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

ANNOUNCEMENT CONTINUING CONNECTED TRANSACTIONS

SHANGHAI QINGPU LEASING AGREEMENT

On 3 December 2021, Century Lianhua Qingpu entered into the Shanghai Qingpu Leasing Agreement with SQBOSC Yinggang Road Branch, pursuant to which, SQBOSC Yinggang Road Branch agreed to lease the Qingpu Premise to Century Lianhua Qingpu, for a term of 10 years commencing from 15 November 2021 to 14 November 2031 (both days inclusive).

LISTING RULES IMPLICATIONS

As at the date of this announcement, SQBOSC Yinggang Road Branch is a subsidiary of Bailian Group, a substantial Shareholder. Accordingly, the transactions contemplated under the Shanghai Qingpu Leasing Agreement constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio of the transactions contemplated under the Shanghai Qingpu Leasing Agreement exceeds 0.1% but is less than 5%, the relevant transactions are subject to the reporting, annual review and announcement requirements, but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As the term of the Shanghai Qingpu Leasing Agreement exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, the Company has engaged the Independent Financial Adviser to review the Shanghai Qingpu Leasing Agreement and the Independent Financial Adviser has confirmed that it is normal business practice for agreements of this type to be of such duration.

I. SHANGHAI QINGPU LEASING AGREEMENT

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The principal terms of the Shanghai Qingpu Leasing Agreement are set out as below:

Date

3 December 2021

Parties

- (1) Century Lianhua Qingpu (as the lessee); and
- (2) SQBOSC Yinggang Road Branch (as the lessor)

Term

The Shanghai Qingpu Leasing Agreement is for a term of 10 years commencing from 15 November 2021 to 14 November 2031 (both days inclusive).

As the term of the Shanghai Qingpu Leasing Agreement exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, the Company has engaged the Independent Financial Adviser to review the Shanghai Qingpu Leasing Agreement and the Independent Financial Adviser has confirmed that it is normal business practice for agreements of this type to be of such duration. Please refer to the section headed “The View of the Independent Financial Adviser” in this announcement for further details.

Qingpu Premise

Address: No. 36, Lane 1666, Yinggang Road, Qingpu District, Shanghai, the PRC

Total leasing area: approximately 3,675.75 square meters

Rents

The rents payable by Century Lianhua Qingpu under the Shanghai Qingpu Leasing Agreement will be the higher of: (i) the basic rents and fees (including the basic rents and the property management fees) and (ii) the turnover rents, and shall be paid on a quarterly basis by Century Lianhua Qingpu to SQBOSC Yinggang Road Branch.

The basic rents and fees are calculated as follows: basic rents and fees = the unit price (i.e. RMB1.876, including RMB1.376 for the basic rents and RMB0.5 for the property management fees) \times total leasing area (i.e. 3,675.75 square meters) \times 365 days. The basic rents and fees will increase by 6% for every three years starting from the fourth year of the Shanghai Qingpu Leasing Agreement.

The turnover rents are calculated as follows: turnover rents = turnover (tax inclusive) \times 5%.

Historical Amounts

SQBOSC Yinggang Road Branch did not lease any premise to Century Lianhua Qingpu in the past. Therefore, there is no historical amount to be provided.

Annual Caps and Basis for Annual Caps

After taking into account the following factors: (i) the basic rents and fees (including the basic rents and the property management fees) as described above, and (ii) the expected turnover rents in view of the consumption ability of the residents in the neighbourhoods of the Qingpu Premise, the customer traffic of the business circle in which the Qingpu Premise is located as well as the anticipated rises in prices of goods in the PRC, the Board would like to announce that the estimated annual rents payable under the Shanghai Qingpu Leasing Agreement for each year during the leasing period will be subject to an annual cap of RMB7,000,000, including annual rents and property management fees of RMB5,200,000 per year, utilities, energy subsidies and other related expenses of RMB1,800,000 per year.

As the Hong Kong Financial Reporting Standard 16 Leases has become effective on 1 January 2019 and applied to financial years beginning on or after 1 January 2019, with respect to the continuing connected transactions under the Shanghai Qingpu Leasing Agreement, the Company is required to set an annual cap on the value of right-of-use assets. The right-of-use assets shall be initially measured in accordance with the cost, including the initial measurement amount of lease liability, etc., among which, the lease liability shall be initially measured based on the present value of the rents which have not been paid at the commencement of the term of the Shanghai Qingpu Leasing Agreement. The annual cap for the value of right-of-use assets under the Shanghai Qingpu Leasing Agreement is RMB16,000,000 for each year, which is determined with reference to the estimated annual rents payable by Century Lianhua Qingpu to SQBOSC Yinggang Road Branch.

Reasons for and Benefits of Entering into the Shanghai Qingpu Leasing Agreement

1. Qingpu Premise is located in the integrated business circle area with convenient bus hub, which has great potential for future development and expansion.
2. At present, the rent agreed in the Shanghai Qingpu Leasing Agreement is lower than the average market price. According to the current market trend of housing price, the rent increases in the future will far exceed those agreed in the agreement.
3. The location of Qingpu Premise is surrounded by residential areas with large population density. With a period of cultivation of the customers' consumption habits, the signing of the Shanghai Qingpu Leasing Agreement is beneficial to the Company's overall income.

The Directors (including the independent non-executive Directors) consider that the terms of the Shanghai Qingpu Leasing 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.

II. INTERNAL CONTROL AND PRICING POLICY

In order to ensure that the terms under the Shanghai Qingpu Leasing Agreement are not less favourable than those available from independent third parties, the Company has adopted the following measures:

1. the annual rents of Qingpu Premise is negotiated on arm's length basis and at prices with reference to the prevailing market prices of similar premises in the same location during the same period from at least two independent third party lessors;
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 Company 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.

III. LISTING RULES IMPLICATIONS

As at the date of this announcement, SQBOSC Yinggang Road Branch is a subsidiary of Bailian Group, a substantial Shareholder. Accordingly, the transactions contemplated under the Shanghai Qingpu Leasing Agreement constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio of the transactions contemplated under the Shanghai Qingpu Leasing Agreement exceeds 0.1% but is less than 5%, the relevant transactions are subject to the reporting, annual review and announcement requirements, but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

IV. THE VIEW OF THE INDEPENDENT FINANCIAL ADVISER

The Company has engaged VBG Capital as the Independent Financial Adviser to provide independent advice in respect of the Shanghai Qingpu Leasing Agreement pursuant to the requirement under Rule 14A.52 of the Listing Rules to explain why a period exceeding three years for the Shanghai Qingpu Leasing Agreement is required and to confirm that it is normal business practice for agreements of this type to be of a duration longer than three years.

VBG Capital has taken into account the following factors when formulating its opinion pursuant to Rule 14A.52 of the Listing Rules:

- (1) as advised by the Company, when entering into the Shanghai Qingpu Leasing Agreement, they have taken into account that (i) the Qingpu Premise is located in the integrated business circle area with convenient bus hub, which has great potential for future development and expansion; and (ii) the location of Qingpu Premise is surrounded by residential areas with large population density. With a period of cultivation of customers' consumption habits, the signing of the Shanghai Qingpu Leasing Agreement is beneficial to the Company's overall income. Based on the above, it is commercially justifiable for the term of the Shanghai Qingpu Leasing Agreement to be more than three years;

- (2) in addition, based on its review of the relevant lease agreements, VBG Capital understands that under the Group’s existing retail chain business, the Group has been leasing certain properties from other lessors for a term of more than three years for its various operations, including supermarkets and hypermarkets; and
- (3) VBG Capital has further reviewed the latest annual reports published by other Hong Kong-listed issuers which are engaged in similar business as the Group, i.e. the retail chain related business, and noted that those comparable companies (the “**Comparables**”) have also entered into tenancy or lease agreements with duration of more than three years. Notwithstanding that the background for the tenancy or lease agreements of the Comparables may or may not be the exactly the same as the Company, the fact that companies with similar business nature as the Group having also entered into tenancy or lease agreements with a term of more than three years due to various reasons and for different purposes based on their own circumstances could demonstrate that it is normal business practice for such agreements to be of longer durations.

Please see below the list of the Comparables:

Company name (stock code)	Principal business	Approximate term of the lease agreement
Henderson Investment Limited (97)	Supermarket and department store operation, namely “Citistore” operated by Citistore (Hong Kong) Limited and “UNY” and “APITA” operated by Unicorn Stores (HK) Limited.	Fixed term of nine years
Century Ginwa Retail Holdings Limited (162)	Principally engaged in store operation.	Fixed term ranging from one to fifteen years
The Sincere Company, Limited (244)	Operation of department stores, securities trading and the provision of general and life insurance.	Fixed term ranging from one to nine years

Company name (stock code)	Principal business	Approximate term of the lease agreement
Jiahua Stores Holdings Limited (602)	Operation and management of retail stores and other related businesses, provision of financing services in the PRC.	Fixed term ranging from three to fifteen years
Beijing Jingkelong Company Limited (814)	Retail and wholesale distribution of daily consumer products in the region covering the Beijing city and certain parts of its periphery.	Fixed term ranging from five to twenty years
China Shun Ke Long Holdings Limited (974)	Supermarket chain store operator with geographical focus in Guangdong province of the PRC and maintains both retail and wholesale distribution channels.	Fixed term ranging from thirteen months to nineteen years
AEON Stores (Hong Kong) Co., Limited (984)	Operation of retail stores.	Fixed term ranging from one to twenty years
Golden Eagle Retail Group Limited (3308)	Lifestyle centre and stylish department store chain development and operation, property development and hotel operation in the PRC.	Fixed term ranging from two to twenty years
Parkson Retail Group Limited (3368)	Operation and management of a network of department stores in the PRC.	Fixed term ranging from two to twenty years

Source: the latest published annual report of the respective listed companies.

Having considered the factors set out above, VBG Capital is of the view that it is a normal business practice for the Group to enter into the Shanghai Qingpu Leasing Agreement which is of a lease term of more than three years.

V. BOARD'S APPROVAL

The Board has approved the entering into of the Shanghai Qingpu Leasing Agreement and its 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 Shanghai Qingpu Leasing Agreement.

VI. GENERAL INFORMATION

The Company

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

Century Lianhua Qingpu

Century Lianhua Qingpu is a company incorporated under the laws of the PRC, and is principally engaged in groceries, hardware and electrical equipment, automobile accessories, household appliances, communication equipment, computer hardware and software and consumable items, stationery and office supplies, knitted fabrics, clothing, shoes and hats, decoration materials, building materials, iron and wood furniture, flowers and seedlings, edible agriculture products, jewelries, gold ornaments, Class I medical apparatus and instruments, Class II medical apparatus and instruments, cigarettes and cigars, books, newspaper and other publications, audio-visual products, business consulting, parking management services, food sales, catering services. As at the date of this announcement, Century Lianhua Qingpu is an indirect wholly-owned subsidiary of the Company.

SQBOSC Yinggang Road Branch

SQBOSC Yinggang Road Branch is a company incorporated under the laws of the PRC, and is principally engaged in Class I medical apparatus and instruments, Class II medical apparatus and instruments, Class III medical apparatus and instruments, groceries, hardware and electrical equipment, gold ornaments, jewelries, crafts gifts (except ivory and its products), clothing shoes and hats, knitted fabrics, leather products, household items, kitchen supplies, lenses and accessories, building materials, style supplies, stationery and office supplies, personnel protective equipments, instruments and apparatus, communications equipment and accessories, electronic products, household appliances, maternal and infant supplies, fitness equipment, clocks and watches, auto parts, lighting equipment, cigarettes and cigars, optical service, advertising design, production, agent, distribution, real estate leasing management, business consulting, parking management services, exhibition services, business conference services, real estate brokerage services, property management, catering services, publications management, food sales. As at the date of this announcement, SQBOSC Yinggang Road Branch is an indirect wholly-owned subsidiary of Shanghai Bailian, which is a company incorporated in the PRC with its A shares listed on the Shanghai Stock Exchange (stock code: 600827) and a subsidiary of Bailian Group. Bailian Group is principally engaged in businesses relating to domestic trading, provision of production materials, logistics and development of commercial properties.

VII. DEFINITIONS

In this announcement, unless the context requires otherwise, the following expressions shall have the following meanings:

“Bailian Group”	Bailian Group Co., Ltd.* (百聯集團有限公司), a limited liability company incorporated in the PRC and a substantial Shareholder
“Board”	the board of Directors
“Century Lianhua Qingpu”	Shanghai Century Lianhua Supermarket Qingpu Co., Ltd.* (上海世紀聯華超市青浦有限公司), a wholly-owned subsidiary 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
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign shares of nominal value of RMB1.00 each in the registered capital of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Financial Adviser” or “VBG Capital”	VBG Capital Limited, the independent financial adviser engaged by the Company to provide an opinion pursuant to Rule 14A.52 of the Listing Rules, and a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China
“Qingpu Premise”	the B1 floor and the B2 floor of the premise located at No. 36, Lane 1666, Yinggang Road, Qingpu District, Shanghai, the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Bailian”	Shanghai Bailian Group Co., Limited* (上海百聯集團股份有限公司), a substantial Shareholder

“Shanghai Qingpu Leasing Agreement”	the leasing agreement dated 3 December 2021 entered into between Century Lianhua Qingpu as lessee and SQBOSC Yinggang Road Branch as lessor regarding the leasing of Qingpu Premise
“Shareholder(s)”	the shareholder(s) of the Company
“SQBOSC Yinggang Road Branch”	Yinggang Road Branch of Shanghai Qingpu Bailian Orient Shopping Center Co., Ltd.* (上海青浦百聯東方商廈有限公司盈港路分公司), a wholly-owned subsidiary of Shanghai Bailian
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By order of the Board
Lianhua Supermarket Holdings Co., Ltd.
Xu Xiao-yi
Joint Company Secretary

Shanghai, the PRC, 3 December 2021

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

Executive Director: Chong Xiao-bing;

Non-executive Directors: Pu Shao-hua, Shi Xiao-long, Xu Hong, Zhang Shen-yu, Dong Xiao-chun and Wong Tak Hung;

Independent non-executive Directors: Xia Da-wei, Lee Kwok Ming, Don, Chen Wei and Zhao Xin-sheng.

* *for identification purposes only*