
THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

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



A letter from the Board is set out on pages 4 to 28 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 29 to 30 of this circular. A letter from VBG Capital, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 31 to 55 of this circular.

The Company will convene the EGM at 10:00 a.m. on Thursday, 2 December 2021 at the Conference Room, 13th Floor, Bailian Central Plaza, 1258 Zhen Guang Lu, Shanghai, the PRC. The notice of EGM, together with the reply slip and proxy form, has been despatched to the Shareholders on 15 October 2021.

26 October 2021

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	4
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	29
LETTER FROM VBG CAPITAL	31
APPENDIX I – FINANCIAL INFORMATION OF THE GROUP	56
APPENDIX II – GENERAL INFORMATION	61

DEFINITIONS

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

“Alibaba China”	Alibaba (China) Technology Co., Ltd.* (阿里巴巴(中國)網絡技術有限公司), a substantial Shareholder
“Alibaba Group”	Alibaba Group Holding Limited* (阿里巴巴集團控股有限公司), the holding company of Alibaba China
“associates”	has the meaning ascribed to it in the Listing Rules
“Audit Committee”	the audit committee of the Company
“Bailian Finance”	Bailian Group Finance Co., Ltd.* (百聯集團財務有限責任公司), a subsidiary controlled by Bailian Group
“Bailian Financial Services”	Bailian Financial Services Co., Ltd.* (百聯金融服務有限公司), a subsidiary controlled by Bailian Group
“Bailian Group”	Bailian Group Co., Ltd.* (百聯集團有限公司), a controlling Shareholder
“Bailian Omni-channel”	Bailian Omni-channel E-commerce Co., Ltd.* (百聯全渠道電子商務有限公司), formerly known as Shanghai Bailian Omni-channel E-commerce Co., Ltd.* (上海百聯全渠道電子商務有限公司), a wholly-owned subsidiary of Bailian Group
“Board”	the board of Directors
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“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

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened at 10:00 a.m. on Thursday, 2 December 2021 at the Conference Room, 13th Floor, Bailian Central Plaza, 1258 Zhen Guang Lu, Shanghai, the PRC to consider and, if appropriate, to approve, among others, the provision of deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement (including the respective proposed annual caps)
“Financial Services Agreement”	the financial services agreement dated 24 September 2021 entered into among the Company, Bailian Group and Bailian Finance in relation to provision of financial services by Bailian Finance to the Group
“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”	the independent board committee of the Company comprising all of the independent non-executive Directors
“Independent Financial Adviser” or “VBG Capital”	VBG Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the provision of deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement (including the respective proposed annual caps), and a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“Independent Shareholders”	the Shareholders, other than Bailian Group and Shanghai Bailian and their respective associates, who will abstain from voting on the relevant resolutions in relation to the continuing connected transactions at the EGM
“Latest Practicable Date”	22 October 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
“Lianhua Huashang”	Hangzhou Lianhua Huashang Group Co., Ltd.* (杭州聯華華商集團有限公司), a subsidiary of the Company

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PBOC”	People’s Bank of China (中國人民銀行)
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Sales Agency Framework Agreement”	the sales agency framework agreement dated 24 September 2021 entered into between the Company and Bailian Omni-channel in relation to provision of sales agency services by Bailian Omni-channel to the Group
“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 of the Company
“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
“%”	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.*

LETTER FROM THE BOARD



(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

No. 1258 Zhen Guang Lu Shanghai

The PRC

Principal Place of Business

in Hong Kong:

16th Floor, Methodist Building

36 Hennessy Road

Wanchai

Hong Kong

26 October 2021

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

Reference is made to the announcement of the Company dated 24 September 2021 in relation to, among others, the Financial Services Agreement and the Sales Agency Framework Agreement.

LETTER FROM THE BOARD

The purpose of this circular is to provide the Shareholders with (i) further details of the provision of deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement; (ii) the letter from the Independent Board Committee in relation to major transaction and continuing connected transactions; (iii) the letter from the Independent Financial Adviser in relation to major transaction and continuing connected transactions; and (iv) other information as required under the Listing Rules.

II. MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

1. Background

Reference is made to the circular of the Company dated 26 October 2018 and the announcements of the Company dated 8 October 2018, 3 April 2019, 5 December 2019 and 22 June 2020 in relation to, among others, the existing continuing connected transactions.

As the term of the existing continuing connected transactions will expire on 31 December 2021, the Board announced that on 24 September 2021, the Company agreed to renew the transaction terms and entered into the following agreements with the respective counterparties to regulate the continuing connected transactions:

- (i) **Financial Services Agreement:** the Company entered into the Financial Services Agreement with Bailian Group and Bailian Finance, pursuant to which, Bailian Finance agreed to provide the Group with deposit services, loan services and other financial services subject to the terms and conditions provided therein for a term commencing from 1 January 2022 to 31 December 2024; and
- (ii) **Sales Agency Framework Agreement:** the Company entered into the Sales Agency Framework Agreement with Bailian Omni-channel, pursuant to which, Bailian Omni-channel agreed to sell the Goods (as defined below) on behalf of the Group through its e-commerce platform for a term commencing from 1 January 2022 to 31 December 2022.

2. Agreements for Major Transaction and Continuing Connected Transactions

A. *Financial Services Agreement*

Reference is made to the circular of the Company dated 26 October 2018 in relation to the existing financial services agreement and the announcement of the Company dated 24 September 2021 in relation to the Financial Services Agreement.

Date

24 September 2021

LETTER FROM THE BOARD

Parties

- (a) the Company;
- (b) Bailian Group; and
- (c) Bailian Finance.

Term

The Financial Services Agreement is for a term of three years commencing from 1 January 2022 to 31 December 2024 (both days inclusive).

Major Terms

- (1) Bailian Finance shall provide the Group with the following major services subject to the terms and conditions provided therein:
 - (i) financial and financing consultation, credit certification and other relevant advisory and agency services;
 - (ii) assistance in receipt and payment of transaction monies;
 - (iii) insurance agency services;
 - (iv) provision of guarantees to the Group;
 - (v) entrusted loans services;
 - (vi) draft acceptance and discount services;
 - (vii) settlement services including payment and clearance services;
 - (viii) deposit services;
 - (ix) loan and financial leasing services; and
 - (x) other financial services at the request of the Company provided that the relevant approvals from the CBIRC are obtained.
- (2) Deposit cap: the maximum daily balance of the Group's deposits with Bailian Finance (including any interest accrued therefrom) for each of the three years ending 31 December 2024 is RMB1.2 billion.

LETTER FROM THE BOARD

- (3) Bailian Finance has undertaken to adhere to the principles below in relation to the provision of the aforementioned financial services to the Group:
- (i) the interest rates payable by Bailian Finance to the Group for any deposits shall not be lower than the benchmark interest rates for comparable deposits as announced by the PBOC and shall not be lower than the interest rates paid by other major commercial banks in the PRC for comparable deposits. As at the Latest Practicable Date, the benchmark interest rates for deposits as announced by the PBOC for 6-month deposit, one-year deposit and two-year deposit are 1.30%, 1.50% and 2.10% per annum, respectively. The average monthly interest rates offered by Bailian Finance to the Group for the two financial years ended 31 December 2019, 31 December 2020 and the eight months ended 31 August 2021 were 4.17%, 3.64% and 3.33% per annum, respectively;
 - (ii) the interest rates to be charged for loans to be granted to the Group by Bailian Finance shall not be higher than the Loan Prime Rate (LPR) as announced by the PBOC during the same period and shall not be higher than the lending rates charged by other major commercial banks in the PRC for comparable loans during the same period. As at the Latest Practicable Date, the LPR as announced by the PBOC for the term of one year and over five years are 3.85% and 4.65%, respectively. In August 2021, Bailian Finance provided a commercial loan of RMB600 million to Lianhua Huashang, a subsidiary of the Company, with a term of one year and a loan interest rate of 4.0%;
 - (iii) the service fees to be charged by Bailian Finance for the provision of other financial services to the Group, other than the deposit and loan services, shall not be higher than the service fees charged by other financial institutions in the PRC for comparable services, and the total service fees to be charged by Bailian Finance for the provision of other financial services to the Group shall not be more than RMB5 million per year; and
 - (iv) the terms of services to be provided to the Group by Bailian Finance shall be no less favourable than those of comparable services provided by other financial institutions in the PRC.

LETTER FROM THE BOARD

- (4) Bailian Group has made, among others, the following undertakings to the Company in the Financial Services Agreement:
 - (i) it will procure Bailian Finance to perform its obligations and undertakings under the Financial Services Agreement; and
 - (ii) it will guarantee the payment of all the Group's deposits (including any interest accrued therefrom) deposited with Bailian Finance in the event of default of payment by Bailian Finance to the Company.
- (5) The Company and Bailian Finance will enter into individual financial services agreements for specific financial services, which will be subject to the proposed annual caps under the Financial Services Agreement. The terms of such individual financial services agreements will be consistent with the principles of the Financial Services Agreement. If there is any discrepancy between the terms of an individual financial services agreement and the Financial Services Agreement, the latter shall prevail.

Capital Risk Control Measures

Bailian Finance shall take the following capital risk control measures:

- (1) Bailian Finance shall ensure the safety, liquidity and reasonable profitability of the Group's deposited funds.
- (2) Bailian Finance shall ensure efficient, prompt and safe settlement of the Group's funds with the use of Bailian Finance's internet banking system and its direct business connection technology and service platform.
- (3) Bailian Finance shall implement periodic evaluation system and establish internal control system and risk monitoring indicators to ensure the secure operation of its fund settlement and clearance network, protect the safety of funds, control risk exposure and satisfy the withdrawal requests from the Group for any deposited funds.
- (4) Bailian Finance shall ensure that it is in strict compliance with the risk monitoring indicators for financial institutions issued by the CBIRC and that its major regulatory indicators such as gearing ratio, inter bank borrowing ratio and liquidity ratio will also comply with the requirements of the CBIRC and other relevant laws and regulations.

LETTER FROM THE BOARD

- (5) Bailian Finance shall provide annual audit reports periodically to the Company and other financial reports upon the Company's request, and shall report its operation and financial condition to the Company periodically and authorize the Company's auditors to review and inspect its relevant accounting records so as to allow the Company to fulfill certain requirements of the Listing Rules.

Historical Amounts

Deposit Services:

The historical transaction amounts for the deposit services provided by Bailian Finance are as follows:

For the year/period ended	Maximum daily balance of the Group's deposits (Billion RMB)
31 December 2019	0.83
31 December 2020	1.09
31 August 2021	1.00

Other Services:

The historical transaction amounts for other services provided by Bailian Finance for the two years ended 31 December 2019, 31 December 2020 and for the eight months ended 31 August 2021 are nil.

Proposed Annual Caps and Basis for Proposed Annual Caps

Deposit Services:

The proposed annual caps in respect of the maximum daily deposit balance (including any interest accrued therefrom) with Bailian Finance are RMB1.2 billion for each of the three years ending 31 December 2024 after taking into account of the following factors:

- (i) the historical maximum daily deposit balance placed by the Group in Bailian Finance, which was approximately RMB0.83 billion, RMB1.09 billion and RMB1.00 billion for each of the two years ended 31 December 2020 and for the eight months ended 31 August 2021, respectively;

LETTER FROM THE BOARD

- (ii) the expected demand for cash flow of the Group for each of the three years ending 31 December 2024 after considering the operation and development plan of the Company;
- (iii) the Group planned to further change its business operation model, outlets and commodities structure and expected that the customer flow, sales and profitability of the Group would also increase. It was estimated that the Group would open about 200 to 300 new stores during each of the three years ending 31 December 2024 and the operation scale of the Group would increase correspondingly;
- (iv) the expected amount of interest income from Bailian Finance taking into account the interest income that could otherwise be obtained by placing comparable amount of deposits with other major commercial banks in the PRC; and
- (v) in view of the satisfactory cooperation relationship with Bailian Finance in the past, the Company anticipates that it will make more deposits with Bailian Finance in the ensuing three years.

In view of the above factors, the Directors (including the independent non-executive Directors) consider that the proposed annual caps in respect of the provision of deposit services by Bailian Finance under the Financial Services Agreement are fair and reasonable.

Loan Services:

Since the loan services to be provided by Bailian Finance to the Group are on normal commercial terms which are similar to or even more favourable than those offered by other major commercial banks in the PRC, and that no security over the assets of the Group will be granted in respect of the loan services, the loan services are exempt under Rule 14A.90 of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements.

Other Services:

Apart from the deposit services and the loan services, other financial services which may be provided by Bailian Finance to the Company mainly include entrusted loans services, settlement services, draft acceptance and discount services, financial leasing services, and so forth.

LETTER FROM THE BOARD

The proposed annual caps in respect of the maximum transaction amounts for other services payable by the Company to Bailian Finance are RMB5 million for each of the three years ending 31 December 2024 after taking into account of the following factors:

- (i) in order to improve the efficiency of the Company's capital utilization, the Company will strengthen the financial service cooperation with Bailian Finance; and
- (ii) the Company will also cooperate with Bailian Finance in other financial services. For example, the Company and Bailian Finance have reached preliminary cooperation intentions with respect to supply chain finance (pursuant to which, Bailian Finance will provide financing services to the suppliers of the Company, including the provision of system construction, data connection and other services by Bailian Finance to the Company), financial consulting and other services. The pricing of the transaction will follow the principle of marketization.

As the highest applicable percentage ratio for other services provided by Bailian Finance to the Company is more than 0.1% but less than 5%, other services provided by Bailian Finance to the Company under the Financial Services Agreements are subject to the reporting, annual review and announcement requirements, but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Internal Control and Pricing Policy

The interest rates for deposits, loans and the service fees for other financial services are determined after considering the interest rates and service fees offered or charged by other major commercial banks in the PRC for provision of comparable deposits, loans and other financial services.

There are stringent internal control policies of the Company with regard to financial service transactions. The relevant personnel of the finance department of the Company would compare the deposit interest rates quoted from other independent third parties (including at least three financial institutions and commercial banks in the PRC, such as Bank of Shanghai, Shanghai Pudong Development Bank, Industrial and Commercial Bank of China) and from the PBOC on a regular basis, and such research and comparison results will be reported by the relevant personnel of the finance department to the head of the finance department of the Company. With the aforementioned research and comparison results, the head of the finance department of the Company (who has

LETTER FROM THE BOARD

the approval power for deposit transaction with Bailian Finance) will make sure the interest rates receivable by the Company for the Company's deposits with Bailian Finance shall not be lower than the interest rates receivable from those offered by other independent commercial banks for comparable deposits during the same period.

By adopting the policies set out above, the Company can ensure that (i) the interest rates receivable by the Company for the Company's deposits shall not be lower than the interest rates offered by other independent commercial banks for comparable deposits in the PRC during the same period in order to ensure the safety and yield on the deposited funds; and (ii) the loan interest rates and service fees charged by Bailian Finance shall not be higher than that charged by other independent commercial banks for providing comparable loans and services in the PRC during the same period.

Reasons for and Benefits of Entering into the Financial Services Agreement

- (1) The interest rates on deposits and loans to be offered by Bailian Finance to the Group will be equal to or more favourable than those offered by other major commercial banks in the PRC in respect of comparable deposits and loans.
- (2) Bailian Finance is established as a non-banking financial institution regulated by the PBOC and the CBIRC and provides its services in accordance with the rules and operational requirements of these regulatory authorities. In addition, capital risks are reduced through the introduction of the risk control measures stipulated in the Financial Services Agreement.
- (3) Bailian Group has undertaken to guarantee the repayment of all the Group's deposits (including any interest accrued therefrom) deposited with Bailian Finance.
- (4) The Company is expected to benefit from Bailian Finance's better understanding of the operations of the Company which will allow more expedient and efficient services than those rendered by other PRC commercial banks. For example, in the event that the Company considers that it is necessary to obtain loan and guarantee from Bailian Finance in view of its business and financial needs, it is expected that the time required for the examination and approval of the loans and guarantee to be provided by Bailian Finance will be shorter than those required by other commercial banks.

LETTER FROM THE BOARD

- (5) By entering into the Financial Services Agreement with Bailian Group and Bailian Finance, the Company will be able to centralize its control and management over the financial resources of the Group, therefore improve the utilization and efficiency of fund usage and mitigate its operating risks. It can also accelerate the turnover of funds and reduce transaction costs and expenses, thereby further enhancing the amount and efficiency of funds utilisation. Meanwhile, the financial services to be provided under the Financial Services Agreement are diversified and can meet the business needs of the Company.

In view of the above, the Directors (including the independent non-executive Directors) are of the view that the capital risk control measures under the Financial Services Agreement are adequate to cover the risks involved in depositing funds of the Group with Bailian Finance, the terms of the Financial Services Agreement are fair and reasonable and the Financial Services Agreement is entered into on normal commercial terms, and on terms no less favourable than those available from independent third parties under the prevailing local market conditions, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

B. Sales Agency Framework Agreement

Reference is made to the circular of the Company dated 26 October 2018 in relation to the existing sales agency framework agreement and the announcement of the Company dated 24 September 2021 in relation to the Sales Agency Framework Agreement.

Date

24 September 2021

Parties

- (a) Bailian Omni-channel (as agent); and
- (b) the Company (as principal)

Term

The Sales Agency Framework Agreement is for a term of one year commencing from 1 January 2022 to 31 December 2022 (both days inclusive).

LETTER FROM THE BOARD

Sales Agency

Pursuant to the Sales Agency Framework Agreement, Bailian Omni-channel agreed to sell the goods (namely, food, washing detergent, fresh produce, home textiles, home appliances and miscellaneous items) (the “**Goods**”) on behalf of the Group through its e-commerce platform.

Bailian Omni-channel will settle the Selling Prices (as defined below) with the Company on a monthly basis. The fees payable by the Company are as follows:

- (i) in respect of Goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group through the main site of their e-commerce platforms, the Company will pay Bailian Omni-channel the platform usage fee which is equivalent to 4% of the total transaction amount of Goods sold and shall not exceed 4% of the sales budget of the Goods. The sales budget is formulated by Lianhua E-business Co., Ltd. * (聯華電子商務有限公司), a subsidiary of the Company which is responsible for handling the online sales business of the Group, and reviewed and approved by the management and the Board of the Company. Besides, the Company shall also pay Bailian Omni-channel the payment handling fees which shall be charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold. As such, for Goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group through the main site of their e-commerce platforms, the aggregate amount of fees payable by the Company to Bailian Omni-channel shall be the platform usage fee which is equivalent to 4% of the total transaction amount of Goods sold or 4% of the sales budget of the Goods (whichever is lower) plus the payment handling fee which is charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold;
- (ii) in respect of Goods sold by the Group through the third-party platforms, the Company will pay Bailian Omni-channel the platform usage fee which is equivalent to 1% of the total transaction amount of Goods sold. Besides, the Company shall pay the third-party platforms the platform usage fees as agreed by both parties.

LETTER FROM THE BOARD

The parties and/or its subsidiaries will enter into individual sales agency contracts setting out specific terms including the transaction price determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the Sales Agency Framework Agreement. If there is any discrepancy between the terms of an individual sales agency contract and the Sales Agency Framework Agreement, the latter shall prevail.

The Company or its subsidiaries has the sole discretion to set the selling prices of the Goods (the “**Selling Prices**”) to be sold on the e-commerce platforms of Bailian Omni-channel and/or its subsidiaries. The prices at which the Company or its subsidiaries charges Bailian Omni-channel and/or its subsidiaries for the supply of the Goods is the same as the Selling Prices.

Consideration and Payment

- (1) The Selling Prices are set solely by the Company or its subsidiaries with reference to the prevailing prices of the comparable Goods sold at the outlets of the Group during the same period and as such, the Selling Prices are subject to the same pricing policies as that of the Group with respect to its outlets. This would ensure that the Selling Prices would not be less favourable than those available from independent third parties in real-time.
- (2) In respect of Goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group through the main site of their e-commerce platforms, the Company agrees to pay Bailian Omni-channel (i) the platform usage fee which is equivalent to 4% of the total transaction amount of Goods sold or 4% of the sales budget of the Goods (whichever is lower); and (ii) the payment handling fee which is charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold.

In respect of Goods sold by the Group through the third-party platforms, the Company agrees to (i) pay Bailian Omni-channel the platform usage fee which is equivalent to 1% of the total transaction amount of Goods sold; and (ii) pay the third party platforms the platform usage fees as agreed by both parties.

LETTER FROM THE BOARD

- (3) Depending on the specific conditions of transactions contemplated under the individual sales agency contracts, the platform usage fee payable by the Company or its subsidiaries to Bailian Omni-channel and/or its subsidiaries and the Selling Prices payable by Bailian Omni-channel and/or its subsidiaries to the Company or its subsidiaries under the individual sales agency contracts are to be made by bank transfer on a monthly or agreed period basis and shall be consistent with the market payment terms of purchasing such particular type of Goods.
- (4) The transactions contemplated under the Sales Agency Framework Agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Omni-channel on normal commercial terms and on terms not be less favourable than those available from independent third parties.

The shopping procedures and payment method for the transactions under the Sales Agency Framework Agreement are set out as follows:

- (1) The end customer will place an order for the purchase of Goods and pay the Selling Prices to Bailian Omni-channel on its e-commerce platform. After Bailian Omni-channel and/or its subsidiaries receives an order from the end customer on its e-commerce platform, it will notify the Company or its subsidiaries of such order information. Upon receiving such notification, the Company or its subsidiaries will deliver the Goods to the end customer. Bailian Omni-channel will settle the Selling Prices with the Company which is equivalent to the total transaction amount of Goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group through its e-commerce platform on a monthly basis. After the Selling Prices are settled by Bailian Omni-channel, the Company will pay Bailian Omni-channel (i) the platform usage fee which is equivalent to 4% of the total transaction amount of Goods sold or 4% of the sales budget of the Goods (whichever is lower); and (ii) the payment handling fee which is charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold.

LETTER FROM THE BOARD

- (2) The end customer will place an order for the purchase of Goods of the Group and pay the Selling Prices to the third-party platforms on their e-commerce platforms. The third-party platforms will transmit the order information to Bailian Omni-channel, and Bailian Omni-channel will notify the Company or its subsidiaries of such order information. Upon receiving such notification, the Company or its subsidiaries will deliver the Goods to the end customer. The settlement period between Bailian Omni-channel and the third-party platforms is subject to the individual contracts entered into by them. Bailian Omni-channel will settle the Selling Prices with the Company which is equivalent to the total transaction amount of Goods sold through the third-party platforms on a monthly basis. After the Selling Prices are settled by Bailian Omni-channel, the Company will (i) pay Bailian Omni-channel the platform usage fee which is equivalent to 1% of the total transaction amount of Goods sold by the Group through the third-party platforms; and (ii) pay the third party platforms the platform usage fees as agreed by both parties.

Historical Amounts

The historical transaction amounts for the sales agency services provided by Bailian Omni-channel are as follows:

For the year/period ended	Transaction amounts (RMB)	Platform usage fees (RMB)
31 December 2019	442,377,000	19,887,000
31 December 2020	600,780,000	27,358,000
31 August 2021	595,078,000	22,717,000

LETTER FROM THE BOARD

Proposed Annual Caps and Basis for Proposed Annual Caps

In 2020, the national e-commerce transaction amount reached approximately RMB37.21 trillion, representing a year-on-year increase of approximately 4.5%; the online retail sales amounted to approximately RMB11.76 trillion, representing a year-on-year increase of approximately 10.9%, where the growth rate decreased by 5.6 percentage points over the previous year; the national online shopping users reached approximately 782 million, accounting for approximately 79.1% of the total number of Internet users, representing a year-on-year increase of approximately 20.5%. As such, the Company expects that, as the PRC government introduces policies to promote e-commerce into rural areas, communities, middle and small cities, while accelerating the integration of online and offline developments, there will be further rapid and significant growth in online retail sales over the next year.

Based on the assumption of rapid growth in online sales in the PRC, it is expected that the maximum aggregate annual transaction amount in respect of the Goods to be sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group under the Sales Agency Framework Agreement for the year ending 31 December 2022 is RMB1.6 billion, which is determined in accordance with the following factors:

- (i) the anticipated continuously increasing demands for the Goods to be sold on the e-commerce platforms of Bailian Omni-channel and/or its subsidiaries under the Sales Agency Framework Agreement. The Goods sold by the Company mainly comprises fast-moving consumer goods which focus on catering the livelihood needs. The “Delivery to Home” business promoted on the e-commerce platforms also focus on fulfilling the actual needs of customers’ daily life. Therefore, the Company considers that there is huge potential in such market and such market has huge attractions to customers;
- (ii) considering the fact that the transactions amounts between the Group and Bailian Omni-channel under the Sales Agency Framework have shown a growth trend of more than 35% in the past three years, it is anticipated that there will be a significant increase in the Company’s sales of Goods on the e-commerce platforms of Bailian Omni-channel with the continuous improvements of this module, the continuous expansions of the types of commodities, especially the expansion of types of fresh produce and the continuous improvements in the services provided (including the decreased delivery time from three hours to an hour of the “Delivery to Home” business);

LETTER FROM THE BOARD

- (iii) in the past three years, the Company cooperated with the e-commerce platforms of Bailian Omni-channel for the sales agency business only in Shanghai, Anhui Province and Jiangsu Province. Taking into consideration the continuous perfection of the platforms of Bailian Omni-channel and the deepened cooperation between both parties, the Company will start to cooperate with Bailian Omni-channel in 2022 in other operating areas of the Company, including Zhejiang, Guangxi and Henan to promote the full expansion of the e-commerce business of the Company. There are also considerable outlet scales and mature customer groups that are not weaker than those in Shanghai in such operating areas. It is estimated that the online sales of the Company will increase significantly; and
- (iv) the e-commerce businesses of Bailian Omni-channel and/or its subsidiaries have been developed and continuously perfected in the past three years and already obtained a comparably large customer flow base and user stickiness. Moreover, it is expected that the periodical promotion activities will attract more online customer flows.

It is expected that the maximum platform usage fee payable by the Group under the Sales Agency Framework Agreement for the year ending 31 December 2022 is RMB50 million which are determined in accordance with the following factors:

- (i) The fee payable to Bailian Omni-channel by the Company for using e-commerce platforms of Bailian Omni-channel and/or its subsidiaries which amounts to (a) 4% of the total transaction amount of Goods sold or 4% of the sales budget of the Goods (whichever is lower) plus the payment handling fee which is charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold in respect of Goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group through the main site of their e-commerce platforms; and (b) 1% of the total transaction amount of Goods sold in respect of Goods sold by the Group through the third-party platforms.

LETTER FROM THE BOARD

The ratio for the fee for using e-commerce platforms of Bailian Omni-channel and/or its subsidiaries is negotiated on arm's length basis of both parties and with reference to the prices of relevant services quoted from two independent third parties (namely, JD Daojia (京東到家) and Meituan Waimai (美團外賣)) for the sales of the same Goods. Although these two independent third-party platforms have been widely recognised by the public, which in turn can provide customer flow to the online business of the Company and increase the sales of the Company, the sales agency services provided by them are not totally comparable to those provided by Bailian Omni-channel for the following reasons:

- (a) the online e-commerce platform of Bailian Omni-channel is tailor-made for the Company, which could integrate the e-commerce business and offline business, for example the membership and merit point systems in the offline business will apply to the e-commerce business in order to retain the existing customers and capture new customers. Other tailor-made services will also be provided to customers of the Group such as providing recommendations to customers on fresh produce that are in season in order to strengthen customers' loyalty. Such tailor-made services would not be available in other existing platforms; and
- (b) Bailian Omni-channel provides and intends to provide similar services to its connected persons (including the Group) only and no independent third-party sellers will be involved. Among those connected sellers, the Company's products will have a higher priority and higher visibility in the platform operated by Bailian Omni-channel. Products of the Company will be put at first priority of Bailian Omni-channel and thus will be displayed on the first page of the e-commerce platform as well as the relevant search results of the e-commerce platform in order to have higher exposure to the public. Bailian Omni-channel also provides the Company with other additional services, including maintaining the customised web pages of the Company on its e-commerce platform and providing instant after-sale services for the Goods sold on its e-platform. These selling strategies are expected to boost the sales of the Company via e-commerce platform.

LETTER FROM THE BOARD

In addition, engaging an independent contractor to develop a tailor-made e-commerce platform would normally involve vast sum of cash outlay, whilst the arrangement of platform usage fee as contemplated under the Sales Agency Framework Agreement, which will be a percentage to the actual sales to be recognised through the e-commerce platform of Bailian Omni-channel, would allow the Group to avoid such vast sum of cash outlay. Therefore, the Company considers that the platform usage fee charged by Bailian Omni-channel is fair and reasonable taking into consideration of all factors mentioned above.

- (ii) To the best knowledge of the Directors, the third-party platforms charge different platform usage fees for different types of goods sold or services provided on their e-commerce platforms. The platform usage fees (including the delivery fees of the Goods) charged by the third-party platforms such as Ele.me (餓了麼), Meituan Waimai (美團外賣) and JD Daojia (京東到家) consist of a fixed amount per order and a certain ratio of the order amount. According to the historical transactions of the Company, the average platform usage fee charged by the third-party platforms is within the range of 6% to 7.5% of the total transaction amounts, and the platform usage fee charged by Bailian Omni-channel is 4% of the total transaction amount of Goods sold or 4% of the sales budget of the Goods (whichever is lower) plus the payment handling fee which is charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold. Therefore, the actual ratio of fees charged by Bailian Omni-channel (including platform usage fee and payment handling fee) will be equivalent to or less than 4.5% of the total transaction amount of Goods sold. As such, the platform usage fee payable to Bailian Omni-channel and/or its subsidiaries which is equivalent to (a) 4% of the total transaction amount of Goods sold or 4% of the sales budget of the Goods (whichever is lower) plus the payment handling fee which is charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold in respect of Goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group through the main site of their e-commerce platforms; and (b) 1% of the total transaction amount of Goods sold in respect of Goods sold by the Group through the third-party platforms would not be less favourable.

LETTER FROM THE BOARD

- (iii) The proposed annual cap in respect of the Goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group for the year ending 31 December 2022 is RMB1.6 billion.

In view of the above, the Directors (including the independent non-executive Directors) consider that the proposed annual caps under the Sales Agency Framework Agreement, including the maximum aggregate annual transaction amount in respect of the Goods to be sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group and the platform usage fee which is equivalent to (a) 4% of the total transaction amount of Goods sold or 4% of the sales budget of the Goods (whichever is lower) plus the payment handling fee which is charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold in respect of Goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group through the main site of their e-commerce platforms; and (b) 1% of the total transaction amount of Goods sold in respect of Goods sold by the Group through the third-party platforms are fair and reasonable.

Internal Control and Pricing Policy

In order to ensure that the terms for the sales agency services provided by Bailian Omni-channel and/or its subsidiaries are not less favourable than those available from independent third parties, the Group has adopted the following measures:

- (1) The Selling Prices are set solely by the Company or its subsidiaries with reference to the prevailing prices of the comparable Goods sold at the outlets of the Group during the same period and as such, the Selling Prices are subject to the same pricing policies as that of the Group with respect to its outlets. This would ensure that the Selling Prices would not be less favourable than those available from independent third parties in real-time.
- (2) The platform usage fee for using the e-commerce platforms of Bailian Omni-channel and/or its subsidiaries are negotiated on arm's length basis and with reference to the prices of relevant comparable services quoted from two independent third parties. The personnel in the electronic business department of the Company will regularly monitor the prevailing market price for the platform usage fee and will submit by writing their updates on the relevant prevailing market price for the platform usage fee semi-annually to the head of electronic business department.

LETTER FROM THE BOARD

- (3) The Company will supervise the continuing connected transactions in accordance with the procedures set forth in the Company's internal control manual on continuing connected transactions. The relevant personnel of the business department of the Group will conduct regular checks to review and assess whether the transactions contemplated under the relevant continuing connected transaction are conducted in accordance with the terms of its respective agreement and will also regularly update the market price for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the above two pricing policies.
- (4) The Company's external auditors will conduct an annual review on the pricing and the annual caps of the continuing connected transactions.
- (5) The Company's Audit Committee 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/or its relevant subsidiaries.
- (6) The independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions.

Reasons for and Benefits of Entering into the Sales Agency Framework Agreement

In view of the increasing business scale of Bailian Omni-channel and its subsidiaries, the Company considers that Bailian Group's development of e-commerce will promote the Group's development of e-commerce and bring more sources of revenue for the Company, and the entering into of the Sales Agency Framework Agreement with Bailian Omni-channel and/or its subsidiaries will provide a new platform for and greatly increase the volume of the sale of Goods of the Company.

The Company considers that the entering into of the Sales Agency Framework Agreement with Bailian Omni-channel and/or its subsidiaries will further enhance their business relationships, which will benefit the stability of the Company's operation activities and long-term development.

LETTER FROM THE BOARD

In view of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Sales Agency Framework Agreement are fair and reasonable and the Sales Agency Framework Agreement is entered into on normal commercial terms, and on terms no less favourable than those available from independent third parties under the prevailing local market conditions, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

3. General Information

Information of the Company

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

Information of Bailian Omni-channel

Bailian Omni-channel is a wholly-owned subsidiary of Bailian Group, principally engaged in e-commerce business platform and regional O2O omni-channel service operation in the e-commerce project of Bailian Group.

Information of Bailian Finance

Bailian Finance is a non-banking financial institution established in the PRC. As at the Latest Practicable Date, its registered capital is RMB800 million. 75% of its share capital is held by Bailian Group, and 25% of that is held by Shanghai Bailian. The principal business of Bailian Finance mainly includes the provision of deposit services, loan services, entrusted loan services and settlement services.

Information of Bailian Group

Bailian Group is principally engaged in businesses relating to domestic trading, provision of production materials, logistics and development of commercial properties.

4. Listing Rules Implications

As at the Latest Practicable Date, Bailian Group is a substantial Shareholder of the Company, and Bailian Finance and Bailian Omni-channel are subsidiaries of Bailian Group. Accordingly, Bailian Group, Bailian Finance and Bailian Omni-channel are connected persons of the Company. Therefore, the transactions contemplated under the Financial Services Agreement and the Sales Agency Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

Major Transaction and Continuing Connected Transactions

Provision of deposit services under the Financial Services Agreement

As the highest applicable percentage ratio in relation to the provision of deposit services under the Financial Services Agreement is more than 25%, the provision of deposit services under the Financial Services 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 for the highest proposed annual cap for the provision of deposit services under the Financial Services Agreement is more than 5%, the provision of deposit services under the Financial Services Agreement is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Continuing Connected Transactions which are subject to Independent Shareholders' Approval Requirement

Sales Agency Framework Agreement

As the highest applicable percentage ratio for the highest proposed annual cap under the Sales Agency Framework Agreement is more than 5%, the transactions contemplated under the Sales Agency Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company considers that the transactions contemplated under the Sales Agency Framework Agreement constitute the principal activities of the Company and are of a revenue nature in the ordinary and usual course of business of the Company after taking into the following factors:

- (i) the previous transactions under the existing sales agency framework agreement which were of the same nature were not treated as notifiable transactions under Chapter 14 of the Listing Rules;
- (ii) the previous transactions under the existing sales agency framework agreement which were of the same nature comprised the sales of Goods and the payment of platform usage fee by the Company. The historical accounting treatment for the sales of Goods was recognized as sales revenue from Bailian Omni-channel and then was carried forward as corresponding costs, while the historical accounting treatment for the payment of platform usage fee was recognized as administrative expenses of the Company;

LETTER FROM THE BOARD

- (iii) the above-mentioned accounting treatment is in accordance with generally acceptable accounting standards; and
- (iv) the transactions contemplated under the Sales Agency Framework Agreement are revenue transactions for tax purposes.

Therefore, the transactions contemplated under the Sales Agency Framework Agreement do not constitute notifiable transactions under Chapter 14 of the Listing Rules.

Continuing Connected Transactions which are exempt from Independent Shareholders' Approval Requirement

Provision of other services under the Financial Services Agreement

As the highest applicable percentage ratio for other services provided by Bailian Finance to the Company is more than 0.1% but less than 5%, other services provided by Bailian Finance to the Company under the Financial Services Agreements are subject to the reporting, annual review and announcement requirements, but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Fully-exempt Continuing Connected Transactions

Provision of loan services under the Financial Services Agreement

The loan services to be provided by Bailian Finance to the Group under the Financial Services Agreement constitute financial assistance to be provided by a connected person for the benefit of the Group. As such services are on normal commercial terms which are similar to or even more favourable than those offered by other commercial banks for comparable services in the PRC, and no security over the assets of the Group will be granted in respect of the loan services, the loan services are fully exempt from all reporting, annual review, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Listing Rules.

III. EGM

The Company will convene the EGM to consider and, if appropriate, to approve: (i) the provision of deposit services under the Financial Services Agreement; and (ii) the Sales Agency Framework Agreement.

LETTER FROM THE BOARD

The EGM will be convened at 10:00 a.m. on Thursday, 2 December 2021 at the Conference Room, 13th Floor, Bailian Central Plaza, 1258 Zhen Guang Lu, Shanghai, the PRC. Shareholders who intend to attend the EGM 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 Friday, 12 November 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 EGM should you so wish.

The notice of EGM, together with the reply slip and proxy form, has been despatched to the Shareholders on 15 October 2021.

IV. VOTING AT THE EGM 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. Bailian Group and/or its subsidiaries, being a party to each of the Financial Services Agreement and the Sales Agency Framework Agreement, has material interests in the relevant continuing connected transactions, respectively. Therefore, Bailian Group and its associates, including Shanghai Bailian, are required to abstain from voting on the relevant resolutions to be proposed at the EGM to approve the provision of deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement (including the respective proposed annual caps).

Saved as disclosed above, no other Shareholders would be required to abstain from voting to approve the resolutions in relation to continuing connected transactions at the EGM.

The Board has approved the entering into of the Financial Service Agreement and the Sales Agency Framework Agreement and their respective proposed annual caps and none of the Directors has any material interest in the transactions contemplated thereunder.

Since Mr. Ye Yong-ming, Ms. Xu Zi-ying, Mr. Chong Xiao-bing, 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 Financial Service Agreement and the Sales Agency Framework Agreement. Saved as disclosed above, none of the other Directors was required to abstain from voting to approve the resolutions in relation to the major transaction and continuing connected transactions.

LETTER FROM THE BOARD

V. RECOMMENDATION

Your attention is drawn to the letter of the Independent Board Committee set out on pages 29 to 30 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 31 to 55 of this circular in respect of the terms of the deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the view that the terms of the deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement, which have been reached after arm's length negotiations among the parties, are on normal commercial terms, fair and reasonable, and the provision of deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement 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 resolutions to be proposed for approving the deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement.

The Board (including the members of the Independent Board Committee) considers that the terms of the deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement, which have been reached after arm's length negotiations among the parties, are on normal commercial terms, fair and reasonable, and the provision of deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement are in the interest of the Shareholders and the Company as a whole and they recommend the Shareholders or the Independent Shareholders (as the case may be) to vote in favour of all the resolutions at the EGM.

VI. 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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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

26 October 2021

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 26 October 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 provision of deposit services under the Financial Services Agreement and the Sales Agency 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 4 to 28 of the Circular and the letter of advice from VBG Capital, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement, set out on pages 31 to 55 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of VBG Capital as stated in its letter of advice, the terms and conditions of the provision of deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement, and the business and financial effects of the provision of deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement on the Company, we consider that the terms of the provision of deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement which have been reached after arm's length negotiations among the parties, are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group, and the provision of deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement (including the respective proposed annual caps) are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the provision of deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement (including the respective 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

LETTER FROM VBG CAPITAL

Set out below is the text of a letter received from VBG Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions for the purpose of inclusion in this circular.



建泉融資有限公司
VBG Capital Limited

18/F., Prosperity Tower
39 Queen's Road Central
Hong Kong

26 October 2021

*To: The independent board committee and the independent shareholders
of Lianhua Supermarket Holdings Co., Ltd.*

Dear Sirs,

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions (as being defined herein), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 26 October 2021 issued by the Company to the Shareholders (the “**Circular**”), of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed “Definitions” in the Circular unless the context requires otherwise.

On 8 October 2018, (i) the Company, Bailian Group and Bailian Finance entered into the existing financial services agreement (the “**Existing Financial Services Agreement**”) in relation to the provision of deposit services, loan services and other financial services by Bailian Finance to the Group; and (ii) the Company and Bailian Omni-channel entered into the existing sales agency framework agreement (the “**Existing Sales Agency Framework Agreement**”) in relation to the sales of various goods by Bailian Omni-channel on behalf of the Group through its e-commerce platform. Each of the Existing Financial Services Agreement and the Existing Sales Agency Framework Agreement will expire on 31 December 2021. For the purpose of renewing the aforesaid agreements so as to continue to regulate the respective continuing connected transactions contemplated thereunder, the relevant parties entered into the Financial Services Agreement and the Sales Agency Framework Agreement on 24 September 2021.

LETTER FROM VBG CAPITAL

According to the Letter from the Board, the provision of deposit services under the Financial Services Agreement constitutes a major transaction and a non-exempt continuing connected transaction for the Company; whereas the transactions contemplated under the Sales Agency Framework Agreement constitute non-exempt continuing connected transactions for the Company. These non-exempt continuing connected transactions (the “**Non-exempt Continuing Connected Transactions**”) are subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Xia Da-wei, Mr. Lee Kwok Ming, Don, Mr. Chen Wei and Mr. Zhao Xin-sheng (all being the independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Non-exempt Continuing Connected Transactions at the EGM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Non-exempt Continuing Connected Transactions, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group. We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the Circular. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the 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 in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

LETTER FROM VBG CAPITAL

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or future prospects of the Group, Bailian Group, Bailian Finance, Bailian Omni-channel or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Non-exempt Continuing Connected Transactions. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to consider events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any H Shares or any other securities of the Company.

Shareholders should note that as the respective proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of revenues or costs to be recorded from the Non-exempt Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual revenue and cost to be incurred under the Non-exempt Continuing Connected Transactions will correspond with the respective proposed annual caps.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources but we did not conduct any independent investigation into the accuracy and completeness of such information.

LETTER FROM VBG CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Non-exempt Continuing Connected Transactions, we have taken into consideration the following principal factors and reasons:

1. BACKGROUND OF THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Business and financial overview of the Group

The Company is a joint stock limited company incorporated in the PRC with limited liability, principally engaged in retail chain business, including the operation of hypermarkets, supermarkets and convenience stores in the PRC.

Based on the Company's annual report for the year ended 31 December 2020 (the "2020 Annual Report"), the Group has recorded stable revenue of over RMB25 billion for each of the past five consecutive years. For the year ended 31 December 2020, revenue of the Group reached approximately RMB26.3 billion, increasing by approximately 1.8% as compared to the prior year. During the same year under review, the Group also succeeded in reducing its loss and total comprehensive expense for the year by approximately 22.5% from approximately RMB242.0 million to approximately RMB187.6 million. As referred to in the 2020 Annual Report, the Group responded promptly during the outbreak of the COVID-19 pandemic in the first half of 2020 to ensure the supply of products for people's livelihood, which, together with its active price control measure, effectively attracted customers and led to the aforesaid better financial performance.

As at 30 June 2021, the Group had a total of 3,254 outlets (including hypermarkets, supermarkets and convenience stores) located mainly at greater east China. The Group's hypermarket segment continued the upgrade and accelerated the construction of digital store system and actively enhanced its online operation ability. The hypermarket segment accounted for over 50% of the Group's revenue in 2020. The Group's supermarket segment sought innovation with a focus on fresh produce. Through category planning and brand revamp, the Group differentiated and created the community-based fresh produce shopping experience with its own characteristics, and reconstructed the store space to improve the effectiveness per square metre. The supermarket segment accounted for around 36% of the Group's revenue in 2020. The remaining revenue of the Group was mainly contributed by the convenience store segment which aimed at streamlining structure, cutting costs and reducing loss.

LETTER FROM VBG CAPITAL

2021 is the first year of “14th Five-Year” Plan promulgated by the PRC government. Propelled by the new round of technological revolution and industry transformation, as well as the application of new technologies such as the Internet, cloud computing and artificial intelligence, Chinese people’s living standard continues to improve. As advised by the Directors, under the national policy support and the trend of digital economy, new businesses and new models, including online consumption, unmanned retail, intelligent consumption, sharing consumption etc. will develop rapidly in the PRC. In such a context, the Group will adhere to 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”. The Group intends to boost comprehensive whole-area sales by establishing front-end warehouses, strengthening membership services, and developing community group purchase and other new businesses. It will also cooperate with third-party platforms to further build up reputation in the e-commerce field. Moreover, through the new retail logistics system, the Group will promote the “Delivery to Home” and next-day delivery model, and launch intra-city retail and third-party services. The Group will continue to promote the brand revamp and expedite the building of its private-label brand to foster sales. It is expected that the above development strategies will allow the Group to adapt to market changes and the new market needs, thereby maintaining its overall competitiveness.

Information on the parties involved

Information on Bailian Group

As extracted from the Letter from the Board, Bailian Group is a controlling shareholder of the Company, and is principally engaged in businesses relating to domestic trading, provision of production materials, logistics and development of commercial properties.

Information on Bailian Finance

As extracted from the Letter from the Board, Bailian Finance is a non-banking financial institution established in the PRC. As at the Latest Practicable Date, its registered capital was RMB800 million, 75% of which was contributed by Bailian Group, while the remaining 25% was contributed by Shanghai Bailian. The principal business of Bailian Finance mainly includes the provision of deposit services, loan services, entrusted loan services and settlement services.

Based on the financial information of Bailian Finance which we have requested from the Company, Bailian Finance recorded total revenue of approximately RMB383.8 million for the year ended 31 December 2020, and its net profit jumped considerably by approximately 10.7% as compared to the prior year. As at 31 December 2020, the net asset value of Bailian Finance also expanded by approximately 7.4% to approximately RMB1.3 billion.

LETTER FROM VBG CAPITAL

Information on Bailian Omni-channel

As extracted from the Letter from the Board, Bailian Omni-channel is a wholly-owned subsidiary of Bailian Group, principally engaged in e-commerce business platform and regional O2O omni-channel service operation in the e-commerce project of Bailian Group.

2. THE FINANCIAL SERVICES AGREEMENT

Reasons for and possible benefits of the Financial Services Agreement

As referred to in the Letter from the Board, the Company expects that the provision of financial services, including the deposit services, by Bailian Finance will benefit the Group in the following ways:

- (i) the interest rates on deposits and loans to be offered by Bailian Finance to the Group will be equal to or more favourable than those offered by other major commercial banks in the PRC in respect of comparable deposits and loans;
- (ii) Bailian Finance is established as a non-banking financial institution regulated by the PBOC and the CBIRC and provides its services in accordance with the rules and operational requirements of these regulatory authorities. In addition, capital risks are reduced through the introduction of the risk control measures stipulated in the Financial Services Agreement;
- (iii) Bailian Group has undertaken to guarantee the repayment of all the Group's deposits (including any interest accrued therefrom) deposited with Bailian Finance;
- (iv) the Company is expected to benefit from Bailian Finance's better understanding of the operations of the Company which will allow more expedient and efficient services than those rendered by other PRC commercial banks. For example, in the event that the Company considers that it is necessary to obtain loan and guarantee from Bailian Finance in view of its business and financial needs, it is expected that the time required for the examination and approval of the loans and guarantee to be provided by Bailian Finance will be shorter than those required by other commercial banks; and

LETTER FROM VBG CAPITAL

- (v) by entering into the Financial Services Agreement with Bailian Group and Bailian Finance, the Company will be able to centralise its control and management over the financial resources of the Group, therefore improve the utilisation and efficiency of fund usage and mitigate its operating risks. It can also accelerate the turnover of funds and reduce transaction costs and expenses, thereby further enhancing the amount and efficiency of funds utilisation. Meanwhile, the financial services to be provided under the Financial Services Agreement are diversified and can meet the business needs of the Company.

We have discussed with the Directors in further depth regarding the reasons for and possible benefits of the Financial Services Agreement as highlighted above:

Bailian Finance as a centralised financial platform

As represented by the Directors, Bailian Finance has been established with a view to act as a centralised financial platform to facilitate treasury operations, control and operations within the Group. Members of the Group have the option to use Bailian Finance's financial services, which in turn facilitates the deployment of surplus funds from certain members of the Group to other members of the Group that may require cash. Hence, Bailian Finance serves as a financial intermediary through which the funds of members of the Group may be channeled efficiently between one another.

Furthermore, as Bailian Finance focuses on serving subsidiaries of Bailian Group (including the Group), Bailian Finance is familiar with the operations and needs of the supermarket industry. Accordingly, Bailian Finance has a better understanding on the operations and development of the supermarket industry and the needs of members of the Group, and thus it is expected that Bailian Finance would be able to provide more efficient and tailor-made services to the Group, which is beneficial to the Group from a customer's perspective.

Risk profile of Bailian Finance

Based on our independent research, we understand that as a licensed non-banking financial institution in the PRC, Bailian Finance is subject to stringent regulations and supervision by the PBOC and the CBIRC. In accordance with the relevant requirements under the Measures for Administration of Finance Companies of Enterprise Groups 《企業集團財務公司管理辦法》 promulgated by the CBIRC, Bailian Finance which is a group finance company:

- (a) is not allowed to engage in non-financial service business, including property investment or trading;

LETTER FROM VBG CAPITAL

- (b) must comply with the following ratio requirements: (i) the capital adequacy ratio shall not be lower than 10%; (ii) the net inter-bank borrowing balance shall not exceed its total registered capital; (iii) the total amount of outstanding guarantees shall not be more than its total registered capital; (iv) the total amount of investment to total registered capital ratio shall not be more than 70%; and (v) the ratio of self-owned fixed assets to total registered capital shall not exceed 20%; and
- (c) is required to deposit with the PBOC a mandatory proportion of the RMB deposits it has received.

As confirmed by the Directors, to their best knowledge, up to the Latest Practicable Date, there had been no record of non-compliance with relevant laws, rules and regulations of the PRC on Bailian Finance.

In assessing the financial and credit risks of Bailian Finance, we have taken into consideration that:

- (i) Bailian Finance recorded total revenue of approximately RMB383.8 million for the year ended 31 December 2020, and its net profit jumped considerably by approximately 10.7% as compared to the prior year. As at 31 December 2020, the net asset value of Bailian Finance also expanded by approximately 7.4% to approximately RMB1.3 billion;
- (ii) as being disclosed under the sub-section headed “Principal terms of the deposit services under the Financial Services Agreement” of this letter of advice, Bailian Group has undertaken to guarantee the payment of all the Group’s deposits (including any interest accrued therefrom) deposited with Bailian Finance in the event of default of payment by Bailian Finance to the Company;
- (iii) the operations of Bailian Finance are subject to the supervision of the PBOC and the CBIRC and are regulated by the relevant PRC financial regulations and rules; and
- (iv) to the best knowledge of the Directors, up to the Latest Practicable Date, there had been no record of non-compliance with relevant laws, rules and regulations of the PRC on Bailian Finance.

Having considered the foregoing, we concur with the Directors that the financial and credit risks of Bailian Finance are likely to be low and manageable.

In light of the aforesaid reasons for and possible benefits of the Financial Services Agreement as represented by the Directors and that as concluded above the financial and credit risks of Bailian Finance are likely to be low and manageable, we concur with the Directors that the Financial Services Agreement is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM VBG CAPITAL

Principal terms of the deposit services under the Financial Services Agreement

A summary of the principal terms of the deposit services under the Financial Services Agreement dated 24 September 2021 as extracted from the Letter from the Board is set out below:

- Parties:**
- (1) The Company
 - (2) Bailian Finance
 - (3) Bailian Group
- Term:** The Financial Services Agreement is for a term of three years commencing from 1 January 2022 to 31 December 2024 (both days inclusive).
- Nature of services to be provided:** Bailian Finance shall provide the Group with, amongst others, the deposit services subject to the terms and conditions provided therein.
- Bailian Finance's undertaking:** Bailian Finance has undertaken to adhere to the principles below in relation to the provision of deposit services to the Group:
- (i) the interest rates payable by Bailian Finance to the Group for any deposits shall not be lower than the benchmark interest rates for comparable deposits as announced by the PBOC and shall not be lower than the interest rates paid by other major commercial banks in the PRC for comparable deposits. As at the Latest Practicable Date, the benchmark interest rates for deposits as announced by the PBOC for 6-month deposit, one-year deposit and two-year deposit were 1.30%, 1.50% and 2.10%, respectively. The average monthly interest rates offered by Bailian Finance to the Group for the two years ended 31 December 2019, 31 December 2020 and the eight months ended 31 August 2021 were 4.17%, 3.64% and 3.33% per annum, respectively; and
 - (ii) the terms of services to be provided to the Group by Bailian Finance shall be no less favourable than those of comparable services provided by other financial institutions in the PRC.

LETTER FROM VBG CAPITAL

**Bailian Group's
undertaking:**

Bailian Group has made, amongst others, the following undertakings to the Company in the Financial Services Agreement:

- (i) it will procure Bailian Finance to perform its obligations and undertakings under the Financial Services Agreement; and
- (ii) it will guarantee the payment of all the Group's deposits (including any interest accrued therefrom) deposited with Bailian Finance in the event of default of payment by Bailian Finance to the Company.

**Individual financial
services
agreement:**

The Company and Bailian Finance will enter into individual financial services agreements for specific financial services, which will be subject to the proposed annual caps under the Financial Services Agreement. The terms of such individual financial services agreements will be consistent with the principles of the Financial Services Agreement. If there is any discrepancy between the terms of an individual financial services agreement and the Financial Services Agreement, the latter shall prevail.

Given the undertaking of Bailian Finance, the interest rates for the deposits of the Group with Bailian Finance shall be no less than (i) the benchmark interest rates for comparable deposits as announced by the PBOC; and (ii) the interest rates paid by other major commercial banks in the PRC for comparable deposits. Besides, Bailian Group has undertaken that it will procure Bailian Finance to perform its obligations and undertakings under the Financial Services Agreement and guarantee the payment of all the Group's deposits (including any interest accrued therefrom) deposited with Bailian Finance in the event of default of payment by Bailian Finance to the Company. These undertakings are favourable to the Group.

In addition, we noted that pursuant to the Financial Services Agreement, the Group is not restricted to approach, and in fact may choose, any bank or financial institution to satisfy its business and financial service needs. That is to say, the Group may, but is not obliged to, use the services provided by Bailian Finance. We consider that such provision could provide flexibility for the Group to decide on which financial institution(s) to place its idle cash with depending on its own circumstances.

In view of the above, we are of the opinion that the terms of the deposit services under the Financial Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM VBG CAPITAL

Proposed annual caps

The below table illustrates (i) the actual historical maximum daily balance of the Group's deposits with Bailian Finance (including the interests accrued therefrom) under the Existing Financial Services Agreement; and (ii) the proposed annual caps in respect of the maximum daily balance of the Group's deposits with Bailian Finance (including the interests accrued therefrom) under the Financial Services Agreement:

	Actual historical balance			The proposed annual caps		
			For the eight months ended 31 August 2021			
	2019	2020	2021	2022	2023	2024
						<i>RMB billion</i>
Total	0.83	1.09	1.00	1.20	1.20	1.20

As shown in the above table, the actual historical maximum daily deposits balance of the Group with Bailian Finance were approximately RMB0.8 billion, RMB1.1 billion and RMB1.0 billion during the two years ended 31 December 2020 and the eight months ended 31 August 2021, respectively. As such, the existing cap of RMB1.2 billion for 2019, 2020 and 2021 had been utilised as to at least 80% on average, indicating that the Group has a constant substantial demand for the deposit services offered by Bailian Finance.

Taking into account:

- (i) the existing cap of RMB1.2 billion for 2019, 2020 and 2021 had been utilised as to at least 80% on average, indicating that the Group has a constant substantial demand for the deposit services offered by Bailian Finance;
- (ii) based on our review of the 2020 Annual Report, the total amount of the Group's revenue in 2020 and bank balance and cash as at 31 December 2020 amounted to approximately RMB26.3 billion and RMB7.8 billion respectively, which are approximately 21.9 times and 6.5 times respectively of the proposed annual cap of RMB1.2 billion for each of the three years ending 31 December 2024; and
- (iii) as presented under the sub-section headed "Business and financial overview of the Group" of this letter of advice, the Group plans to further transform its business operation model, outlets and merchandise structure and expand its operation scale. It is expected that the customer flow and sales of the Group would also increase,

we are of the view the proposed annual caps for the deposits services contemplated under the Financial Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM VBG CAPITAL

3. THE SALES AGENCY FRAMEWORK AGREEMENT

Reasons for and possible benefits of the Sales Agency Framework Agreement

As referred to in the Letter from the Board, given the increasing business scale of Bailian Omni-channel and its subsidiaries (the “**Omni Group**”), the Company considers that Bailian Group’s development of e-commerce will promote the Group’s development of e-commerce and bring more sources of revenue for the Company. The entering into of the Sales Agency Framework Agreement with Bailian Omni-channel will provide a new platform for the sales of goods of the Company and greatly increase the volume of sales of the Goods (as being defined below).

Moreover, the Company considers that the entering into of the Sales Agency Framework Agreement with Bailian Omni-channel will further enhance their business relationships, which will benefit the stability of the Company’s operation activities and long-term development.

Based on our independent research, according to the 2020 China E-Commerce Report issued by the Ministry of Commerce of the PRC (http://pg.jrj.com.cn/acc/Res/CN_RES/INDUS/2021/4/14/449f61cc-31a7-46d8-9806-5bb9c1c2db8d.pdf), the scale of e-commerce transactions in the PRC continued to expand and maintained a high-speed growth trend. In 2020, the national online retail sales amounted to approximately RMB11.8 trillion, representing a year-on-year increase of approximately 10.9%, among which the online retail sales of physical goods rose by approximately 14.8%, accounting for approximately 24.9% of the total retail sales of consumer goods. Geographically, approximately 84.5% of the online retail sales came from the greater east region. Furthermore, according to the 47th China Statistical Report on Internet Development issued by the China Internet Network Information Centre (<http://www.gov.cn/xinwen/2021-02/03/5584518/files/bd16adb558714132a829f43915bc1c9e.pdf>), the national online shopping users mounted to approximately 782 million, accounting for approximately 79.1% of the total number of Internet users in the PRC.

With reference to the statistics released by the National Bureau of Statistics of the PRC, in 2020, notwithstanding the impact of the COVID-19 pandemic, consumer spending still accounted for approximately 54.3% of gross domestic product of the PRC, being the highest level in recent years, which proved that consumption remains an anchor of stable economic operation. As suggested in the Report on the Development of Consumer Market in China 2020 issued by the Chinese Academy of International Trade and Economic Cooperation (<https://www.caitec.org.cn/upfiles/file/2020/11/20201208171414567.pdf>), the continuous innovation and development of new consumption, which is characterised by new consumption contents, new ways and modes of consumption, new consumption structures and new consumption systems, has become an important driver leading the domestic economic circulation. It also boosted the digital transformation of market entities, fueled

LETTER FROM VBG CAPITAL

new segments and new modes, enhanced the efficiency of industrial chain, supply chain and value chain and cultivated the new growth drivers for digital economy. The outbreak of COVID-19 pandemic has further motivated the “Stay-at-home Economy” and stimulated the shift of consumers’ preference to online shopping. Meanwhile, the new generation of Internet also demonstrates great intention and high budget for consumption. The significant surge in consumer stickiness to online consumption will continue to drive the digitisation of retail industry at a faster pace and with more profound impacts.

As a result of the impact of e-commerce on the traditional retail industry in which the Group operates and the change of consumers’ consumption habits as illustrated above, the popularity of online supermarkets is thriving and there is still plenty of room for further expansion. It is the Company’s business strategy to further develop the Internet retail channels so as to enhance the overall business performance of the Group in the future.

Considering the aforesaid reasons for and possible benefits of the Sales Agency Framework Agreement as represented by the Directors together with the positive outlook of e-commerce in the PRC, we are of the view that the Sales Agency Framework Agreement is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Sales Agency Framework Agreement

A summary of the principal terms of the Sales Agency Framework Agreement dated 24 September 2021 as extracted from the Letter from the Board is set out below:

Parties:	(1) The Company as principal (2) Bailian Omni-channel as agent
Term:	The Sales Agency Framework Agreement is for a term of one year commencing from 1 January 2022 to 31 December 2022 (both days inclusive).
Sales agency:	Pursuant to the Sales Agency Framework Agreement, Bailian Omni-channel agreed to sell the goods (namely, food, washing detergent, fresh produce, home textiles, home appliances and miscellaneous items) (the “ Goods ”) on behalf of the Group through its e-commerce platform.

LETTER FROM VBG CAPITAL

Bailian Omni-channel will settle the Selling Prices (as defined below) with the Company on a monthly basis. The fees payable by the Company are as follows:

- (i) In respect of Goods sold by the Omni Group on behalf of the Group through the main site of its e-commerce platform, the Company shall pay Bailian Omni-channel the platform usage fee which is equivalent to 4% of the total transaction amount of Goods sold by the Omni Group and shall not exceed 4% of the sales budget of the Goods which is formulated by Lianhua E-business Co., Ltd.* (聯華電子商務有限公司), a subsidiary of the Company which is responsible for handling the online sales business of the Group, and is reviewed and approved by the management and the board of the Company. Besides, the Company shall also pay Bailian Omni-channel the payment handling fee which shall be charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold. As such, for Goods sold by the Omni Group on behalf of the Group through the main site of its e-commerce platform, the aggregate amount of fees payable by the Company to Bailian Omni-channel shall be the platform usage fee which is equivalent to 4% of the total transaction amount of Goods sold or 4% of the sales budget of the Goods (whichever is lower) plus the payment handling fee which is charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold.
- (ii) In respect of Goods sold by the Group through the third-party platforms, the Company shall pay Bailian Omni-channel the platform usage fee which is equivalent to 1% of the total transaction amount of Goods sold. Besides, the Company shall pay the third-party platforms the platform usage fee as agreed by both parties.

LETTER FROM VBG CAPITAL

The parties and/or its subsidiaries will enter into individual sales agency contracts setting out specific terms including the transaction price determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the Sales Agency Framework Agreement. If there is any discrepancy between the terms of an individual sales agency contract and the Sales Agency Framework Agreement, the latter shall prevail.

The Company or its subsidiaries has the sole discretion to set the selling prices of the Goods (the “**Selling Prices**”) to be sold on the e-commerce platform of the Omni Group. The prices at which the Company or its subsidiaries charges the Omni Group for supply of the Goods are the same as the Selling Prices.

**Consideration and
payment:**

- (i) The Selling Prices are set solely by the Company or its subsidiaries with reference to the prevailing prices of the comparable Goods sold at the outlets of the Group during the same period and as such, the Selling Prices are subject to the same pricing policies as that of the Group with respect to its outlets. This would ensure that the Selling Prices would not be less favourable than those available from independent third parties in real-time.
- (ii) In respect of Goods sold by the Omni Group on behalf of the Group through the main site of its e-commerce platform, the Company agrees to pay Bailian Omni-channel (a) the platform usage fee which is equivalent to 4% of the total transaction amount of Goods sold or 4% of the sales budget of the Goods (whichever is lower); and (b) the payment handling fee which is charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold.

LETTER FROM VBG CAPITAL

- (iii) In respect of Goods sold by the Group through the third-party platforms, the Company agrees to (a) pay Bailian Omni-channel the platform usage fee which is equivalent to 1% of the total transaction amount of Goods sold; and (b) pay the third-party platforms the platform usage fee as agreed by both parties.

Other than the above, the Omni Group does not charge the Company or its subsidiaries any additional fees or charges for the use of its e-commerce platform and the price charged by the Company or its subsidiaries is the same as the Selling Prices of the Goods sold on the e-commerce platform of the Omni Group.

- (iv) Depending on the specific conditions of transactions contemplated under the individual sales agency contracts, the platform usage fee payable by the Company or its subsidiaries to the Omni Group and the Selling Prices payable by the Omni Group to the Company or its subsidiaries under the individual sales agency contracts are to be made by bank transfer on a monthly or agreed period basis and shall be consistent with the market payment terms of purchasing such particular type of Goods.
- (v) The transactions contemplated under the Sales Agency Framework Agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Omni-channel on normal commercial terms and on terms no less favourable than those available from independent third parties.

LETTER FROM VBG CAPITAL

The shopping procedures and payment method for the transactions under the Sales Agency Framework Agreement are set out as follows:

- (i) The end customer will place an order for the purchase of Goods and pay the Selling Prices to Bailian Omni-channel on its e-commerce platform. After the Omni Group receives an order from the end customer on its e-commerce platform, it will notify the Company or its subsidiaries of such order information. Upon receiving such notification, the Company or its subsidiaries will deliver the Goods directly to the end customer. Bailian Omni-channel will settle the Selling Prices with the Company which is equivalent to the total transaction amount of Goods sold by the Omni Group on behalf of the Group through its e-commerce platform on a monthly basis. After the Selling Prices are settled by Bailian Omni-channel, the Company shall pay Bailian Omni-channel (a) the platform usage fee which is equivalent to 4% of the total transaction amount of Goods sold or 4% of the sales budget of the Goods (whichever is lower); and (b) the payment handling fee which is charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold.

LETTER FROM VBG CAPITAL

- (ii) The end customer will place an order for the purchase of Goods and pay the Selling Prices to the third-party platforms on their e-commerce platforms. The third-party platforms will transmit the order information to Bailian Omni-channel, and Bailian Omni-channel will notify the Company or its subsidiaries of such order information. Upon receiving such notification, the Company or its subsidiaries will deliver the Goods to the end customer. The settlement period between Bailian Omni-channel and the third-party platforms is subject to the individual contracts entered into by them. Bailian Omni-channel will settle the Selling Prices with the Company which is equivalent to the total transaction amount of Goods sold by the Group through the third-party platforms on a monthly basis. After the Selling Prices are settled by Bailian Omni-channel, the Company shall (a) pay Bailian Omni-channel the platform usage fee which is equivalent to 1% of the total transaction amount of Goods sold by the Group through the third-party platforms; and (b) pay the third-party platforms the platform usage fee as agreed by both parties.

With respect to the sales agency arrangement, the Directors advised us that the categories of Goods to be sold on the e-commerce platform of the Omni Group and/or the third-party platforms are the same as those sold in the outlets of the Group; whereas the prices charged by the Company or its subsidiaries for the supply of Goods to the Omni Group and/or the third-party platforms are the same as the Selling Prices of the Goods sold on the e-commerce platform of the Omni Group. The end customer will place an order for the purchase of Goods and pay the Selling Prices to Bailian Omni-channel and/or the third-party platforms on their e-commerce platforms. After the Omni Group receives an order from the end customer on its e-commerce platform, it will notify the Company or its subsidiaries of such order information. Upon receiving such notification, the Company or its subsidiaries will deliver the Goods directly to the end customer. Similar arrangement is applicable to the Goods sold by the Group through the third-party platforms. Upon our enquiry with the Directors, such arrangement is common in the industry for the sales agency of goods.

LETTER FROM VBG CAPITAL

Given that the Selling Prices are set solely by the Company or its subsidiaries with reference to the prevailing prices of the comparable Goods sold at the outlets of the Group during the same period and as such, the Selling Prices are subject to the same pricing policies as that of the Group with respect to its outlets, this would ensure that the Selling Prices would not be less favourable than those available from independent third parties. We have reviewed the aforesaid business process. Judging from the fact that the Company will only pay Bailian Omni-channel the platform usage fees after the Selling Prices are settled by Bailian Omni-channel, we concur with the Directors that the sales agency arrangement between the Group and the Omni Group is fair and reasonable.

In view of the above, we are of the opinion that the terms of the Sales Agency Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Proposed annual cap

The below table illustrates (i) the actual historical amounts of sales agency services provided by Bailian Omni-channel to the Group under the Existing Sales Agency Framework Agreement; and (ii) the proposed annual cap for the transactions contemplated under the Sales Agency Framework Agreement:

	Actual historical amounts			The proposed annual cap
			For the eight months ended	
	2019	2020	31 August 2021	2022
				RMB'000
Total transaction amounts	442,377	600,780	595,078	1,600,000
Total platform usage fees	19,887	27,358	22,717	50,000

As shown in the above table, the actual historical transaction amounts in relation to the sales agency services provided by Bailian Omni-channel to the Group were approximately RMB442.4 million, RMB600.8 million and RMB595.1 million during the two years ended 31 December 2020 and the eight months ended 31 August 2021, respectively; whereas the actual historical platform usage fees in relation to the sales agency services provided by Bailian Omni-channel to the Group were approximately RMB19.9 million, RMB27.4 million and RMB22.7 million during the two years ended 31 December 2020 and the eight months ended 31 August 2021, respectively. The aggregate of the two amounts represented a robust year-on-year growth of approximately 35.9% and 47.5% from 2019 to 2020 and 2020 to 2021 (annualised), respectively.

LETTER FROM VBG CAPITAL

In assessing the fairness and reasonableness of the proposed annual cap for the transactions contemplated under the Sales Agency Framework Agreement which represents a growth of approximately 78.1% as compared to the annualised aggregate actual amount of sales agency services in 2020, we have considered and discussed with the Directors the factors as presented below:

With respect to the maximum transaction amount of the Goods

Based on our discussion with the Directors, we understand that the maximum transaction amount of the Goods for the year ending 31 December 2022 was determined with reference to:

- (i) the anticipated continuously increasing demand for the Goods to be sold on the e-commerce platform of the Omni Group under the Sales Agency Framework Agreement. The Goods sold by the Company mainly comprises fast-moving consumer goods which focus on catering the livelihood needs. The “Delivery to Home” business promoted on the e-commerce platforms also focuses on fulfilling the actual needs of customers’ daily life. Therefore, the Company considers that there is huge potential in such market and such market has huge attractions to customers;
- (ii) considering the fact that the transaction amounts between the Group and Bailian Omni-channel under the Sales Agency Framework Agreement have expanded robustly in recent years, it is anticipated that there will be a significant increase in the Company’s sales of Goods on the e-commerce platform of Bailian Omni-channel with the continuous improvements of this module, the continuous expansions of the types of commodities, especially the expansion of types of fresh produce and the continuous improvements in the services provided (including the decreased delivery time from three hours to an hour of the “Delivery to Home” business);
- (iii) in the past three years, the Company cooperated with the e-commerce platform of Bailian Omni-channel for the sales agency business only in Shanghai, Anhui Province and Jiangsu Province, the PRC. Taking into consideration the continuous perfection of the platform of Bailian Omni-channel and the deepened cooperation between both parties, the Company will start to cooperate with Bailian Omni-channel in 2022 in other operating areas of the Company in the PRC, including Zhejiang Province, Guangxi Zhuang Autonomous Region and Henan Province to promote the full expansion of the e-commerce business of the Company. There are considerable outlet scale and mature customer groups that are not weaker than those in Shanghai in such operating areas. It is estimated that the online sales of the Company will increase significantly; and

LETTER FROM VBG CAPITAL

- (iv) the e-commerce business of the Omni Group has been developed and continuously perfected in the past three years and already obtained a comparably large customer flow base and user stickiness. It is expected that the periodical promotion activities will attract more online customer flows.

Upon our review of the relevant information provided by the Company and as advised by the Directors, the Group has been accelerating the integration of its online and offline business operations, and focused on the development of its “Delivery to Home” business in recent years through active expansion of online channels with electronic business technologies. In addition, the Group actively looked for breakthroughs in online fresh produce operation, introduced suppliers for fresh produce, expanded the online sales of fresh produce and optimised the number of products eligible for “Delivery to Home”. The Group also actively and effectively carried out activities to expand membership and accelerated the connection with physical stores, realising rapid growth in both the number of orders and sales volume of the “Delivery to Home” business.

At the same time, we noted that taking into consideration the continuous perfection of the platform of Bailian Omni-channel and the deepened cooperation between both parties, the Company will start to cooperate with Bailian Omni-channel in 2022 in other operating areas of the Company in the PRC, including Zhejiang Province, Guangxi Zhuang Autonomous Region and Henan Province. Based on the 2020 Annual Report, the total number of hypermarkets, supermarkets and convenience stores which the Group currently operates in these areas are 79, 535 and 166 respectively, representing nearly one-fourth of the total number of outlets the Group currently operates in the PRC. Besides, our independent research at the websites of the respective provincial governments also revealed that the gross domestic product of Zhejiang Province, Guangxi Zhuang Autonomous Region and Henan Province in 2020 was approximately RMB6.5 trillion, RMB2.2 trillion and RMB5.5 trillion, respectively, and their per capita disposable income increased by approximately 5.0%, 5.3% and 3.8%, respectively, in 2020 as compared to 2019. In particular, the total online retail sales of Zhejiang Province, Guangxi Zhuang Autonomous Region and Henan Province amounted to approximately RMB2.3 trillion, RMB61.5 billion and RMB274.4 billion, respectively, in 2020. As such, we concur with the Directors that the Group possesses considerable outlet scale and mature customer groups in such operating regions, and the online sales of the Company would likely to increase significantly on top of the existing persistent growing momentum after the expansion of its cooperation with Bailian Omni-channel in such operating regions.

LETTER FROM VBG CAPITAL

As mentioned under the sub-section headed “Reasons for and possible benefits of the Sales Agency Framework Agreement” of this letter of advice, the national online retail sales amounted to approximately RMB11.8 trillion in 2020, representing a year-on-year increase of approximately 10.9%. Geographically, approximately 84.5% of the online retail sales came from the greater east region, which is the core base of the Group’s business. The national online shopping users also mounted to approximately 782 million in 2020. The continuous innovation and development of new consumption, which is characterised by new consumption contents, new ways and modes of consumption, new consumption structures and new consumption systems, has become an important driver leading the domestic economic circulation. It also boosted the digital transformation of market entities, fueled new segments and new modes, enhanced the efficiency of industrial chain, supply chain and value chain and cultivated the new growth drivers for digital economy. The outbreak of COVID-19 pandemic has further motivated the “Stay-at-home Economy” and stimulated the shift of consumers’ preference to online shopping. Meanwhile, the new generation of Internet also demonstrates great intention and high budget for consumption. The significant increase in consumer stickiness to online consumption will continue to drive the digitisation of retail industry at a faster pace and with more profound impacts. Amid the promising market evolution as aforementioned, it is the Company’s business strategy to further develop the Internet retail channels.

Taking into account (i) the robust growth of the aggregate actual historical transaction amounts and platform usage fees in relation to the sales agency services provided by Bailian Omni-channel to the Group from 2019 to 2021; (ii) the new business focus of the Group as aforementioned; (iii) the anticipated expansion of business cooperation between the Company and Bailian Omni-channel in Zhejiang Province, Guangxi Zhuang Autonomous Region and Henan Province where the Group possesses considerable outlet scale and mature customer groups; and (iv) the high-speed growth trend of the scale of e-commerce transactions in the PRC, we are of the view that the maximum annual transaction amount in respect of the Goods to be sold by the Omni Group for the year ending 31 December 2022, which only represents approximately 6.1% of the total revenue of the Group for the year ended 31 December 2020, is acceptable.

LETTER FROM VBG CAPITAL

With respect to the maximum platform usage fee

As advised by the Directors, the platform usage fee payable to Bailian Omni-channel was negotiated on arm's length basis with reference to the prices of relevant services quoted from two independent third party service providers (namely JD Daojia (京東到家) and Meituan Waimai (美團外賣)). As further represented by the Directors, the sales agency services provided by the Omni Group are preferable for the following reasons:

- (i) the online sales platform is tailor-made for the Company, which could integrate the e-commerce business and offline business, for example the membership and merit point systems in the offline business will apply to the e-commerce business in order to retain the existing customers and capture new customers. Other tailor-made services will also be provided to customers of the Group such as providing recommendations to customers on fresh produce that are in season in order to strengthen customers' loyalty. Such tailor-made services would not be available in other platforms; and
- (ii) the Omni Group provides and intends to provide similar services to its connected persons (including the Group) only and no independent third party seller will be involved. Among those connected sellers, the Company's products will have a higher priority and higher visibility in the platform operated by the Omni Group. Products of the Company will be put at first priority of the Omni Group and thus will be displayed on the first page of the e-commerce platform as well as the relevant search results of the e-commerce platform in order to have higher exposure to the public. Bailian Omni-channel also provides the Company with other additional services, including maintaining the customised web pages of the Company on its e-commerce platform and providing instant after-sale services for the Goods sold on its e-commerce platform. These selling strategies are expected to boost the sales of the Company via e-commerce platform.

To our best knowledge, engaging an independent contractor to develop a tailor-made e-commerce platform would normally involve vast sum of cash outlay, while the arrangement of platform usage fee as contemplated under the Sales Agency Framework Agreement, which will be a percentage to the actual sales to be recognised through the e-commerce platform of the Omni Group, would allow the Group to avoid such vast sum of cash outlay. Furthermore, considering that the independent third party service providers do not provide the aforesaid tailor-made services and privileged premier position to the Group, we concur with the Directors that the platform usage fee charged by Bailian Omni-channel is fair and reasonable.

LETTER FROM VBG CAPITAL

On the other hand, we understand from the Directors that to their best knowledge, other third-party platforms charge different platform usage fees for different types of goods sold or services provided on their e-commerce platforms. The platform usage fees (including the delivery fees of the Goods) charged by the third-party platforms such as Ele.me (餓了麼), JD Daojia (京東到家) and Meituan Waimai (美團外賣) consist of a fixed amount per order and a certain ratio of the order amount. According to the historical transactions of the Company, the average platform usage fee charged by the third-party platforms was within the range of 6% to 7.5% of the total transaction amounts. Since the platform usage fee charged by Bailian Omni-channel is 4% of the total transaction amount of Goods sold or 4% of the sales budget of the Goods (whichever is lower) plus the payment handling fee which is charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold, the actual ratio of fees (including platform usage fee and payment handling fee) charged by Bailian Omni-channel will be equivalent to or less than 4.5% of the total transaction amount of Goods sold. As such, the platform usage fees payable to Bailian Omni-channel in respect of Goods either sold by the Omni Group on behalf of the Group through the main site of its e-commerce platform or by the Group through the third-party platforms would not be less favourable. As further confirmed by the Directors, in the event that the market rate offered by those service providers with respect to the platform usage fee is lower than that charged by Bailian Omni-channel, the Company will further negotiate with Bailian Omni-channel to reduce the platform usage fee. We consider that such mechanism would better protect the interest of the Company.

Given the foregoing, we are of the view the proposed annual cap for the transactions contemplated under the Sales Agency Framework Agreement is fair and reasonable so far as the Independent Shareholders are concerned.

4. INTERNAL CONTROL AND COMPLIANCE WITH THE LISTING RULES

With reference to in the Letter from the Board, the Group has adopted various internal control policies to supervise the Non-exempt Continuing Connected Transactions.

Moreover, the Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 and 14A.55 of the Listing Rules pursuant to which (i) the values of the Non-exempt Continuing Connected Transactions must be restricted by the respective proposed annual caps; (ii) the terms of the Financial Services Agreement and the Sales Agency Framework Agreement (together with the respective proposed annual caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the Financial Services Agreement and the Sales Agency Framework Agreement (together with the respective proposed annual caps) must be included in the Company's subsequent published annual reports and financial accounts. As also stipulated under Rule 14A.56 of the Listing Rules, auditors of the Company must provide a letter to the Board confirming, among other things, that the Non-exempt Continuing Connected Transactions are carried out in accordance with the pricing policies of the Company, and the proposed annual caps

LETTER FROM VBG CAPITAL

are not being exceeded. In the event that the total amounts of the Non-exempt Continuing Connected Transactions exceed the respective proposed annual caps, or that there is any material amendment to the terms of the Financial Services Agreement and the Sales Agency Framework Agreement (together with the respective proposed annual caps), the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

With the internal control policies of the Group as well as the stipulated requirements for continuing connected transaction of the Listing Rules in place, the Non-exempt Continuing Connected Transactions will be monitored and hence the interest of the Independent Shareholders may be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the deposit services under the Financial Services Agreement and the Sales Agency Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Non-exempt Continuing Connected Transactions and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
VBG Capital Limited
Doris Sing
Managing Director

* *For identification purpose only*

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 and for the six months ended 30 June 2021 are disclosed in the annual reports of the Company for the three years ended 31 December 2018, 2019 and 2020 and the interim report of the Company for the six months ended 30 June 2021, 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) 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);
- the Annual Report 2020 of the Company for the 12 months ended 31 December 2020 published on 29 April 2021 (pages 129 to 221); and
- the Interim Report 2021 of the Company for the six months ended 30 June 2021 published on 17 September 2021 (pages 22 to 44).

2. INDEBTEDNESS

At the close of business on 31 August 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 outstanding indebtedness as follows:

- (a) unsecured and unguaranteed borrowings from non-financial institution of RMB600,000,000; and
- (b) the current and non-current lease liabilities of RMB964,957,000 and RMB5,922,145,000, respectively, of which RMB1,910,960,000 were secured by rental deposits and the remaining balance totaling RMB4,976,142,000 were unsecured and unguaranteed.

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 August 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, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, 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. The Company has obtained the relevant confirmation from its auditor as required under Rule 14.66(12) of the Listing Rules.

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 frontend 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 provision of deposit services under the Financial Services 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.

A. 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.

B. DISCLOSURE OF INTERESTS**1. Interests of Directors**

As at the Latest Practicable Date, 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 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 the substantial Shareholders

As at the Latest Practicable Date, each of Bailian Group, Shanghai Bailian and Alibaba Group 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; (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, proposed Director, Supervisors of the Company 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.

C. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors of the Company 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)).

D. DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors or Supervisors of the Company 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 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.

E. 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

Sun Art Retail Group Ltd. is principally engaged in the operation of hypermarkets while the Company is principally engaged in the operation of hypermarkets, supermarkets and convenience stores. Therefore, the operation of hypermarkets is considered to compete or likely to compete with the business of the Group.

F. 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:

Name	Qualifications
VBG Capital	A corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

VBG Capital 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.

VBG Capital 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.

G. DOCUMENTS ON DISPLAY

The following documents are available on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (<http://lianhua.todayir.com/en/reports.php>) for a period of 14 days from the date of this circular:

- (a) the Financial Services Agreement;
- (b) the Sales Agency Framework Agreement;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 29 to 30 of this circular;
- (d) the letter from VBG Capital, the text of which is set out on pages 31 to 55 of this circular;
- (e) the financial information of the Company as set out in Appendix I to this circular;
- (f) the letter from the Deloitte Touche Tohmatsu referred to in the paragraph headed "Working Capital" in Appendix I to this circular;

- (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.

H. 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.

I. 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 maybe 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.

For details of the above-mentioned 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 and Bailian Financial Services regarding capital contribution to Bailian Financial Services in proportion to the current shareholding percentages, pursuant to which, the Company shall pay its capital contribution of RMB51.77 million to Bailian Financial Services.

For details of the above-mentioned agreement, please refer to the announcement of the Company dated 30 December 2019.

- (c) The joint venture agreement dated 16 December 2019 entered into among Lianhua Huashang, 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, pursuant to which, Lianhua Huashang agreed to make a capital contribution of RMB3.0 million in cash, representing 60% of the total capital contribution of the joint venture.

For details of the above-mentioned agreement, please refer to the announcement of the Company dated 16 December 2019.

- (d) The equity transfer agreement dated 26 September 2021 entered into between Lianhua Huashang, a subsidiary of the Company, and Zhuji Yibai Supermarket Co., Ltd.* (諸暨市一百超市有限公司) (“**Yibai Supermarket**”), pursuant to which, Lianhua Huashang agreed to acquire, and Yibai Supermarket agreed to sell, 60% equity interests in Bailian Supermarket at a consideration of RMB180,000,000.

For details of the above-mentioned agreement, please refer to the announcement of the Company dated 26 September 2021.

J. 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 Chartered Governance Institute (HKCGI, formerly known as 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.

K. MISCELLANEOUS

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