted in determining such Maximum Daily Investment Balance. We understood from the Directors that in determining the Maximum Daily Investment Balance, the Directors have taken into account, among other things, (i) that the annual caps are set at RMB1,000 million, which only represent approximately 26% of the term deposits withdrawable on demand as at the Latest Practicable Date; (ii) the Group's intention to bring higher returns from the readily available cash and bank balance as compared with the fixed term deposits in commercial banks in the PRC; (iii) that there is no mandatory obligation for the Company to purchase the Investment Products, the Entrusted Investment Services and the Other Investment Cooperation from Shanghai Securities contemplated under the Investment and Wealth Management Cooperation Framework Agreement; and (iv) the working capital required for the operation of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Having considered that (i) the annual caps are set at RMB1,000 million, which only represent approximately 26% of the term deposits withdrawable on demand as at the Latest Practicable Date; (ii) we have reviewed the full list of the Company's term deposit for the year ended 31 December 2020 and obtained samples on the terms and noted that the Company can withdraw the term deposit on demand; (iii) it is commercially reasonable for the Group to invest cash and bank balance in a reputable company if the yield of the Investment Products and the Entrusted Investment Services of Shanghai Securities were higher than the interests rate of fixed term deposits currently maintained by the Group; (iv) the Company will not invest all of its cash and bank balance of the Group at Shanghai Securities for risk management and liquidity management purpose; (v) the Company will adopt the internal control measures to ensure that the outstanding investment balance with Shanghai Securities shall not exceed the annual caps in order to maintain stable operations and liquidity of the Company; and (vi) the Group has established practice on cash management to utilise cash which was in excess of the current operating cash requirements of the Group to get higher interest income, and such practice was executed in a way that did not affect the normal operation and liquidity requirement of the Group, we consider that the annual caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### **3. Internal Control Procedure**

As disclosed in the Letter from the Board, the Company has adopted the following internal control measures to ensure that the continuing connected transaction is and will be conducted in accordance with the pricing policies and the terms of the Investment and Wealth Management Cooperation Framework Agreement and in compliance with the Listing Rules:

- (1) before entering into each specific purchase agreement or entrusted investment service agreement, the cash settlement personnel of the finance department of the Company will investigate the market terms and conditions, obtain quotations from other independent financial institutions in the PRC, and compare the terms and conditions offered by Shanghai Securities with those offered by no less than three independent financial institutions in the PRC, as so to ensure that the terms and conditions offered by Shanghai Securities are no less favourable than those offered by other independent financial institutions in the PRC in respect of similar investment products or entrusted investment services; in addition, the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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cash settlement personnel of the finance department of the Company will also compare the terms and conditions offered by Shanghai Securities to the Group with those offered by Shanghai Securities to other independent third parties, so as to ensure that the terms and conditions offered by Shanghai Securities to the Group are no less favourable than those offered by Shanghai Securities to other independent third parties in respect of similar investment products or entrusted investment services;

- (2) the cash settlement personnel of the finance department of the Company will record the investment balance (including expected accrued investment returns) of the Group with Shanghai Securities under the Investment and Wealth Management Cooperation Framework Agreement on a daily basis to ensure that the maximum daily investment balance (including expected accrued investment returns) does not exceed RMB1,000 million;
- (3) the head of the finance department of the Company will provide advice to the management of the Company who is responsible for approving the entering into of each specific purchase agreement or entrusted investment agreement with Shanghai Securities after reviewing (i) the terms and conditions comparison conducted by the cash settlement personnel as mentioned in paragraph (1) above, (ii) the current operating cash requirements of the Group, and (iii) the investment balance (including expected accrued investment returns) of the Group with Shanghai Securities compared to the cash and bank balance of the Group at that time; in addition, the head of the finance department of the Company will also monitor and ensure that the continuing connected transactions are carried out in accordance with the terms of the Investment and Wealth Management Cooperation Framework Agreement;
- (4) the external auditors of the Company will conduct an annual review on the pricing and the annual caps of the continuing connected transactions;
- (5) the audit committee of the Company will review at least twice a year the analysis reports and the improvement measures prepared by the Company's management based on the implementation of the continuing connected transactions by the Company; and
- (6) the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Pursuant to Rules 14A.55 and 14A.56 of the Listing Rules, the transactions contemplated under the Investment and Wealth Management Cooperation Framework Agreement are subject to the following requirements:

- (i) the independent non-executive Directors must review the continuing connected transactions every year and confirm in the annual reports that the continuing connected transactions have been entered into:
  - in the ordinary and usual course of business of the Group;
  - on normal commercial terms or better; and
  - according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole;
- (ii) the Company must engage its auditors to report on the continuing connected transactions for each financial year of the Company and that the Company's auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions:
  - have not been approved by the Board;
  - were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
  - were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
  - have exceeded the annual caps.

In view of the above and in particular the transactions contemplated under the Investment and Wealth Management Cooperation Framework Agreement will be subject to annual review of the independent non-executive Directors and the auditors of the Company as well as the regular checks of the Group's internal audit department and the management of the Group, we are of the view that appropriate measures will be in place to govern the conduct of the transactions contemplated under the Investment and Wealth Management Cooperation Framework Agreement in order to safeguard the interests of the Independent Shareholders.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above, we are of the opinion that, although the entering into of the Investment and Wealth Management Cooperation Framework Agreement is not conducted in the ordinary and usual course of business of the Group, the terms of the Investment and Wealth Management Cooperation Framework Agreement is on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned, and the entering into of the Investment and Wealth Management Cooperation Framework Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the AGM to approve the Investment and Wealth Management Cooperation Framework Agreement (including the transactions contemplated thereunder) and the annual caps.

Yours faithfully,

For and on behalf of

**Lego Corporate Finance Limited**

**Kristie Ho**

*Managing Director*

*Ms. Kristie Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). She has over 16 years of experience in the securities and investment banking industries.*

**Mr. Chong Xiao-bing**, aged 56, graduated from Beijing Union University with a college degree majoring in Mechanical Design and Manufacturing. Mr. Chong started his career in 1985. Mr. Chong has been a technician of Far East Instrument Co., Ltd., deputy director of the Electric Instrument Research Office of China Coal Research Institute, and consultant of ICC Business Consulting Company. Mr. Chong has worked at Wumart Group since 1997, and has been the store manager, regional manager, development director, operation director, marketing director, deputy general manager of Beijing Wumei Supermarket Co.,Ltd., vice president of Wumart Group and general manager of East China Region, etc. Mr. Chong has been working in Wumart Group for 22 years, where he has been in charge of purchasing, operation, marketing, investment promotion, planning and other fields. He has rich experience in operation and management of retail chain enterprises. Mr. Chong has strong task management ability, self-confidence and is hardworking with strong execution ability, which can ensure the powerful advancement of target tasks. Mr. Chong served as the executive deputy general manager of the Company from August 2019 to April 2021.

Mr. Chong is presented for election as an executive Director at the AGM for a term from the date of the AGM until the conclusion of the annual general meeting of the Company for the year 2022, subject however to the articles of association of the Company. Mr. Chong will enter into a service contract with the Company and he will be entitled to receive remuneration from the Company during the term of directorship. Mr. Chong's basic remuneration per year is determined according to the results of the Company and the condition of similar companies in the market and his discretionary bonus during his term of directorship may be determined and adjusted according to the results of the Company and the condition of similar companies in the market, while such adjustments and determination shall be in accordance with the remuneration policy of the Company approved by the Shareholders at the 2013 annual general meeting.

As at the Latest Practicable Date, Mr. Chong has no interest in the shares of the Company within the meaning of Part XV of the SFO. Save as disclosed herein, Mr. Chong has not held any other directorships in any public listed companies in the past three years and has no relationship with any Directors, senior management or substantial or controlling Shareholders of the Company. Mr. Chong confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there is no matter that need to be brought to the attention of Shareholders of the Company and the Stock Exchange.

**1. FINANCIAL INFORMATION OF THE GROUP**

Details of the financial information of the Group for each of the three years ended 31 December 2018, 2019 and 2020 are disclosed in the annual reports of the Company for the three years ended 31 December 2018, 2019 and 2020, respectively. Together with the relevant notes thereto are disclosed in the following documents which have been published and are available on the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the website of the Company (<http://lianhua.todayir.com/en/reports.php>):

- the Annual Report 2018 of the Company for the 12 months ended 31 December 2018 published on 30 April 2019 (pages 129 to 227);
- the Annual Report 2019 of the Company for the 12 months ended 31 December 2019 published on 8 May 2020 (pages 125 to 225); and
- the Annual Report 2020 of the Company for the 12 months ended 31 December 2020 published on 29 April 2021 (pages 129 to 221).

**2. INDEBTEDNESS**

At the close of business on 31 March 2021, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group had lease liabilities amounting to RMB7,046,128,000.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the close of business on 31 March 2021, the Group did not have other outstanding mortgages, charges, debentures or other loan capital issued and outstanding, and authorised or otherwise created but unissued, bank overdrafts or loans, other similar indebtedness or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

**3. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirmed that there is no material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest audited consolidated financial statements of the Group were made up.



**4. WORKING CAPITAL**

The Directors are of the opinion that, after taking into account of the Group's internal resources, cash flow from operations and also the effect of the proposed transactions as set out in this Circular, the Group will have sufficient working capital to satisfy its present requirements, that is, for at least the next 12 months from the date of this Circular in the absence of unforeseen circumstances.

**5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

The year of 2021 is a new start for the 14th Five-Year Plan and the Vision 2035 of China. Facing the complex and profound changes in the international and domestic environments, the Chinese government will take proactive measures to cope with the new environment and new challenges, and stick to the general principle of pursuing progress while ensuring stability. Based on a new development stage, it will promote new concepts and build new patterns for development, and unremittingly deepen reform, opening up and innovation. It will consolidate and expand the achievements of epidemic control and economic and social development, implement the macro-policy in a scientific and accurate manner, endeavour to maintain the economy within a reasonable range and ensure that the 14th Five-Year Plan will have a good start.

In 2021, with persistent and effective epidemic control, further economic recovery and the construction of new development pattern in which domestic economic cycle plays a leading role, the Chinese government will deepen reform and innovation in the future to stimulate the endogenous dynamics of market entities, and roll out more policies to boost residents' consumption, improve the consumption environment and develop new consumption growth engines, further building a favourable consumption environment, making greater effort to increase residents' income and improving residents' consumption power and willingness to spend. The Group anticipates that residents' consumption will maintain steady growth in 2021, the consumption upgrading will have a strong momentum and stimulate industry upgrading to accelerate, and that consumption will play a greater role in driving the economic growth and become a strong engine for China to seek progress and maintain stability in 2021.

In such a context, the Group will 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 2021, uphold the principle of "nothing but thirty, innovation & revolution", stick to the key tasks of the year of "segment and end model and expansion, product portfolio planning and supply chain construction, private-label brand, excellent implementation and brand revamp", and 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", "organisational reform, process reconstruction and digitalised operation", with the dual drive, being "organisation and mechanism" and "digital drive", serving as the support system.

In 2021, the Group will comprehensively promote whole-area sales. It will advance the whole-area category management in an all-round manner, establish its online category and front-end warehouses, strengthen membership services and improve user experience on its own platform, and develop community group purchase and other new businesses. Leveraging the development of delivery-to-home business, the Group will build a category structure centred on “fresh produce”, capitalise on the customer flow of external platforms to build its brand influence, and take the advantage of its front-end warehouses to drive greater market penetration. It will cooperate third-party platforms to build the reputation in the e-commerce field, further develop its online category structure, and highlight the service value. The Group will comprehensively promote the category management and whole-area sales of segments, closely follow market trends to improve product categories, and extend the achievement of category solidification. On the basis of accelerated improvement of second-party logistics efficiency, it will build the new retail logistics ecosystem. Through the new retail logistics system, it will promote the delivery-to-home and next-day delivery model, and launch intra-city retail and third-party services, which will focus on cold chain products and realise half-hour and one-hour delivery in Shanghai. The regional central warehouse will support the second distribution of hypermarkets and supermarkets, and realise next-day delivery and scheduled delivery through the trunk line logistics, which will significantly reduce the logistics and distribution fees. The Group will reshape its membership system and flow operation ecosystem, taking stores and applets as the main positions, developing more ecosystem flow entrances through we-media operation and paid marketing operation and achieving flow conversion. It will promote digital stores, build the digital store system that aims to improve online and offline consumer experience and supports micro-level business operation, and integrate online and offline data to realise whole-process visualisation and real-time accessibility to business data.

In 2021, the Group will make efforts to improve consumers’ perception of core categories and realise growth in sales of core categories. It will build the supply chain model and strengthen product quality control, logistics, fresh produce promotion, store operation and training; apply smart promotion and pricing tools to develop online-offline coordinated differential promotion campaigns, focus on S-grade marketing, and launch “scenario + blockbuster” theme marketing activities to improve marketing and promotion effectiveness and benefits. With the consumer-driven model, the Group will study and satisfy what the consumers want, expedite the development of core categories, concentrate on the enhancement of dinner scenario, and comprehensively improve the whole-chain, omni-channel experience and sales presentation. It will continue to improve the visual effect of display scenario, take theme activities as the opportunity, make use of new media platforms, integrate new media resources, and launch diversified activity-based communications, thus connecting and interacting with consumers via multiple ways, building close relationship with them and better conveying the brand philosophy of “To offer better products, better experiences, and better living every day”.

In 2021, the Group will further advance organisational reform, process reconstruction and digitalised operation. It will review headquarters-business division/region-store relations, initiate process reconstruction for headquarters, business divisions and stores, strengthen the operation and procurement coordination of fresh produce category, and further develop the features of each segment. The Group will establish an integrated operation standard of operation-procurement-sale-distribution to draw together and standardise the operation, enable seamless connection among departments and make the work measurable and verifiable. Basing on the SOP reconstruction, the Group will comprehensively upgrade the standardised operation, promote the technology-driven digitalised organisation operation, and build the service brand. It will consolidate and streamline the organisation structure, adjust the reporting hierarchy, form an efficient and flat organisation, and gradually unify the remuneration and benefit structure and the performance evaluation and incentive policy to form a positive and negative bi-directional incentive mechanism. The Group will employ the digitalisation-driven category and supply chain management, improve the product structure, apply smart promotion to increase the proportion of effective promotion, thereby improving the consolidated revenue. It will promote the construction of digital supply chain and integrate the logistics system to realise supply chain whole-process digitalization covering products, stocking, selling and storing, logistics and operation.

In 2021, the Group will continue to promote the segment and end model and expansion. The hypermarket segment will further upgrade and iterate the hypermarket 2.0 community neighbourhood centre, building hypermarket 2.0 into community life centre & vibrant hustle and bustle for life, and continue to explore the hypermarket 3.0 market model, constructing hypermarket 3.0 into the omni-channel interactive market based on the 3-kilometer service circle of stores. The directly-operated business under the supermarket segment will expedite the expansion and transformation of community fresh produce store, with the franchise business focusing on the development of close-relationship franchising and semi close relationship franchising models. The convenience store segment will put emphasis on store improvement and streamlining and further develop stores with profit and loss balance, to realise sustainable growth of the segment.

In 2021, the Group will integrate high-quality resources effectively for the category planning and supply chain construction, build a nationwide fresh produce value chain, strengthen coordination and collaboration with suppliers across the country, initiate strategic cooperation for core categories, and develop a JBP strategic cooperation model pursuing shared future and mutual benefits through joint efforts. The Group will advance the penetration of its private label brand, expand the product line of Lianhua Quality, develop the features of high quality and cost-effectiveness to build the reputation of Lianhua Quality and Lianhua Excellence series, and realise the promotion of Lianhua private-label brands across the country.

In 2021, the Group will continue to promote the brand revamp, accelerate the implementation of brand system planning and build a nationwide, systematic and unified brand image.

**6. FINANCIAL EFFECT OF THE MAJOR TRANSACTION ON THE EARNINGS,  
ASSETS AND LIABILITIES OF THE GROUP**

The major transaction, namely the investment and wealth management cooperation under the Investment and Wealth Management Cooperation Framework Agreement, does not and the Group expects that it will not have any material impact on the earnings, net asset value and liabilities of the Group.

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

**2. DISCLOSURE OF INTERESTS****(1) Interests of Directors**

As at the Latest Practicable Date, save and except that Mr. Xia Da-wei, an independent non-executive Director, who held 8,694 shares of Shanghai Bailian, none of the Directors, Supervisors and chief executive of the Company had interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director, supervisor or chief executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

**(2) Directors' positions in substantial Shareholders**

As at the Latest Practicable Date, each of Bailian Group, Shanghai Bailian and Alibaba Group Holding Limited was a company with interests which fell to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, (i) Mr. Ye Yong-ming, the chairman of the Company and a non-executive Director, is the chairman of Bailian Group and the chairman of Shanghai Bailian; (ii) Ms. Xu Zi-ying, the vice chairman of the Company and a non-executive Director, is a director and the president of Bailian Group and the vice chairman of Shanghai Bailian; (iii) Mr. Xu Hong, a non-executive Director, is the vice president of finance of Alibaba Group Holding Limited; (iv) Ms. Zhang Shen-yu, a non-executive Director, is a director and the general manager of Shanghai Bailian; (v) Mr. Dong Xiao-chun, a non-executive Director, is a director, chief financial officer and secretary of the board of directors of Shanghai Bailian; (vi) Mr. Yang A-guo, a Supervisor, is the chief financial officer of Bailian Group; and (vii) Mr. Li Feng, a Supervisor, is the senior director of audit and risk control center of Bailian Group and a supervisor of Shanghai Bailian.

Save as disclosed above, none of the Directors and Supervisors was a director or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### 3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation (other than statutory compensation)).

### 4. DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors or Supervisors had any direct or indirect interest in any assets which have since 31 December 2020 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors or Supervisors were materially interested, directly or indirectly, in any subsisting contract or arrangement entered into by any member of the Group which was significant in relation to the business of the Group.

### 5. COMPETING INTERESTS

As at the Latest Practicable Date, according to the Listing Rules, other than the Director disclosed below, none of the Directors had any interest in any businesses which are considered to compete or are likely to compete, either directly or indirectly, with the business of the Group.

Name of Director	Name of entity whose business are considered to complete or likely to compete with the business of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the business of the Group	Nature of interest of the Director in the entity
Xu Hong	Sun Art Retail Group Ltd.	hypermarket	director

**6. EXPERT'S CONSENT AND QUALIFICATIONS**

The following is the qualification of the expert who has given opinions or advices which are contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Lego Corporate Finance Limited	a licensed corporation under the SFO to carry on type 6 (advising on corporate finance) regulated activity as defined in the SFO

Lego Corporate Finance Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the references to its name included herein in the form and context in which it is included.

Lego Corporate Finance Limited confirmed that as at the Latest Practicable Date, it did not have any beneficial shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interests in any assets which have since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

**7. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at Baker & McKenzie, 14th Floor, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong during normal business hours, Monday to Friday (other than public holidays) for a period of 14 days from the date of this circular:

- (a) the Articles of Association;
- (b) the Investment and Wealth Management Cooperation Framework Agreement;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 16 to 17 of this circular;
- (d) the letter from Lego Corporate Finance Limited, the text of which is set out on pages 18 to 36 of this circular;
- (e) the financial information of the Company as set out in Appendix II to this circular;

- (f) the annual reports of the Company for each of the three years ended 31 December 2020;
- (g) the consent letter referred to in the paragraph headed “Expert’s Consent and Qualifications” in this Appendix;
- (h) the material contracts referred to in the paragraph headed “Material Contracts” in this Appendix; and
- (i) this circular.

## 8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group or to which any member of the Group may become a party.

## 9. MATERIAL CONTRACTS

In the two years immediately preceding the date of this circular and up to the Latest Practicable Date, the following contract, not being contracts entered into the ordinary course of business, were entered into by the Company or any of its subsidiaries which are or may be material:

- (a) The Caoyang 1405 Land acquisition and reserve agreement dated 16 April 2020 entered into among the Company, Shanghai Putuo District Land Development Centre\* (上海市普陀區土地發展中心)(“**Putuo Land Development Centre**”) and Shanghai Zhenru Urban Sub-centre Development Co., Ltd.\* (上海真如城市副中心發展有限公司)(“**Zhenru Development**”), pursuant to which, Putuo Land Development Centre and Zhenru Development shall pay the Company the amount of RMB214,080,000 for compensating the buildings and other relevant loss incurred by the Company due to the acquisition and reserve of the Caoyang 1405 Land.

The Caoyang 1431 Land acquisition and reserve agreement dated 16 April 2020 entered into among Shanghai Lianhua Quik Convenience Stores Co., Ltd.\* (上海聯華快客便利有限公司)(“**Lianhua Quik**”), Putuo Land Development Centre and Zhenru Development, pursuant to which, Putuo Land Development Centre and Zhenru Development shall pay Lianhua Quik the amount of RMB90,160,000 for compensating the buildings and other relevant loss incurred by Lianhua Quik due to the acquisition and reserve of the Caoyang 1431 Land.

Details of the abovementioned agreements please refer to the announcement of the Company dated 16 April 2020.



- (b) The capital increase agreement dated 30 December 2019 entered into among the Company, Bailian Group, Shanghai Bailian, Bailian Omni-channel Electronic Commerce Co., Ltd.\* (百聯全渠道電子商務有限公司) and Bailian Financial Services Co., Ltd.\* (百聯金融服務有限公司) (“**Bailian Financial Services**”) regarding capital contribution to Bailian Financial Services in proportion to the current shareholding percentages, details of which please refer to the announcement of the Company dated 30 December 2019.
- (c) The joint venture agreement dated 16 December 2019 entered into among Hangzhou Lianhua Huashang Group Co., Ltd., a subsidiary of the Company, Homemart Decoration and Construction Materials Co., Ltd.\* (好美家裝潢建材有限公司) and Shanghai Jinnian Jiayuan Decoration Co., Ltd.\* (上海進念佳園裝潢有限公司) regarding the formation of joint venture, details of which please refer to the announcement of the Company dated 16 December 2019.

#### 10. GENERAL

- (a) The registered office of the Company is at Room 713, 7th Floor, No. 1258 Zhen Guang Lu, Shanghai, the PRC.
- (b) The principal place of business of the Company in Hong Kong is at 16th Floor, Methodist Building, 36 Hennessy Road, Wanchai, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Ltd. at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong.
- (d) The joint company secretaries are Ms. Xu Xiao-yi and Ms. Leung Shui Bing. Ms. Xu Xiao-yi is a senior accountant and certified public accountant. Ms. Leung Shui Bing is a Chartered Secretary and Chartered Corporate Governance Professional, and was admitted as an associate member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.

#### 11. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text, in the event of inconsistency.