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## THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in 聯華超市股份有限公司 (Lianhua Supermarket Holdings Co., Ltd.), you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

**(Stock Code: 00980)**

## CONTINUING CONNECTED TRANSACTIONS

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



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A letter from the Board is set out on pages 5 to 32 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 33 to 34 of this circular. A letter from Lego Corporate Finance Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 35 to 74 of this circular.

The Company will convene the EGM at 9:30 a.m. on Thursday, 1 December 2022 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 14 October 2022.

16 November 2022

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## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“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 limited liability company incorporated in the PRC and a substantial Shareholder
“Bailian Omni-channel”	Bailian Omni-channel E-commerce Co., Ltd.* (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 of the Company
“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
“EGM”	the extraordinary general meeting of the Company to be convened at 9:30 a.m. on Thursday, 1 December 2022 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 Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and Sales Agency Framework Agreement (including the respective proposed annual caps)
“Existing Continuing Connected Transactions”	three existing continuing connected transactions namely, Existing Procurement of Goods Framework Agreement, Existing Goods Supply Framework Agreement and Existing Sales Agency Framework Agreement
“Existing Goods Supply Framework Agreement”	the goods supply framework agreement dated 5 December 2019 entered into between the Company and Bailian Group, details of which are disclosed in the announcement of the Company dated 5 December 2019

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## DEFINITIONS

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“Existing Procurement of Goods Framework Agreement”	the procurement of goods framework agreement dated 16 April 2020 entered into between the Company and Bailian Group, details of which are disclosed in the announcement of the Company dated 16 April 2020 and the circular of the Company dated 8 May 2020
“Existing Sales Agency Framework Agreement”	the sales agency framework agreement dated 24 September 2021 entered into between the Company and Bailian Omnichannel, details of which are disclosed in the announcement of the Company dated 24 September 2021 and the circular of the Company dated 26 October 2021
“First Pharmaceutical”	Shanghai First Pharmaceutical Co., Ltd.* (上海第一醫藥股份有限公司), a subsidiary of Bailian Group
“Goods Supply Framework Agreement”	the goods supply framework agreement entered into between the Company and Bailian Group on 30 September 2022 in relation to goods supply by the Group to Bailian 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
“Hualian GMS”	Hualian GMS Shopping Center Co., Ltd.* (華聯集團吉買盛購物中心有限公司), a subsidiary of Bailian Group
“Independent Board Committee”	the independent board committee of the Company comprising all of the independent non-executive Directors
“Independent Financial Advisor” or “Lego”	Lego Corporate Finance Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and Sales Agency Framework Agreement (including the proposed annual caps), which is a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

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## DEFINITIONS

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“Independent Shareholders”	the Shareholders, other than Bailian Group and Shanghai Bailian and their respective associates, who will abstain from voting on the relevant resolutions in relation to the Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and Sales Agency Framework Agreement (including the proposed annual caps) at the EGM
“Latest Practicable Date”	11 November 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Procurement of Goods Framework Agreement”	the procurement of goods framework agreement entered into between the Company and Bailian Group on 30 September 2022 in relation to the procurement of goods from the Group to Bailian Group
“RMB”	Renminbi, the lawful currency of the PRC
“Sales Agency Framework Agreement”	the sales agency framework agreement entered into between the Company and Bailian Omni-channel on 30 September 2022 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
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited



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## LETTER FROM THE BOARD

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

**(Stock Code: 00980)**

***Executive Director:***

Mr. Chong Xiao-bing

***Non-executive Directors:***

Mr. Pu Shao-hua (*Chairman*)

Mr. Shi Xiao-long (*Vice Chairman*)

Mr. Xu Pan-hua

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

16 November 2022

*To the Shareholders*

Dear Sir or Madam,

### CONTINUING CONNECTED TRANSACTIONS

#### I. INTRODUCTION

Reference is made to the announcement of the Company dated 30 September 2022 in relation to, among others, the Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and Sales Agency Framework Agreement.

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

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## LETTER FROM THE BOARD

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### II. CONTINUING CONNECTED TRANSACTIONS

#### 1. Background

Reference is made to the announcements of the Company dated 5 December 2019, 16 April 2020 and 24 September 2021 and the circulars of the Company dated 8 May 2020 and 26 October 2021, in relation to, among others, the Existing Continuing Connected Transactions.

As the term of the Existing Continuing Connected Transactions will expire on 31 December 2022, the Board announced that on 30 September 2022, 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) **Procurement of Goods Framework Agreement:** the Company entered into the Procurement of Goods Framework Agreement with Bailian Group, pursuant to which, the Group agreed to procure and Bailian Group and/or its associates agreed to supply various kind of goods, including but not limited to fresh produce and food (mainly includes tobacco and liquor, imported foodstuffs, fresh noodles, lunch boxes, bakery items, packaged foods etc.) and industrial products, for sales in the outlets of the Group for a term of three years commencing from 1 January 2023 to 31 December 2025 (both days inclusive);
- (ii) **Goods Supply Framework Agreement:** the Company entered into the Goods Supply Framework Agreement with Bailian Group, pursuant to which, the Group agreed to supply various kinds of goods, including but not limited to foods and fresh produce (mainly includes liquor, vegetables, fruits, frozen meat, frozen fish etc.), to Bailian Group and/or its subsidiaries for a term of three years commencing from 1 January 2023 to 31 December 2025 (both days inclusive); and
- (iii) **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 (namely, food, washing detergent, fresh produce, home textiles, home appliances and miscellaneous items) on behalf of the Group through its e-commerce platform for a term of one year commencing from 1 January 2023 to 31 December 2023 (both days inclusive).

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## LETTER FROM THE BOARD

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### 2. Agreements for Continuing Connected Transactions

#### A. *Procurement of Goods Framework Agreement*

Reference is made to the announcement of the Company dated 16 April 2020 and the circular of the Company 8 May 2020 in relation to the Existing Procurement of Goods Framework Agreement.

The principal terms of the Procurement of Goods Framework Agreement are set out as follows:

##### *Date*

30 September 2022

##### *Parties*

- (a) the Company (as the purchaser); and
- (b) Bailian Group (as the supplier)

##### *Term*

The Procurement of Goods Framework Agreement is for a term of three years commencing from 1 January 2023 to 31 December 2025 (both days inclusive).

##### *Procurement of Goods*

Pursuant to the Procurement of Goods Framework Agreement, the Group agreed to procure and Bailian Group and/or its associates agreed to supply various kinds of goods, including but not limited to fresh produce and food (mainly includes tobacco and liquor, imported foodstuffs, fresh noodles, lunch boxes, bakery items, packaged foods etc.), and industrial products, for sale in the sales outlets of the Group.

The Group and Bailian Group and/or its associates will enter into individual procurement of goods contracts setting out specific terms. Such terms will be consistent with the principles and the terms of the Procurement of Goods Framework Agreement. If there is any discrepancy between the terms of an individual procurement of goods contract and the Procurement of Goods Framework Agreement, the latter shall prevail.

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## LETTER FROM THE BOARD

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### *Consideration and Payment*

The pricing for the goods procured under the Procurement of Goods Framework Agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such goods from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable than those available from independent third parties.

Depending on the specific goods to be procured and the practices of Bailian Group and/or its associates, the actual payments for the procurement of goods under the Procurement of Goods Framework Agreement are to be made as agreed in the agreement (which shall be determined by the market practice of the payment period of such particular type of goods procured and shall not be less favourable than those available from independent third parties). Details of the payment terms shall be set out in the individual procurement of goods contracts to be entered into between both parties with reference to the normal commercial terms of Bailian Group and/or its associates and on terms not less favourable than those available from independent third parties.

### *Historical Amounts*

The historical amounts for the transactions under the Existing Procurement of Goods Framework Agreement by Bailian Group and/or its associates to the Group for the three years ended 31 December 2019, 31 December 2020 and 31 December 2021 and eight months ended 31 August 2022 are as follows:

<b>For the Year/Period ended</b>	<b>Transaction Amounts</b> <i>(RMB thousand)</i>
31 December 2019	80,987.0
31 December 2020	322,948.0
31 December 2021	354,190.6
31 August 2022	151,087.8

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## LETTER FROM THE BOARD

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

The respective maximum annual transaction amounts payable by the Group to Bailian Group for the financial years ending 31 December 2023, 31 December 2024 and 31 December 2025 under the Procurement of Goods Framework Agreement are set out as follows:

<b>Period</b>	<b>Maximum Transaction Amounts</b> <i>(RMB thousand)</i>
From 1 January 2023 to 31 December 2023	500,000
From 1 January 2024 to 31 December 2024	600,000
From 1 January 2025 to 31 December 2025	700,000

Such maximum annual transaction amounts are determined after taking into account the following primary factors:

1. the historical transaction amounts for the procurement of goods by the Group to Bailian Group and/or its associates;
2. the demands in the prevailing market for products including but not limited to fresh produce, food, and industrial products in the PRC. For example, the Company expects that the COVID-19 epidemic will be effectively controlled and the economy of the PRC will gradually recover, which will lead to an increase in market demand. Meanwhile, since 2020, the Group's business has grown in size and the number of stores has expanded from 3,192 stores as of 31 December 2020 to 3,336 stores as of 30 June 2022, representing a growth rate of approximately 4.5%, and the Group plans to continue to expand its business in terms of opening new stores at a compound annual growth rate of approximately 5%, and thus is expected that the Group's overall sales in 2023 (especially sales of liquor) will return to the level prior to the outbreak of the COVID-19 epidemic and show a continuous upward trend. Besides, the Group plans to procure new categories of merchandise from Bailian Group starting from 2023, including but not limited to lunch boxes, bakery items and packaged food, and will also expand the product list of the Group's stores accordingly, and expects to expand its business scale accordingly;

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## LETTER FROM THE BOARD

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3. the transaction amount on purchases supplied by Bailian Group has substantially recovered in July and August 2022 with total transaction amount of approximately RMB69.2 million as compared to approximately RMB81.9 million for the six months ended 30 June 2022. Due to the recent relaxation of the quarantine policies, in particular the Yangtze River Delta regions, business of the Group has been recovering gradually, where financial performance of the Group after June 2022 would be more representative of the normal level prior to the latest pandemic wave in the PRC;
4. over 80% of each year of the proposed annual caps of the Group represents the liquor anticipated to be procured from Bailian Group. According to the “Guideline on the Development of China’s Liquor Industry during the 14th Five-Year Plan”(《中國酒業「十四五」發展指導意見》) promulgated by the China Liquor Industry Association in April 2021, it is expected that by 2025, China’s liquor industry will achieve a total output of approximately 66.9 million kiloliters of liquor, and the sales revenue of the market will reach approximately RMB1,418 billion, representing an increase of approximately 23.9% and 69.8% over that of the end of the 13th Five-Year Plan (i.e. 2020), respectively. In order to capture the anticipated growth of the liquor market in the PRC, the Group anticipates a growing trend in projecting the proposed annual caps under the Procurement of Goods Framework Agreement; and
5. the proposed annual caps under the Procurement of Goods Framework Agreement represent the anticipated business activities of the Group for the next three years, notwithstanding the increasing proposed annual caps as compared to the actual historical transaction amount.

In view of the above factors, the Directors (including the independent non-executive Directors) consider that the above proposed annual caps in respect of the procurement of goods by the Group from Bailian Group and/or its associates are fair and reasonable.

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## LETTER FROM THE BOARD

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### *Reasons for and Benefits of Entering into the Procurement of Goods Framework Agreement*

The products sold by Bailian Group and its associates are well recognized by the market and supported by a stable customer base. The Company has established a stable business relationship with Bailian Group and its associates in connection with the procurement of their products, which has also formed a significant part of the operation of the Company. The entering into of the Procurement of Goods Framework Agreement will enhance the stability of the business operation as well as the long-term development of the Company.

In view of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Procurement of Goods Framework Agreement are fair and reasonable, are entered into on normal commercial terms in the ordinary and usual course of business and are in the interests of the Company and the Shareholders as a whole.

### *Internal Control and Pricing Policy*

In order to ensure that the terms for the procurement of goods from Bailian Group and/or its associates by the Group are not less favourable than those available from independent third parties, the Group has adopted the following measures:

- (1) The prices for the goods will be negotiated on arm's length basis and with reference to the prevailing market prices of similar products, which will be determined through a periodic price research conducted by the staff of the business department of the Group by obtaining the prices of products charged by suppliers in the market for similar products comparable to the products under the Procurement of Goods Framework Agreement. The staff of the business department of the Group will conduct price research for each category of the goods. Depending on the different categories of the goods to be procured, the staff of the business department of the Group will obtain quote from at least two to three other suppliers in the market on a monthly basis.

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## LETTER FROM THE BOARD

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- (2) 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 Procurement of Goods Framework Agreement are conducted in accordance with the terms of such agreement and will also regularly update the market price for their purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policy.
- (3) The Company's external auditors will conduct an annual review on the pricing and the annual caps of the continuing connected transactions.
- (4) 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.
- (5) The independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions.

### ***B. Goods Supply Framework Agreement***

Reference is made to the announcements of the Company dated 5 December 2019 in relation to the Existing Goods Supply Framework Agreement.

The principal terms of the Goods Supply Framework Agreement are set out as follows:

*Date*

30 September 2022

*Parties*

- (a) the Company (as the supplier); and
- (b) Bailian Group (as the purchaser)

*Term*

The Goods Supply Framework Agreement is for a term of three years commencing from 1 January 2023 to 31 December 2025 (both days inclusive).

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## LETTER FROM THE BOARD

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### *Supply of Goods*

Pursuant to the Goods Supply Framework Agreement, the Group agreed to supply various kinds of goods, including but not limited to foods and fresh produce (mainly includes liquor, vegetables, fruits, frozen meat, frozen fish etc.), to Bailian Group and/or its subsidiaries.

The operating units of both parties may enter into individual goods supply contracts setting out specific terms of supply of goods, including the goods to be supplied, price determination method, delivery method and payment arrangement. The payment shall be made by bank transfer. Such terms shall be consistent with the principles and the terms of the Goods Supply Framework Agreement. If there is any discrepancy between the terms of an individual goods supply contract and the Goods Supply Framework Agreement, the latter shall prevail.

### *Consideration and Payment*

The prices for the goods to be supplied under the Goods Supply Framework Agreement are determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties on the basis of the market prices of such goods. The payment under the individual goods supply contract is to be made according to the terms of the individual goods supply contract. The prices for the goods supplied by the Group to Bailian Group and/or its subsidiaries will not be less favourable to the Company than those available to independent third parties in similar transactions.

### *Historical Amounts*

The historical amounts for the transactions under the Existing Goods Supply Framework Agreement by Bailian Group and/or its subsidiaries to the Group for the three years ended 31 December 2019, 31 December 2020 and 31 December 2021 and eight months ended 31 August 2022 are as follows:

<b>For the Year/Period ended</b>	<b>Transaction Amounts (RMB thousand)</b>
31 December 2019	13,819.9
31 December 2020	27,279.0
31 December 2021	27,557.0
31 August 2022	12,280.5

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## LETTER FROM THE BOARD

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

The respective maximum annual transaction amounts payable by Bailian Group to the Company for the financial years ending 31 December 2023, 31 December 2024 and 31 December 2025 under the Goods Supply Framework Agreement are set out as follows:

<b>Period</b>	<b>Maximum Transaction Amounts</b> <i>(RMB thousand)</i>
From 1 January 2023 to 31 December 2023	50,000
From 1 January 2024 to 31 December 2024	60,000
From 1 January 2025 to 31 December 2025	70,000

Such maximum annual transaction amounts are determined after taking into account the following primary factors:

1. the historical transaction amount for the purchase of goods by Bailian Group from the Company in the past;
2. the demand for purchases from the Company by Bailian Group is expected to rise gradually. Considering that Bailian Group has business development plans, such as store expansion, especially under brand “Yike EGO”, the increase in the number of stores of Bailian Group will in turn lead to an increase in the demand for goods purchased from the Company. Meanwhile, considering that the categories and amounts of food and fresh produce sold by the Group will increase in line with the development of the market, it is expected that the transaction amount of food and fresh produce purchased by Bailian Group from the Company for business development will increase;
3. the proposed annual caps for the Goods Supply Framework Agreement are primarily based on the internal procurement plan for the three years ending 31 December 2025 provided by Bailian Group; and

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## LETTER FROM THE BOARD

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4. the anticipated increasing demand for fresh produce and food in the prevailing markets of the PRC. For example, the Company expects that the COVID-19 epidemic will be effectively controlled and the economy of the PRC will gradually recover, which will lead to an increase in market demand, and thus is expected that the Group's overall sales in 2023 will return to the level prior to the outbreak of the COVID-19 epidemic and show a continuous upward trend.

In view of the above factors, the Directors (including the independent non-executive Directors) consider that the above proposed annual caps in respect of the supply of goods by the Group to Bailian Group and/or its subsidiaries are fair and reasonable.

### *Reasons for and Benefits of Entering into the Goods Supply Framework Agreement*

The entering into of the Goods Supply Framework Agreement will bring a widened distribution channel of the Group's relevant goods and thus enhancing the sales of the Group. In the meantime, the anticipated increase in purchase amount of the Company will also add to the bargaining power of the Group to the suppliers, thus lowering the purchasing costs of goods and enhancing profitability of the Group.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Goods Supply Framework Agreement are fair and reasonable and on normal commercial terms and are entered into in the ordinary and usual course of the Company's business and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### *Internal Control and Pricing Policy*

In order to ensure that the terms provided by the Company under the Goods Supply Framework Agreement are not less favourable than those available to independent third parties, the Company has adopted the following measures:

- (1) The prices for the goods to be supplied by the Group to Bailian Group and/or its subsidiaries will be negotiated on arm's length basis and with reference to the prevailing market prices of similar products, which will be determined through a periodic price research conducted by the staff of the business department of the Group by obtaining the prices of products charged by suppliers in the market for similar products comparable to the products under the Goods Supply Framework Agreement. The staff of the business department of the Group will conduct price research for each category of the goods. Depending on the different categories of the goods to be procured, the staff of the business department of the Group will obtain quotes from other independent third-parties in the market on a monthly basis.
- (2) 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 transactions are conducted in accordance with the terms of their respective agreements and will also regularly update the market prices for the purpose of considering if the prices charged for specific transactions are fair and reasonable and in accordance with the aforesaid pricing policy.
- (3) The Company's external auditors will conduct an annual review on the pricing and the annual caps of the continuing connected transactions;
- (4) 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
- (5) The independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions.

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## LETTER FROM THE BOARD

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### *C. Sales Agency Framework Agreement*

Reference is made to the announcements of the Company dated 24 September 2021 and the circular of the Company dated 26 October 2021 in relation to the Existing Sales Agency Framework Agreement.

The principal terms of the Sales Agency Framework Agreement are set out as follows:

#### *Date*

30 September 2022

#### *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 2023 to 31 December 2023 (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.

Bailian Omni-channel will settle the Selling Prices (as defined below) with the Company as agreed in the agreement. The fees payable by the Company are as follows:

- (1) 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. Besides, the Company shall also pay Bailian Omni-channel the payment handling fees which shall be charged at actual cost and shall not exceed 0.5% of the total transaction amount of Goods sold; and

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## LETTER FROM THE BOARD

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- (2) 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, and the third party platform usage fees paid by Bailian Omni-channel on behalf of the Group at actual cost.

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 at actual cost and shall not exceed 0.5% of the total transaction amount of Goods sold.

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## LETTER FROM THE BOARD

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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 usage fees paid by Bailian Omni-channel on behalf of the Group at actual cost.

- (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 as agreed in the agreement 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 as agreed in the agreement. 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 at actual cost and shall not exceed 0.5% of the total transaction amount of Goods sold; and

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## LETTER FROM THE BOARD

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- (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 are equivalent to the total transaction amount of Goods sold through the third-party platforms as agreed in the agreement. 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 usage fees paid by Bailian Omni-channel on behalf of the Group at actual cost.

### *Historical Amounts*

The historical transactions amounts for the sales agency services provided by Bailian Omni-channel and/or its subsidiaries for the three years ended 31 December 2019, 31 December 2020 and 31 December 2021 and eight months ended 31 August 2022 are as follows:

<b>For the Year/Period ended</b>	<b>Transaction Amounts</b>	<b>Platform Usage Fees</b>
	<i>(RMB thousand)</i>	<i>(RMB thousand)</i>
31 December 2019	442,377.0	19,887.0
31 December 2020	600,780.0	27,358.0
31 December 2021	708,499.8	33,365.8
31 August 2022	342,894.4	27,150.0

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## LETTER FROM THE BOARD

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

The maximum annual transaction amount in respect of the Goods to be sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group for the financial year ending 31 December 2023 under the Sales Agency Framework Agreement are set out as follows:

<b>Period</b>	<b>Maximum Transaction Amounts</b> <i>(RMB thousand)</i>
From 1 January 2023 to 31 December 2023	1,800,000

Such maximum annual transaction amounts are determined after taking into account the following primary factors:

1. 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. Customers have gradually shifted from offline to online purchases these years due to the convenience offered by e-commerce platforms, the continued recurrence of the COVID-19 epidemic in recent years, and the popularity of mobile applications and WeChat mini-programs. In recent years, the Group has been actively expanding its online channels through e-commerce technology, striving to accelerate the integration of its online and offline businesses, and focusing on the development of the “Delivery to Home” business promoted on the e-commerce platforms, which 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;

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## LETTER FROM THE BOARD

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2. considering the fact that the transactions amounts between the Group and Bailian Omni-channel under the Sales Agency Framework Agreement have shown a large growth trend from 2019 to 2021. The epidemic severely affected the sales in the second quarter of 2022, and online sales gradually rebounded in the second half of the year. It is anticipated that there will be a large increase in the Company's sales of Goods on the e-commerce platforms of Bailian Omni-channel in 2023 with the anticipation of the effective control of the COVID-19 epidemic and the gradual recovery of the PRC economy and the continuous improvement of the "Delivery to Home" business, the continuous expansions of the types of commodities, especially the expansion of types of fresh produce, the continuous improvements in the services provided and the fact that the Group also actively and effectively carried out activities to expand membership and accelerated the connection with physical stores, the registered members of Bailian Omni-channel have recorded considerable growth at compound annual growth rate of approximately 20% since 2019;
3. in the past three years, the Company deepened the cooperation with the e-commerce platforms of Bailian Omni-channel for the sales agency business in Anhui Province and Jiangsu Province, and the e-commerce business of the Company expanded. Bailian Omni-channel has already fully covered 100% of the Group's business in Anhui Province and basically covered up to approximately 85% of the Group's business in Jiangsu Province, and 100% coverage in Jiangsu Province is expected to be completed within the next two years. As the platform coverage of Bailian Omni-channel continues to grow, 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;
4. the e-commerce businesses of Bailian Omni-channel and/or its subsidiaries have been developed and continuously perfected in the past four 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; and

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## LETTER FROM THE BOARD

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5. due to the recent relaxation of the quarantine policies, in particular the Yangtze River Delta regions, business of the Group has been recovering gradually, and the financial performance of the Group after June 2022 would be more representative of the normal business performance prior to the latest pandemic wave in the PRC. The agency sales of the Group is increasing at a rate of approximately 14.1% and 38.8% for August and September 2022 as compared to that of July 2022, respectively.

The maximum platform usage fee payable by the Group for the financial year ending 31 December 2023 under the Sales Agency Framework Agreement are set out as follows:

<b>Period</b>	<b>Maximum Platform Usage Fee (RMB thousand)</b>
From 1 January 2023 to 31 December 2023	110,000

Such maximum platform usage fee is determined after taking into account the following primary factors:

1. 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 at actual cost 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 and the third party platforms usage fees paid by Bailian Omni-channel on behalf of the Group at actual cost.

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## LETTER FROM THE BOARD

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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, providing Bailian member traffic support and providing instant after-sale services for the Goods sold. These selling strategies are expected to boost the sales of the Company via e-commerce platform.

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## LETTER FROM THE BOARD

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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.

2. The platform usage fee rates were determined after arm's length negotiation between the Company and Bailian Omni-channel with reference to the scope of services to be provided by Bailian Omni-channel, the market rate (namely the average platform usage fee) charged by the third-party platforms and the platform maintenance costs of Bailian Omni-channel. 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 market rate (namely 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. 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.

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## LETTER FROM THE BOARD

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Bailian Omni-Channel, as a self-owned platform of Bailian Group, is not only an online e-commerce platform but also a fulfillment intermediary between the third-party platforms and the Group, as well as providing other customized services to the Group. 1% of total transaction amount of Goods sold in respect of Goods sold by the Group on independent third-party platforms which processed through Bailian Omni-channel will be paid to Bailian Omni-channel as platform usage fee, which is after taking into account that: (i) Bailian Omni-channel enables the Group to integrate order and delivery information of multiple platforms which reduces the cost of use and management cost due to the coexistence of different systems from different platforms at the same time whereas improves the accuracy of the inventory management as well as the delivery efficiency; (ii) through the centralisation of data processing through Bailian Omni-channel, data protection on customer and other business information of the Group can be enhanced; and (iii) based on the platform maintenance costs (being mainly the staff cost and depreciation expenses) of Bailian Omni-channel, the operating costs that the Group may incur for operating its own online platform would be substantially higher than the annual platform usage fee being paid to Bailian Omni-channel. Hence, after taking into account the above-mentioned factors, the Group can further effectively save investment and operating costs on its e-commerce business through the services provided by Bailian Omni-channel.

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 at actual cost 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 and the third party platforms usage fees paid by Bailian Omni-channel on behalf of the Group at actual cost would not be less favourable.

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## LETTER FROM THE BOARD

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3. 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 2023 is RMB1.8 billion, among which, the expected transaction amount conducted through platform of Bailian Omni-channel and/or its subsidiaries is approximately RMB950 million, and the expected transaction amount conducted through third-party platforms is approximately RMB850 million.

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.

### *Reasons for and Benefits of Entering into the Procurement of Goods 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.

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## LETTER FROM THE BOARD

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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.

### *Internal Control and Pricing Policy*

In order to ensure that the terms for the sales agency services provided by the Bailian Omni-channel and/or its subsidiaries are not less favourable than those available to 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.
- (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.

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## LETTER FROM THE BOARD

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- (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 Group.
- (6) The independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions.

### 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 Group*

Bailian Group is principally engaged in businesses relating to domestic trading, provision of production materials, logistics and development of commercial properties. Bailian Group is 100% held by the Shanghai State-owned Assets Supervision and Administration Commission.

#### *Information of the 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.

### 4. Listing Rules Implications

As at the Latest Practicable Date, Bailian Group is a substantial Shareholder and Bailian Omni-channel is a subsidiary of Bailian Group and therefore Bailian Group and Bailian Omni-channel are connected persons of the Company. As such, the transactions contemplated under the Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and Sales Agency Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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

#### *Procurement of Goods Framework Agreement*

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

#### *Goods Supply Framework Agreement*

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

#### *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.

### **III. EGM**

The Company will convene the EGM to consider and, if appropriate, to approve: (i) the Procurement of the Goods Framework Agreement; (ii) the Goods Supply Framework Agreement; and (iii) the Sales Agency Framework Agreement.

The EGM will be convened at 9:30 a.m. on Thursday, 1 December 2022 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, 11 November 2022. 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 14 October 2022.

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## LETTER FROM THE BOARD

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### 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 subsidiary, being a party to the Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and Sales Agency Framework Agreement, has material interests in the relevant continuing connected transactions. Therefore, Bailian Group and its associates, including Shanghai Bailian, are required to abstain from voting on the relevant resolution to be proposed at the EGM to approve the Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and Sales Agency Framework Agreement (including the proposed annual caps).

Save as disclosed above, no other Shareholders would be required to abstain from voting to approve the resolution in relation to the Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and Sales Agency Framework Agreement (including the proposed annual caps) at the EGM.

The Board has approved the entering into of the Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and 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. Pu Shao-hua, Mr. Shi Xiao-long, 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 Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and Sales Agency Framework Agreement. Save as disclosed above, none of the other Directors was required to abstain from voting to approve the resolutions in relation to the continuing connected transactions.

### V. RECOMMENDATION

Your attention is drawn to the letter of the Independent Board Committee set out on pages 33 to 34 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 35 to 74 of this circular in respect of the terms of the Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and Sales Agency Framework Agreement.

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## LETTER FROM THE BOARD

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

The Board (including the members of the Independent Board Committee) considers that the terms of the Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and 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 are in the interest of the Shareholders and the Company as a whole. Therefore, the Board recommends the Shareholders or the Independent Shareholders (as the case may be) to vote in favour of all the resolutions at the 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.**  
**Pu Shao-hua**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

**(Stock Code: 00980)**

16 November 2022

*To the Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 16 November 2022 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 Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and 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 5 to 32 of the Circular and the letter of advice from Lego, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and Sales Agency Framework Agreement, set out on pages 35 to 74 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of Lego as stated in its letter of advice, the terms and conditions of the Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and Sales Agency Framework Agreement, and the business and financial effects of the Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and Sales Agency Framework Agreement on the Company, we consider that the terms of the Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and 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 are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the Procurement of Goods Framework Agreement, Goods Supply Framework Agreement and 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*

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## LETTER FROM LEGO

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*The following is the full text of the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which have been prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the (i) Procurement of Goods Framework Agreement; (ii) Goods Supply Framework Agreement; and (iii) Sales Agency Framework Agreement (including the transactions contemplated thereunder).*



16 November 2022

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs or Madams,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the (i) Procurement of Goods Framework Agreement; (ii) Goods Supply Framework Agreement; and (iii) Sales Agency Framework Agreement (including the transactions contemplated thereunder), details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 16 November 2022 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As disclosed in the Letter from the Board, on 30 September 2022, the Company entered into (i) the Procurement of Goods Framework Agreement with Bailian Group, pursuant to which, the Group agreed to procure and Bailian Group and/or its associates agreed to supply various kinds of goods, including but not limited to fresh produce, food and industrial products, for sales in the outlets of the Group for a term of three years commencing from 1 January 2023 to 31 December 2025 (both days inclusive); (ii) the Goods Supply Framework Agreement with Bailian Group, pursuant to which, the Company agreed to supply various kinds of goods, including but not limited to foods and fresh produce, to Bailian Group and/or its associates for a term of three years commencing from 1 January 2023 to 31 December 2025 (both days inclusive); and (iii) the Sales Agency Framework Agreement with Bailian Omni-channel, pursuant to which, Bailian Omni-channel agreed to sell the goods (namely food, washing detergent, fresh produce, home textiles, home appliances and miscellaneous items) on behalf of the Group through its e-commerce platform for a term of one year commencing from 1 January 2023 to 31 December 2023 (both days inclusive).

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## LETTER FROM LEGO

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As at the Latest Practicable Date, Bailian Group and its associates, including Shanghai Bailian, held approximately 513,869,400 Shares, representing 45.90% of the issued share capital of the Company. Bailian Group is a substantial shareholder of the Company and Bailian Omni-channel is a subsidiary of Bailian Group. As such, Bailian Group and Bailian Omni-channel are connected persons of the Company. Accordingly, the transactions contemplated under (i) Procurement of Goods Framework Agreement; (ii) Goods Supply Framework Agreement; and (iii) Sales Agency Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) for the highest proposed annual caps under each of (i) Procurement of Goods Framework Agreement; (ii) Goods Supply Framework Agreement; and (iii) Sales Agency Framework Agreement is more than 5%, the transactions contemplated under such agreements are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, Lego Corporate Finance Limited had acted as independent financial adviser to the Company in relation to the major and continuing connected transactions in relation to the investment and wealth management cooperation framework agreement, details of which were disclosed in the circular of the Company dated 27 May 2021. Apart from normal professional fees paid or payable to us in connection with the previous appointment mentioned above as well as this appointment as the Independent Financial Adviser, no arrangement exists whereby we have received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the (i) Procurement of Goods Framework Agreement; (ii) Goods Supply Framework Agreement; and (iii) Sales Agency Framework Agreement (including the transactions contemplated thereunder).

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## LETTER FROM LEGO

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### **BASIS OF OUR OPINION**

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

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

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## LETTER FROM LEGO

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

#### 1. Background 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. Set out below are selected financial information of the Company for the two years ended 31 December 2020 and 2021 and six months ended 30 June 2021 and 2022 as extracted from the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”):

	For the year ended		For the six months ended	
	31 December		30 June	
	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	26,331,155	24,759,659	13,238,371	13,585,003
(Loss)/profit for the year/period	(187,597)	(371,356)	60,120	60,126
				<b>As at</b>
	<b>As at 31 December</b>		<b>30 June</b>	
	<b>2020</b>	<b>2021</b>	<b>2022</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
	(audited)	(audited)	(unaudited)	
Total assets	23,220,754	22,829,926	22,718,252	
Total liabilities	21,465,660	21,575,529	21,320,455	
Net assets	1,755,094	1,254,397	1,397,797	

As illustrated in the table above, revenue of the Group amounted to approximately RMB24,759.7 million for the year ended 31 December 2021, representing a decrease of approximately 6.0% as compared to that of approximately RMB26,331.2 million for the year ended 31 December 2020. According to the 2021 Annual Report, such decrease was mainly due to (i) repeated epidemics; (ii) decline in offline customers; and (iii) intensified competition in the retail industry. The hypermarket segment of the Group was particularly affected by the epidemic and store closures, in addition Huashang store being one of the key stores of the Group in Zhejiang, was closed and relocated due to the expiration of the lease in March 2021, and reduced the revenue of the Group by approximately RMB611 million as compared to that of 2020.

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## LETTER FROM LEGO

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According to the 2022 Interim Report, the revenue of the Group amounted to approximately RMB13,585.0 million for the six months ended 30 June 2022, representing an increase of approximately 2.6%. According to the 2022 Interim Report, such increase was mainly due to (i) the increase in revenue for the first quarter of 2022; and (ii) increase in commodities supply, and partially offset by stores closure due to the serious epidemic situation in Shanghai and surrounding areas in the second quarter of 2022.

The net loss of the Group for the year ended 31 December 2021 increased by approximately 98.0% as compared to that for the year ended 31 December 2020, which was primarily due to the decrease in revenue of the Group. The net profit for the six months ended 30 June 2022 remained stable at approximately RMB60.1 million as compared to that for the six months ended 30 June 2021.

As at 31 December 2021, the net assets of the Group decreased from approximately RMB1,755.1 million as at 31 December 2020 to approximately RMB1,254.4 million, mainly due to the decrease in total assets. The decrease in total assets was attributable to decrease in term deposits and right-of-use assets, and partially offset by increase in financial assets in relation to the unlisted financial products investments. As at 30 June 2022, the net assets of the Group remained stable as compared to that of 31 December 2021.

### **2. Information on the parties involved**

#### ***Information on Bailian Group***

As stated in the Letter from the Board, Bailian Group is principally engaged in businesses relating to domestic trading, provision of production materials, logistics and development of commercial properties. Bailian Group is 100% held by Shanghai State-owned Assets Supervision and Administration Commission.

#### ***Information on Bailian Omni-channel***

As stated in 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.

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## LETTER FROM LEGO

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### 3. Procurement of Goods Framework Agreement

#### *3.1 Principal terms of the Procurement of Goods Framework Agreement*

The principal terms of the Procurement of Goods Framework Agreement are summarised as follows:

Date:	30 September 2022
Parties:	(1) The Company (as the purchaser); and (2) Bailian Group (as the supplier)
Term:	The Procurement of Goods Framework Agreement is for a term of three years commencing from 1 January 2023 to 31 December 2025 (both days inclusive).
Subject matters:	Procurement of Goods

Pursuant to the Procurement of Goods Framework Agreement, the Group agreed to procure and Bailian Group and/or its associates agreed to supply various kinds of goods, including but not limited to fresh produce and food (mainly includes tobacco and liquor, imported foodstuffs, fresh noodles, lunch boxes, bakery items, packaged foods etc.) and industrial products, for sale in the sales outlets of the Group.

The Group and Bailian Group and/or its associates will enter into individual procurement of goods contracts setting out specific terms. Such terms will be consistent with the principles and the terms of the Procurement of Goods Framework Agreement. If there is any discrepancy between the terms of an individual procurement of goods contract and the Procurement of Goods Framework Agreement, the latter shall prevail.

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## LETTER FROM LEGO

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Consideration and  
Payment:

The pricing for the goods procured under the Procurement of Goods Framework Agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such goods from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable than those available from independent third parties.

Depending on the specific goods to be procured and the practices of Bailian Group and/or its associates, the actual payments for the procurement of goods under the Procurement of Goods Framework Agreement are to be made as agreed in the agreement (which shall be determined by the market practice of the payment period of such particular type of goods procured and shall not be less favourable than those available from independent third parties). Details of the payment terms shall be set out in the individual procurement of goods contracts to be entered into between both parties with reference to the normal commercial terms of Bailian Group and/or its associates and on terms not less favourable than those available from independent third parties.

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## LETTER FROM LEGO

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According to the Procurement of Goods Framework Agreement, we noted that the pricing for the goods supplied by Bailian Group is determined principally on arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market price of such goods from time to time and on terms not less favourable than those available from independent third parties. For our due diligence purpose, on a random selection basis, we have obtained and reviewed the prices of eight sample products supplied by Bailian Group to the Group during the two years ended 31 December 2021 and the eight months ended 31 August 2022 (the "**Review Period**"). Given that (i) each of the selected samples represented different categories of products of the Group; (ii) the samples were randomly selected; and (iii) appropriate internal control measures of the Group were in place to govern the conduct of transactions contemplated under the Procurement of Goods Framework Agreement (please refer to the section headed "3.4 Internal Control and Pricing Policy" in this letter for details), we are of the view that the selected samples are fair and representative. We have compared the pricing of these sample products to sample invoices or quotations from six independent third-party suppliers of the Group for the procurement of similar goods in the Review Period, and noted that the prices of similar goods supplied by Bailian Group were at lower or same prices as those supplied by independent third-party suppliers. Therefore, we are of the opinion that the prices of the goods supplied by Bailian Group to the Group are fair and reasonable and not less favourable than those offered by the independent third-party suppliers.

Based on the above, (i) the nature of the transactions contemplated under the Procurement of Goods Framework Agreement are consistent with the principal activities of the Group; and (ii) the pricing of goods supplied by Bailian Group is determined principally by arm's length commercial negotiations and on terms not less favourable than those available from the independent third party suppliers, hence, we concur with the Directors that the entering into of the Procurement of Goods Framework Agreement is in the ordinary and usual course of business of the Group, and is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM LEGO

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### 3.2 The annual caps of the Procurement of Goods Framework Agreement

	<b>For the year ended</b>		<b>For the</b>
	<b>31 December</b>		<b>year ending</b>
	<b>2020</b>	<b>2021</b>	<b>31 December</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Total transaction amounts	322,948	354,191	226,632
			<i>(Note)</i>
Existing annual caps	500,000	600,000	700,000
	<b>For the year ending 31 December</b>		
	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Proposed annual cap	500,000	600,000	700,000

*Note:* For the eight months ended 31 August 2022, the total transaction amount was approximately RMB151.1 million. On a hypothetical basis, the annualised transaction amount for the year ending 31 December 2022 would be approximately RMB226.6 million.

As shown in the above table, the historical transaction amount of goods supplied by Bailian Group for sale in the outlets of the Group were approximately RMB322.9 million and RMB354.2 million for the two years ended 31 December 2020 and 2021, respectively. The annualised transaction amount for the year ending 31 December 2022 would be approximately RMB226.6 million.

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## LETTER FROM LEGO

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Upon our enquiry with the Management, during the six months ended 30 June 2022, despite the fact that the number of stores maintained a net increase, the overall expansion of stores of the Group did not meet expectations due to, including but not limited to, the delayed work for selecting and determining the sites for new stores in Shanghai, as it was affected by the COVID-19 pandemic. We also understand that 80% of the Group's stores were located in the Yangtze River Delta which was severely affected by the COVID-19 pandemic, particularly in April and May 2022 when Shanghai imposed static control citywide, consequently most of the Group's stores in Shanghai were closed temporarily, and the stores in Zhejiang and Jiangsu were also affected to a certain extent due to the blocked logistics services in Shanghai. Moreover, according to the Management, such decrease in historical transaction amount of goods supplied by Bailian Group for the eight months ended 31 August 2022 was primary attributable to the decreased sales of the Group on goods such as premium liquor, tobacco and imported goods as a result of the aforementioned COVID-19 pre-cautionary measures in the first half of 2022. We also noted from the National Bureau of Statistics of the PRC that the gross regional domestic products of Shanghai, Zhejiang and Jiangsu increased by approximately 6.3%, 9.9% and 8.1% for the first quarter of 2022 as compared to the corresponding quarter of 2021. However, in the second quarter of 2022, the gross regional domestic products of such areas as compared to the corresponding quarter of 2021 were approximately -3.3%, 5.3% and 3.5%, respectively. In addition, according to the National Bureau of Statistics of the PRC, the regional cumulative growth of retail sales for the second quarter of 2021 in Shanghai, Zhejiang and Jiangsu were approximately 30.3%, 16.4% and 28.7%. The regional cumulative growth of retail sales decreased to approximately -16.1%, 2.0% and -3.7% in the respective provinces in the second quarter of 2022. Such deterioration of the gross regional domestic product of the PRC and the regional cumulative growth of retail sales were in line with the effect of COVID-19 pandemic on the Group's retail business, resulted in the reduction in the actual amount of goods purchased from Bailian Group for sale in the outlets of the Group in the first half of 2022.

According to the Letter from the Board, the proposed annual caps of the Procurement of Goods Framework Agreement for the three years ending 31 December 2025 are determined after taking into account (i) the historical transaction amounts for the procurement of goods by the Group to Bailian Group and/or its associates; and (ii) the demands in the prevailing market for products including but not limited to fresh produce, food, and industrial products in the PRC.

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## LETTER FROM LEGO

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In order to assess the fairness and reasonableness of the proposed annual caps of the Procurement of Goods Framework Agreement, we have obtained and reviewed the projection table in estimating the proposed annual caps, and discussed with the Management on the bases and assumptions underlying the determination of the proposed annual caps as below:

- The Management having considered the lower procurement from Bailian Group for the eight months ended 31 August 2022 as explained above, hence the proposed annual cap for the year ending 31 December 2023 has been adjusted and reduced by RMB200.0 million, or approximately 28.6%, as compared to that for the year ending 31 December 2022;
- According to the Management, due to the recent relaxation of the quarantine policies, in particular the Yangtze River Delta regions, business of the Group has been recovering gradually, and the financial performance of the Group after June 2022 would be more representative of the normal business performance prior to the latest pandemic wave in the PRC. In this regard, on a hypothetical basis, we noted that the annualised procurement amount of the Group under the Existing Procurement of Goods Framework Agreement for 2022 based on the actual transaction amount for the three months ended 30 September 2022 would amount to approximately 89.7% of the proposed annual cap for the year ending 31 December 2023;
- Based on the projection table of the Group in estimating the proposed annual caps under the Procurement of Goods Framework Agreement, we noted that over 80% of each year of the proposed annual caps represents the premium liquor anticipated to be procured from Bailian Group. According to the “Guideline on the Development of China’s Liquor Industry during the 14th Five-Year Plan” 《中國酒業「十四五」發展指導意見》 promulgated by the China Alcoholic Drinks Association (中國酒業協會) in April 2021, it is expected that by 2025, China’s liquor industry will achieve a total annual output of approximately 66.9 million kiloliters of liquor, and the annual sales revenue of the market will reach approximately RMB1,418 billion, representing an increase of approximately 23.9% and 69.8% over that of the end of the 13th Five-Year Plan (i.e. 2020), respectively. We are of the view that in order for the Group to capture the anticipated growth of the liquor market in the PRC, it is reasonable for the Group to assume a growing trend in projecting the proposed annual caps under the Procurement of Goods Framework Agreement;

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## LETTER FROM LEGO

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- We were given to understand from the Management that, looking forward, based on the expectation that the COVID-19 pandemic will be contained and the economy in the PRC will gradually recover, coping with the expansion plan of the Group, the Company expects the overall sales of the Group for 2023, in particular, the sales of goods such as premium liquor and tobacco, would recover to the level before the outbreak of the COVID-19 pandemic and exhibit an increasing trend onwards, and hence the amount of goods supplied by Bailian Group for sales in the outlets of the Group is also expected to recover considerably for the three years ending 31 December 2025;
- Moreover, we noted that the business scale of the Group has been expanding from 3,192 stores as of 31 December 2020 to 3,336 stores as of 30 June 2022, representing a growth rate of approximately 4.5%. According to the Management, the Group targets to expand its business scale by setting up new outlets and/or stores at a compound annual growth rate (CAGR) of approximately 5% by the end of 2025;
- In addition, we were given to understand from the Management that, starting from 2023 the Group targets to expand its product list to be listed in its outlets and stores by procuring new categories of goods from Bailian Group, including but not limited to lunch boxes, bakery items and packaged food;
- On 26 September 2021, Hangzhou Lianhua Huashang Group Co., Ltd. (“**Lianhua Huashang**”), a subsidiary of the Company has entered into the equity transfer agreement with Zhuji Yibai Supermarket Co., Ltd., to acquire 60% equity interest in Zhejiang Bailian Supermarket Co., Ltd. (the “**Bailian Supermarket**”), which principally engaged in retail chain business, including neighborhood centers, comprehensive supermarkets, school stores and convenience stores in Zhuji City. Such strategic move is conducive for the Group to increase its market share in Zhuji City for gradually forming regional connections, strengthening regional market and enhancing business competitiveness of the Group;

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## LETTER FROM LEGO

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- According to the notice issued by the Ministry of Commerce of the PRC in July 2021, the Government established a guide for constructing a convenient living circle cities (城市一刻鐘便民生活圈建設指南), including but not limited to (i) allowing residents to access basic consumptions within a 15-minute walk; (ii) establishing networks for accessing basic needs, including convenience store, comprehensive supermarket, wet market and fresh supermarket; and (iii) connecting commercial centers, shopping centers and scattered outlets to meet residents' living and consumption needs. According to the notice issued by the Ministry of Commerce of the PRC in August 2022, the Government further launched a promotion under such guide, targeting to (i) improve the living quality of citizens; (ii) promote consumption; and (iii) secure supply of goods under the COVID-19 Pandemic. A pilot program was launched in 50 cities, including three districts in Shanghai and five cities in Jiangsu;
- In addition, we noted from the financial information of the Group provided by the Management that the transaction amount on purchases supplied by the Bailian Group has substantially recovered in July and August 2022 with total transaction amount of approximately RMB69.2 million as compared to approximately RMB81.9 million for the six months ended 30 June 2022; and
- We would like to emphasise that, notwithstanding the increasing proposed annual caps as compared to the actual historical transaction amounts, taking into account that (i) the proposed annual caps under the Procurement of Goods Framework Agreement for the three years ending 31 December 2025 are determined based on the anticipated business activities of the Group, and (ii) such procurement in turn generate sales which is a stable and recurring source of income of the Group, we are of the view that it is fair and reasonable to set the proposed annual caps according to the Group's anticipation, so as not to limit the development of the business of the Group in the event that it is able to meet its anticipated business growth.

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## LETTER FROM LEGO

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Based on the above, and taking into consideration that (i) the Management expects the impact from the COVID-19 pandemic on the business operation of the Group will be eased gradually and the market will gradually recover in 2023, particularly as seen by the gradual recovery of the transaction amount during the three months ended 30 September 2022; (ii) a majority portion of the goods supplied by Bailian Group to the Group is contributed by premium liquor and the projected strong growth of the liquor industry of the PRC by 2025 is expected to drive the demand for the Group's liquor products and hence the Group's procurement demand for premium liquor is also expected to increase; (iii) favourable government policies in the PRC are expected to drive demand for the grocery of the Group, which in turn boosting the Group's demand under the Procurement of Goods Framework Agreement; and (iv) the reasons for and benefit of entering into the Procurement of Goods Framework Agreement as discussed below, we are of the view that the proposed annual caps for the three years ended 31 December 2025 under the Procurement of Goods Framework Agreement are justifiable.

### ***3.3 Reasons for and benefit of entering into the Procurement of Goods Framework Agreement***

As stated in the Letter from the Board, the products sold by Bailian Group and its associates are well recognised by the market and supported by a stable customer base. As such, the Directors considered that maintaining a stable business relationship with Bailian Group and its associates in connection with the procurement of their products will enhance the stability of the business operation as well as the long-term development of the Group. As advised by the Management, the Group has a long-standing and well-established relationship with Bailian Group and its associates, which have been supplying goods for sale in the outlets of the Group since 2007. Such stable supply of a variety of quality goods to be sold in the Group's outlets would continue to benefit the business operations and development of the Group.

According to the 2021 Annual Report, the Group operated a total of 3,279 outlets (excluding those operated by the Company's associated companies) in 23 provinces and municipalities across the nation. According to the 2022 Interim Report, the Group opened a total of 203 new stores, including 133 directly-operated stores and 70 new franchised stores in the first half of 2022, and the total number of stores has reached 3,336 as at 30 June 2022. The Group continued to focus on expansion through a combination of direct operation, franchises and merger and acquisitions. A stable business operation with a secured stable supply of goods would support such expansion plans. In light of the aforesaid, we are of the opinion that the entering into of the Procurement of Goods Framework Agreement is in the interest of the Company and its shareholders as a whole.

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## LETTER FROM LEGO

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### **3.4 Internal Control and Pricing Policy**

As stated in the Letter from the Board, in order to ensure that the terms for the procurement of goods from Bailian Group and/or its associates by the Group are not less favourable than those available from the independent third parties, the Company has adopted the following measures:

1. the prices for the goods will be negotiated on arm's length basis and with reference to the prevailing market prices of similar products, which will be determined through a periodic price research conducted by the staff of the business department of the Group by obtaining the prices of products charged by suppliers in the market for similar products comparable to the products under the Procurement of Goods Framework Agreement. The staff of the business department of the Group will conduct price research for each category of the goods. Depending on the different categories of the goods to be procured, the staff of the business department of the Group will obtain quotes from at least two to three other suppliers in the market on a monthly basis;
2. 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 Procurement of Goods Framework Agreement are conducted in accordance with the terms of such agreement and will also regularly update the market price for their purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the aforesaid pricing policy;
3. the Company's external auditors will conduct an annual review on the pricing and the annual caps of the continuing connected transactions;
4. 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 Group; and
5. the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions.

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## LETTER FROM LEGO

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

In summary, we are of the view that the proposed annual caps for transactions contemplated under the Procurement of Goods Framework Agreement and major factors considered as the bases in determining such proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

#### **4. Goods Supply Framework Agreement**

##### ***4.1 Principal terms of the Goods Supply Framework Agreement***

Date:	30 September 2022
Parties:	(1) The Company (as the supplier); and (2) Bailian Group (as the purchaser)
Term:	The Goods Supply Framework Agreement is for a term of three years commencing from 1 January 2023 to 31 December 2025 (both days inclusive).
Subject matters:	Supply of Goods  Pursuant to the Goods Supply Framework Agreement, the Group agreed to supply various kinds of goods, including but not limited to foods and fresh produce (mainly includes liquor, vegetables, fruits, frozen meat, frozen fish etc.), to Bailian Group and/or its subsidiaries.

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## LETTER FROM LEGO

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The operating units of both parties may enter into individual goods supply contracts setting out specific terms of supply of goods, including the goods to be supplied, price determination method, delivery method and payment arrangement. The payment shall be made by bank transfer. Such terms shall be consistent with the principles and the terms of the Goods Supply Framework Agreement. If there is any discrepancy between the terms of an individual goods supply contract and the Goods Supply Framework Agreement, the latter shall prevail.

Consideration and  
Payment:

The prices for the goods to be supplied under the Goods Supply Framework Agreement are determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties on the basis of the market prices of such goods. The payment under the individual goods supply contract is to be made according to the terms of the individual goods supply contract. The prices for the goods supplied by the Group to Bailian Group and/or its subsidiaries will not be less favourable to the Company than those available to independent third parties in similar transactions.

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## LETTER FROM LEGO

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According to the Goods Supply Framework Agreement, we noted that the pricing for the supply of goods by the Group is determined principally on arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties, referencing to the prevailing market price of such goods and on terms not less favourable to the Group than those available to independent third parties in similar transactions. For our due diligence purpose, on a random selection basis, we have obtained and reviewed the prices of five sample products purchased by Bailian Group under the Existing Goods Supply Framework Agreement in the Review Period (as defined above). Given that (i) each of the selected samples represented different categories of products of the Group; (ii) the samples were randomly selected; and (iii) appropriate internal control measures of the Group were in place to govern the conduct of transactions contemplated under the Goods Supply Framework Agreement (please refer to the section headed "4.4 Internal Control and Pricing Policy" in this letter for details), we are of the view that the selected samples are fair and representative. We have compared the prices of the sample products to the invoices or quotations between the Group and five independent third-party suppliers in the market for similar goods in the Review Period, and noted that the price of similar goods supplied by the Group to Bailian Group were at higher or same prices as those offered by independent third-party suppliers in the market. Therefore, we are of the opinion that the prices of the goods supplied by the Group to Bailian Group are fair and reasonable and not less favourable than those available from the independent third parties.

Based on the above, given (i) the nature of the transactions contemplated under the Goods Supply Framework Agreement are consistent with the principal activities of the Group; and (ii) the pricing of goods purchased by Bailian Group is determined principally on arm's length commercial negotiations and on terms not less favourable than those available from the independent third parties, we concur with the Directors that the entering into of the Goods Supply Framework Agreement is in ordinary and usual course of business of the Group, and are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.



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## LETTER FROM LEGO

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In order to assess the fairness and reasonableness of the proposed annual caps of the Goods Supply Framework Agreement, we have obtained and reviewed the projection table in estimating the proposed annual caps, and discussed with the Management on the bases and assumptions underlying the determination of the proposed annual caps as below:

- The Management having considered the lower sales of the Group to Bailian Group mainly attributable to (i) the COVID-19 pre-cautionary measures being implemented in the PRC and the blocked logistics services, in particular the Shanghai district, during the first half of 2022; and (ii) the overall reduced demand on liquor for the first half of 2022 as explained above, hence the proposed annual cap for the year ending 31 December 2023 has been adjusted and reduced by RMB10.0 million, or approximately 16.7%, as compared to that for the year ending 31 December 2022;
- We were given to understand from the Management that the proposed annual caps for the Goods Supply Framework Agreement are primarily based on the internal procurement plan for the three years ending 31 December 2025 provided by Bailian Group. Accordingly, we have further obtained and reviewed the relevant procurement plan of Bailian Group and noted that the annual amount and categories of goods under such procurement plan are in line with the projection table of the Company;
- To the best knowledge of the Management, it is anticipated that there will be a gradual increase in demand from Bailian Group for the goods to be supplied by the Company. As advised the Management, Bailian Group has expansion plans in stores and outlets, in particular, the convenience store under the brand of Yike EGO (逸刻). The increase in number of stores of Bailian Group will in turn bring an increase in demand on goods supplied by the Group;

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## LETTER FROM LEGO

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- According to the notice issued by the State Council of the PRC in relation to the recovery of consumption (國務院辦公廳關於進一步釋放消費潛力促進消費持續恢復的意見) in April 2022, the government targeted to increase consumption, including but not limited to promoting stable supply of basic goods and increasing the spending power of citizens. Following the notice mentioned above, municipal governments had issued detailed policies for their respective areas. For example, Shanghai Municipal People's Government (i) formulated an action plan for accelerating economic recovery and revitalization (上海市加快經濟恢復和重振行動方案); and (ii) issue a total of RMB1.0 billion of consumption vouchers during August to November 2022. Various cities in Jiangsu province, for instance, Yangzhou, Yancheng and Xuzhou, also issued consumption vouchers to stimulate economy; and
- We would like to emphasise that, notwithstanding the increasing proposed annual caps as compared to the actual historical transaction amount, taking into account that the transaction amount to be received by the Group under the Goods Supply Framework Agreement is a stable and recurring source of income of the Group, we are of the view that it is fair and reasonable for the Company to set the proposed annual caps according to the procurement plan of the Bailian Group, so as not to limit the development of the business of the Group in the event that it is able to meet the anticipated procurement level of the Bailian Group.

Based on the above, and taking into consideration (i) that the Management expects the impact from the COVID-19 pandemic on the business operation of the Group will be eased gradually and the market will gradually recover in 2023; (ii) the projection of the proposed annual caps under the Goods Supply Framework Agreement is based on the procurement plan of Bailian Group; and (iii) the anticipated increase in demand of the fresh produce and food supplied by the Group due to the anticipated expansion plans of Bailian Group and the supportive government policies, we are of the view that the proposed annual caps for the three years ended 31 December 2025 under the Goods Supply Framework Agreement are justifiable.

### ***4.3 Reasons for and benefit of entering into the Goods Supply Framework Agreement***

As stated in the Letter from the Board, the entering into of the Goods Supply Framework Agreement will (i) widen the distribution channel of the Group's relevant goods and thus enhancing the sales of the Group; and (ii) increase the bargaining power of Group from bulk purchase with its suppliers, thus lowering the overall purchasing costs of goods and therefore enhancing profitability of the Group.

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## LETTER FROM LEGO

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In addition, having considered the long-standing and well-established relationship with Bailian Group and the increasing demand of the Group's fresh produce and food supply from Bailian Group, it is believed that by renewing the Goods Supply Framework Agreement could ensure a stable and profitable revenue stream to the Group and therefore benefit to the Company in long run and enhance the return to the Shareholders as a whole. Based on the aforesaid, we are of the view that the entering into of the Goods Supply Framework Agreement is in the interest of the Company and its shareholders as a whole.

#### **4.4 Internal Control and Pricing Policy**

As disclosed in the Letter from the Board, the Company has adopted the following internal control measures to ensure that the terms provided by the Company under the Goods Supply Framework Agreement are not less favourable than those available to independent third parties:

1. the prices for the goods to be supplied by the Group to Bailian Group and/or its subsidiaries will be negotiated on arm's length basis and with reference to the prevailing market prices of similar products, which will be determined through a periodic price research conducted by the staff of the business department of the Group by obtaining the prices of products charged by suppliers in the market for similar products comparable to the products under the Goods Supply Framework Agreement. The staff of the business department of the Group will conduct price research for each category of the goods. Depending on the different categories of the goods to be procured, the staff of the business department of the Group will obtain quotes from other independent third parties in the market on a monthly basis;

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## LETTER FROM LEGO

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2. 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 transactions are conducted in accordance with the terms of their respective agreements and will also regularly update the market prices for the purpose of considering if the prices charged for specific transactions are fair and reasonable and in accordance with the aforesaid pricing policy;
3. the Company's external auditors will conduct an annual review on the pricing and the annual caps of the continuing connected transactions;
4. 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 Group; and
5. the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions.

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

In summary, we are of the view that the proposed annual caps for transactions contemplated under the Goods Supply Framework Agreement and major factors considered as the bases in determining such proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM LEGO

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### 5. Sales Agency Framework Agreement

#### *5.1 Principal terms of the Sales Agency Framework Agreement*

The principal terms of the Sales Agency Framework Agreement summarised as follows:

Date:	30 September 2022
Parties:	(1) Bailian Omni-channel (as agent); and (2) the Company (as principal)
Term:	The Sales Agency Framework Agreement is for a term of one year commencing from 1 January 2023 to 31 December 2023 (both days inclusive).
Subject matters:	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.

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## LETTER FROM LEGO

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Bailian Omni-channel will settle the Selling Prices (as defined below) with the Company as agreed in the agreement. The fees payable by the Company are as follows:

- (1) in respect of Goods sold by Bailian Omni-channel and/or its subsidiaries 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 Bailian Omni-channel and/or its subsidiaries and shall not exceed 4% of the sales budget of the Goods (whichever is lower). Besides, the Company shall also pay Bailian Omni-channel the payment handling fee which shall be charged at actual cost and shall not exceed 0.5% of the total transaction amount of Goods sold; and
- (2) 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, and the third-party platforms usage fees paid by Bailian Omni-channel on behalf of the Group at actual cost.

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.

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## LETTER FROM LEGO

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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 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 supply of the Goods are 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 at actual cost 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 usage fees paid by Bailian Omni-channel on behalf of the Group at actual cost.

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## LETTER FROM LEGO

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- (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 as agreed in the agreement 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.

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## LETTER FROM LEGO

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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 as agreed in the agreement. 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 at actual cost and shall not exceed 0.5% of the total transaction amount of Goods sold; and

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## LETTER FROM LEGO

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- (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 are equivalent to the total transaction amount of Goods sold through the third-party platforms as agreed in the agreement. 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 usage fees paid by Bailian Omni-channel on behalf of the Group at actual cost.

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## LETTER FROM LEGO

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With respect to the Selling Prices, we were given to understand from the Management that the categories of Goods to be sold on the e-commerce platforms of Bailian Omni-channel and/or its subsidiaries and/or the third parties are the same as those sold in the outlets of the Group. Besides, pursuant to the Sales Agency Framework Agreement, we noted 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 and on terms not less favourable than those available for the independent third parties in real-time. For our due diligence purpose, on a random selection basis, we have obtained and reviewed six sample Goods listed on the platform of Bailian Omni-channel and compared against same Goods listed on the independent third-party platforms (such as JD Daojai (京東到家) and Meituan Waimai (美團外賣)), and we noted that same Selling Prices of the same Goods are being listed on different e-commerce platforms and in line with our understanding of the pricing mechanism on the Selling Prices under the Sales Agency Framework Agreement. Given that (i) the each of the selected samples represented different categories of Goods; (ii) the samples were randomly selected; and (iii) appropriate internal control measures of the Group were in place to govern the conduct of transactions, in particular the Selling Prices, contemplated under the Sales Agency Framework Agreement (please refer to the section headed “5.4 Internal Control and Pricing Policy” in this letter for details), we are of the view that the selected samples are fair and representative.

With respect to the total platform usage fees of 4.5% (including the payment handling fee) on sales conducted through Bailian Omni-channel, pursuant to the Sales Agency Framework Agreement such fees include, (a) the platform usage fee which is charged at 4% of the total transaction amount of Goods sold on the e-commerce platform operated by the Balian Omni-channel 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. According to the Management, the Company’s platform on Bailian Omni-channel is tailor-made for the Company, which integrates the online e-commerce business with the offline business of the Group. For example, the membership and merit point systems adopted in the offline business of the Group can be applied to the online e-commerce business in order to retain existing customers and attract new customers. Further as advised by the Management, in order to maintain the synergy between Bailian Omni-channel and/or its subsidiaries and the Group, products listed on the Bailian Omni-channel be will prioritised and will always be advertised on the first pages of its platform. For our due diligent work, we have obtained from the Company ten sample contracts entered into with independent third-party platforms (such as JD Daojai (京東到家) and Meituan Waimai (美團外賣)) during the Review Period and noted that the total platform usage fee charged by these third-party platforms ranged from 6.0% to 7.5% on the total transaction amount. Hence, we are of the view that the total platform usage fees of 4.5% charged by Bailian Omni-channel is no less favourable than that charged by the independent third-party platforms.

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## LETTER FROM LEGO

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With respect to sales conducted through independent third-party platforms, as represented by the Management, Bailian Omni-channel as a self-owned platform by Bailian Group is not only an online e-commerce platform but also a fulfillment intermediary for the transaction between third-party platforms and the Group, as well as providing other customised services to the Group. Bailian Omni-channel serves as the processing centre on behalf of the Group and connects its system with the independent third-party platforms in providing functions such as centralising and processing purchase orders, inventory management, delivery instruction and payment settlement, etc. Pursuant to the Sales Agency Framework Agreement, the total platform usage fees include, (a) platform usage fee of 1% of the total transaction amount of Goods sold on independent third-party platforms for the processing services of Bailian Omni-channel; and (b) the platforms usage fee which is agreed between the Group and the independent third-party platforms (ranged from 6.0% to 7.5%). In respect of the platform usage fee of 1% of the total transaction amount sold on independent third-party platforms which processed through Bailian Omni-channel, the Directors consider that Bailian Omni-channel enables the Group to integrate order and delivery information of multiple platforms which reduces the coexistence of different systems from different platforms at the same time, whereas improves the accuracy of the inventory management as well as delivery efficiency. In addition, through the centralisation of data processing through Bailian Omni-channel, data protection on customer and other business information of the Group can be enhanced. In addition, we have reviewed the operating costs of Bailian Omni-channel and noted that, based on the platform maintenance costs (being mainly the staff cost and depreciation expenses) of Bailian Omni-channel, the operating costs that the Group may incur for operating its own online platform would be substantially higher than the annual platform usage fee being paid to Bailian Omni-channel. In particular, for illustration purpose, based on the platform maintenance costs incurred by Bailian Omni-channel for the year ended 31 December 2021, assuming allocating the percentage of agency sales of the Group conducted on Bailian Omni-channel through independent third-party platforms, the platform maintenance costs would be approximately RMB61.4 million, which was substantial higher than the platform usage fee paid to Bailian Omni-channel by the Group, comparing to the total platform usage fees amounted to approximately RMB27.4 million and RMB33.4 million for the years ended 31 December 2020 and 2021, respectively. In another words, through the services provided by Bailian Omni-channel, the Group can effectively save investment and operating costs on its e-commerce business. Hence, the Directors are of the view and we concur that, the platform usage fee of 1% charged by Bailian Omni-channel is fair and not excessive.

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## LETTER FROM LEGO

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Based on the above, given (i) the nature of the transactions contemplated under the Sales Agency Framework Agreement are consistent with the principal activities of the Group; and (ii) the terms under Sales Agency Framework Agreement are no less favourable than those available from the independent third parties, we concur with the Directors that the entering into of the Sales Agency Framework Agreement is in the ordinary and usual course of business of the Group, and on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

### **5.2 The annual caps of the Sales Agency Framework Agreement**

	<b>For the year ended</b>	<b>For the year ended</b>	<b>For the year ending</b>
	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Transaction amount on agency sales	600,780	708,500	514,342 <i>(Note 1)</i>
Platform usage fees	27,358	33,366	40,725 <i>(Note 2)</i>
Existing annual caps of agency sales	2,000,000	2,800,000	1,600,000
Existing annual caps of platform usage fees	80,000	112,000	50,000
<b>Proposed annual cap</b>			<b>For the year ending 31 December 2023</b> <i>(RMB'000)</i>
Total transaction amounts			1,800,000
Total platform usage fees			110,000

*Note 1:* For the eight months ended 31 August 2022, the total transaction amount of agency sales conducted by Bailian Omni-channel and/or its subsidiaries was approximately RMB342.9 million. On a hypothetical basis, the annualised amount for the year ending 31 December 2022 would be approximately RMB514.3 million.

*Note 2:* For the eight months ended 31 August 2022, the total platform usage fee paid to Bailian Omni-channel and/or its subsidiaries was approximately RMB27.2 million. On a hypothetical basis, the annualised amount for the year ending 31 December 2022 would be approximately RMB40.7 million.

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## LETTER FROM LEGO

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As shown in the above table, the annualised historical amounts of agency sales would be approximately RMB514.3 million for the year ending 31 December 2022. The annualised historical amounts of platform usage fees would be approximately RMB40.7 million for the year ending 31 December 2022. As advised by the Management, the lower transaction amount in 2022 was mainly attributable to the overall market environment being impacted by the continuous resurgence of the COVID-19 pandemic in the PRC which has reduced economic activities generally, in particular, the pre-cautionary lockdown and the blocked logistics services in Shanghai during the first half of 2022. In addition, according to the Management, online sales among the Yangtze River Delta regions have also been affected as the Group mainly supply to Yangtze River Delta regions through its logistic and distribution centers in Shanghai which were closed during the lockdown period. Further details please refer to the sub-section “3.2 The annual caps of the Procurement of Goods Framework Agreement” in this letter.

*With respect to the agency sales under the Sales Agency Framework Agreement*

According to the Management, the proposed annual caps for the agency sales under the Sales Agency Framework Agreement were mainly determined based on (i) the expected huge potential on e-commerce platform sales would further drive the online demand of Goods sold by the Group; (ii) the historical transactions amounts between the Group and Bailian Omni-channel under the Sales Agency Framework Agreement have shown a promising growth trend from 2019 to 2021; (iii) the Company deepened the cooperation with the e-commerce platforms of Bailian Omni-channel for the sales agency business in Anhui and Jiangsu Provinces; and (iv) the e-commerce businesses of Bailian Omni-channel and/or its subsidiaries have been developing and continuously perfected in the past four years and already obtained a comparably large customer flow base and user stickiness. In order to assess the fairness and reasonableness of the proposed annual caps for the agency sales under the Sales Agency Framework Agreement, we have obtained and reviewed the projection table in estimating the relevant proposed annual cap, and discussed with the Management on the bases and assumptions underlying the determination of the relevant proposed annual cap as below:

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## LETTER FROM LEGO

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- According to the Management, due to the reasons of (i) convenience provided by the e-commerce platforms; (ii) the continuous resurgence of the COVID-19 pandemic in the PRC; and (iii) popularisation of mobile applications and applets, customer's buying behaviours have gradually switched from offline to online purchases these years due to the convenience offered by e-commerce platforms. The agency sales of the Group for the year ended 31 December 2021 recorded a noticeable increase by approximately RMB107.7 million or approximately 17.9% as compared to the year ended 31 December 2020. The transaction amount of agency sales decreased from approximately RMB708.5 million for the year ended 31 December 2021 to approximately RMB514.3 million for the year ending 31 December 2022 (on a hypothetical annualised basis), representing a decrease of approximately 27.4%, mainly impacted by the lockdown in Shanghai in the first half of 2022 which blocked the logistic services in Shanghai. The online sales is expected to gradually recover following the ease of the restrictive measures;
- Based on the historical transaction amount of the Group, we also noted that the agency sales under the Sales Agency Framework Agreement recorded a continuous growth from approximately RMB442.4 million for the year ended 31 December 2019 to approximately RMB708.5 million for the year ended 31 December 2021, representing a CAGR of approximately 26.6%;
- According to the Management, due to the recent relaxation of the quarantine policies, in particular the Yangtze River Delta regions, business of the Group has been recovering gradually, and the financial performance of the Group after June 2022 would be more representative of the normal business performance prior to the latest pandemic wave in the PRC. In this regard, we noted that the agency sales of the Group was increasing at a rate of approximately 14.1% and 38.8% for August and September 2022 as compared to that of July 2022, respectively;
- Having considered the lower- transaction amount on agency sales for 2022 as discussed above, the Management have adjusted and reduced the proposed annual cap for agency sales for the year ending 31 December 2023 by approximately 10.0% and 35.7% as compared to that for 2020 and 2021, respectively;

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## LETTER FROM LEGO

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- According to the Management, starting from 2021, the Company has been deepening the cooperation with the e-commerce platforms of Bailian Omni-channel for the sales agency business in Anhui and Jiangsu Province. As at the Latest Practicable Date, Bailian Omni-channel's network has already fully covered the business presence of the Group in Anhui Province and has already covered up to approximately 85% of the business presence of the Group in Jiangsu Province and it is expected to achieve full coverage within next two years. With the continuous increase in the platform coverage of Bailian Omni-channel, agency sales of the Group are also anticipated to growth accordingly;
- In respect of the customer base of Bailian Omni-channel, to the best knowledge of the Directors, the registered members of Bailian Omni-channel have recorded considerable growth at CAGR of approximately 20% since 2019;
- 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;
- We were given to understand from the Management that the sales of Goods conducted through e-commerce platforms mainly target for customers in the adjacent areas where the Group's hypermarkets, supermarkets and convenience stores operate. Having considered the development and expansion plans of the Group as mention in subsection headed "3.2 The annual caps of the Procurement of Goods Framework Agreement" above, and the continuous growth of online sales of the Group through e-commerce platform as aforementioned, we concur with the Directors' view that, the opening of the outlets and expansion of sales network of the Group with the anticipation that the COVID-19 pandemic will be gradually eased in the PRC will further drive the online sales of the Group through e-commerce platforms;

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## LETTER FROM LEGO

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- We have also conducted research on the e-commerce business environment in the PRC. According to the 2020 China E-Commerce Report released by the Ministry of Commerce of the PRC, the scale of e-commerce transactions in the PRC continued to expand and maintained a high-speed growth trend. The national e-commerce transaction amount increased to approximately RMB37.2 trillion in 2020 from approximately RMB26.1 trillion in 2016, representing a CAGR of approximately 9.3%. The online retail sales increased from approximately RMB5.2 trillion in 2016 to approximately RMB11.8 trillion in 2020, representing a CAGR of approximately 22.7% and the national online shopping users reached approximately 0.78 billion in 2020. E-commerce has become one of the main channels of consumption in the PRC. According to the notice in November 2021 issued by Ministry of Commerce of the PRC in relation to the 14th Five-Year Plan for E-commerce Development (“商務部解讀《“十四五”電子商務發展規劃》”), the State Council focused on developing areas including but not limited to rural e-commerce, cross-border e-commerce and Silk Road e-commerce. The continuous growth in e-commerce transactions in PRC is in line with the Company’s estimation on the increase of the online sales of the Group; and
- We would like to emphasise that, notwithstanding the increasing proposed annual caps as compared to the actual historical transaction amount, taking into account that (i) the proposed annual cap under the Sales Agency Framework Agreement for the year ending 31 December 2025 are determined by its anticipated business activities of the Group and (ii) such sales is a stable and recurring source of income of the Group, we are of the view that it is fair and reasonable to set the proposed annual caps according to the Group’s anticipation, so as not to limit the development of the business of the Group in the event that it is able to meet its anticipated business growth.

Based on the above, in particular taking into consideration (i) the COVID-19 pandemic and the implementation of social distancing measures in the PRC is expected to be eased gradually in 2023; and (ii) the anticipated increase in online demand of the fresh produce and food supplied by the Group through e-commerce platforms, we are of the view that the proposed annual cap for agency sales for the year ending 31 December 2023 under the Agency Sales Framework Agreement are justifiable.

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## LETTER FROM LEGO

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*With respect to the platform usage fee under the Sales Agency Framework Agreement*

According to the Letter from the Board, the proposed annual cap for platform usage fee under the Sales Agency Framework Agreement is determined by the following primary factors:

- The ratio of platform usage 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 at actual cost 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 and the third party platforms usage fees paid by Bailian Omni-channel on behalf of the Group at actual cost; and
- The proposed annual cap for platform usage fee is based on the proposed annual cap for the transaction amount of agency sales for the year ending 31 December 2023 of RMB1.8 billion. The proposed annual cap of platform usage fee for the year ending 31 December 2023 is calculated primarily based on (i) the expected transaction amount conducted through platform of Bailian Omni-channel and/or its subsidiaries of approximately RMB950.0 million, multiplied by 4.5% (i.e. 4.0% of platform usage fee plus 0.5% of payment handling fee charged by Bailian-Omni channel); and (ii) the expected transaction amount of agency sales conducted through third-party platforms of approximately RMB850.0 million, multiplied by 7.8% (i.e. 6.8% of third-party platform usage fee charged by third-party platforms (being the median of the range of 6.0% to 7.5% as aforementioned) plus 1.0% of platform usage fee charged by Bailian-Omni channel).

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## LETTER FROM LEGO

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In order to assess the fairness and reasonableness of the proposed annual cap for the platform usage fee under the Sales Agency Framework Agreement, we have obtained and reviewed the projection table in estimating the proposed annual cap, and noted that the calculation of the proposed annual cap for the platform usage fee for the year ending 31 December 2023 is based on respective projected transaction amount of agency sales expected to be conducted through the Bailian Omni-channel and the independent third party platforms for the year ending 31 December 2023, and following the pricing mechanisms pursuant to the Sales Agency Framework Agreement. Based on the discussion above, given that the terms of the Sales Agency Framework Agreement are considered as normal commercial terms and are considered fair and reasonable, we are of the view that the proposed annual cap for the platform agency fee for the year ended 31 December 2023 under the Agency Sales Framework Agreement is justifiable.

### ***5.3 Reasons for and benefit of entering into the Sales Agency Framework Agreement***

As stated in the Letter from the Board, the business scale of Bailian Omni-channel and its subsidiaries is increasing that Bailian Group's development of e-commerce will provide a new platform for and greatly increase the volume of the sale of Goods of the Group. As mentioned above, to the best knowledge of the Directors, the registered members of Bailian Omni-channel have recorded considerable growth at CAGR of approximately 20% since 2019. According to the 2022 Interim Report, the Group optimised the structure of the omni-channel categories, launched the function that integrated B2C model with delivery-to-home goods, strengthened cooperation with third-party platforms, and developed new marketing channels.

The Group has realised growth in both the number of orders and sales volume of the "Delivery to Home" business. As discussed and advised by the Management, for the three years ended 31 December 2021, the online revenue of the Group has been increasing from approximately 5% of the total revenue of the Group in 2019 to approximately 10% of the total revenue of the Group in 2021, whereas the "Delivery to Home" business represented approximately 90% of the Group's online revenue. We noted that the proportion of the "Delivery to Home" business exhibited a growing trend. As such, we concur with the Directors that there are 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.

In addition, 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. In light of the foregoing, we are of the view that the entering into of the Sales Agency Framework Agreement is in the interest of the Company and its shareholders as a whole.

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## LETTER FROM LEGO

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### **5.4 Internal Control and Pricing Policy**

In order to ensure that the terms for the sales agency services provided by the Bailian Omni-channel and/or its subsidiaries under the Sales Agency Framework Agreement 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.
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 Group; and
6. The independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions.

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## LETTER FROM LEGO

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

In summary, we are of the view that the proposed annual caps for transactions contemplated under the Agency Sales Framework Agreement and major factors considered as the bases in determining such proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

### RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above, we are of the opinion that, (a) the entering into of each of (i) the Procurement of Goods Framework Agreement; (ii) the Goods Supply Framework Agreement; and (iii) the Sales Agency Framework Agreement is conducted in the ordinary and usual course of business of the Group; (b) the terms of each of (i) the Procurement of Goods Framework Agreement; (ii) the Goods Supply Framework Agreement; and (iii) the Sales Agency Framework Agreement are on normal commercial terms, and together with their respective annual caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve (i) the Procurement of Goods Framework Agreement; (ii) the Goods Supply Framework Agreement; and (iii) the Sales Agency Framework Agreement (including the respective proposed annual caps).

Yours faithfully,  
For and on behalf of  
**Lego Corporate Finance Limited**  
**Kristie Ho**  
*Managing Director*

*Ms. Kristie Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). She has over 15 years of experience in the securities and investment banking industries.*

**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. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31 December 2021, the date to which the latest published audited consolidated financial statements of the Group were made up.

**C. 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 and Shanghai Bailian 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. Pu Shao-hua, the chairman of the Board of the Company and a non-executive Director, is the president and deputy secretary of the Party Committee of Bailian Group; (ii) Mr. Shi Xiao-long, the vice chairman of the Company and a non-executive Director, is the executive director of the economic operation department of Bailian Group; (iii) Mr. Chong Xiao-bing, the general manager of the Company and an executive Director, is the chairman of the board of directors of Hualian GMS and a director of Bailian Financial Services; (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. Li Feng, a Supervisor and the chairman of the supervisory committee of the Company, is the senior director of audit and risk control center of Bailian Group, a supervisor of Shanghai Bailian and the chairman of the supervisory committee of First Pharmaceutical; and (vii) Ms. Tian Ying-jie, a Supervisor, is the deputy general manager of Shanghai Bailian.

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

#### **D. DIRECTORS' SERVICE CONTRACTS**

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

#### **E. 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 2021 (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.

**F. 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.

<b>Name of Director</b>	<b>Name of entity whose business are considered to complete or likely to compete with the business of the Group</b>	<b>Description of businesses of the entity which are considered to compete or likely to compete with the business of the Group</b>	<b>Nature of interest of the Director in the entity</b>
Xu Pan-hua	Sanjiang Shopping Club Co., Ltd.	Supermarket	director
Xu Pan-hua	New Huadu Supercenter Co., Ltd.	Supermarket, store	director
Xu Pan-hua	Wuhan Wushang Group Co., Ltd.	Shopping centre, supermarket	director

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

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

<b>Name</b>	<b>Qualifications</b>
Lego	A corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

Lego 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.

The letter and recommendation given by Lego are given as of the date of this circular for incorporation herein.

Lego 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 2021 (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.

#### **H. DOCUMENTS ON DISPLAY**

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

- (a) the Procurement of Goods Framework Agreement;
- (b) the Goods Supply Framework Agreement; and
- (c) the Sales Agency Framework Agreement.

#### **I. MISCELLANEOUS**

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