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

**(Stock Code: 00980)**

**ANNOUNCEMENT  
VERY SUBSTANTIAL ACQUISITION, CONNECTED  
TRANSACTION AND CONTINUING CONNECTED  
TRANSACTIONS**

**SUPPLEMENTAL AGREEMENT TO SINGLE ASSET  
MANAGEMENT CONTRACT**

**THE SUPPLEMENTAL AGREEMENT**

Reference is made to the announcement of the Company dated 23 April 2021 and the circular of the Company dated 27 May 2021 in relation to the Investment and Wealth Management Cooperation Framework Agreement entered into between the Company and Shanghai Securities, pursuant to which, the Company and Shanghai Securities agreed on the investment and wealth management cooperation, for a term commencing from 23 April 2021 to 31 December 2023 (both days inclusive). Pursuant to the terms of the Investment and Wealth Management Cooperation Framework Agreement, Lianhua Huashang, a subsidiary of the Company, entered into the Single Asset Management Contract dated 8 July 2021 with Shanghai Securities and the Custodian Bank in relation to the setting up of the Scheme and the investment and management of Entrusted Assets by Shanghai Securities for the benefit of Lianhua Huashang.

As the Single Asset Management Contract is expiring on 31 December 2023, Lianhua Huashang, entered into the Supplemental Agreement with Shanghai Securities and the Custodian Bank, on 27 September 2023, to renew the Single Asset Management Contract in relation to the provision of the asset management and investment services for the Entrusted Assets by Shanghai Securities and the Custodian Bank and make certain amendments to the Single Asset Management Contract, for an extended term of 3 years commencing from 1 January 2024 and ending on 31 December 2026 (both days inclusive), pursuant to which, Shanghai Securities will invest and manage the Entrusted Assets that entrusted to it by Lianhua Huashang, on a discretionary basis, in accordance with the requirements of the applicable laws and regulations, regulatory requirements and investment guidelines provided under the Single Asset Management Contract (as supplemented). As at 15 September 2023, the balance of net assets of the Scheme in the escrow account maintained by the Custodian Bank is RMB698.6236 million. Under the Supplemental Agreement, Lianhua Huashang agreed to increase the total amount of Entrusted Assets to RMB1,350 million, which shall be paid in full by no later than 29 February 2024.

## **LISTING RULES IMPLICATIONS**

As the highest applicable percentage ratio in respect of the increase in Entrusted Assets under the Supplemental Agreement is more than 100%, the increase in Entrusted Assets contemplated thereunder constitutes a very substantial acquisition, and are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Bailian Group is a substantial Shareholder, and Shanghai Securities is a subsidiary of Bailian Group. As such, Shanghai Securities constitutes a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, (i) the increase in Entrusted Assets constitutes a connected transaction of the Company, as the applicable percentage ratios in respect thereof are more than 5%, the increase in Entrusted Assets is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules; and (ii) the transactions in respect of the asset management and investment services contemplated under the Single Asset Management Contract (as supplemented) constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules, as the highest applicable percentage ratio for the highest proposed annual cap in aggregate under the Single Asset Management Contract (as supplemented) is more than 0.1% but less than 5%, the transactions contemplated under the Supplemental Agreement are subject to the reporting, annual review, announcement requirements but exempt from Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

## **EGM**

The EGM will be convened for the Independent Shareholders to consider and, if appropriate, approve, among others, the entering into the Supplemental Agreement and the transactions contemplated thereunder.

As at the date of this announcement, Bailian Group and its associates, including Shanghai Bailian, held approximately 513,869,400 Shares, representing 45.90% of the issued share capital of the Company. Shanghai Securities, being a party to the Supplemental Agreement and a subsidiary of Bailian Group, has material interests in the transactions contemplated thereunder. Therefore, Bailian Group and its associates, including Shanghai Bailian, are required to abstain from voting on the relevant resolutions to be proposed at the EGM to approve the Supplemental Agreement.

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

An Independent Board Committee comprising all the independent non-executive Directors (who have no material interest in the relevant connected transactions) will be formed to advise the Independent Shareholders on the Supplemental Agreement. The Company has appointed Lego as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Supplemental Agreement in accordance with the Listing Rules.

A circular containing, among other things, (i) particulars of the entering into the Supplemental Agreement; (ii) a letter of recommendations from the Independent Board Committee; (iii) a letter of advice from the Independent Financial Adviser; and (iv) a notice of the EGM is expected to be despatched to the Shareholders on or before 6 November 2023, which is beyond 15 business days after the publication of this announcement as additional time is required for the Company to prepare the circular and other relevant documents for the EGM.

## **I. BACKGROUND**

Reference is made to the announcement of the Company dated 23 April 2021 and the circular of the Company dated 27 May 2021 in relation to the Investment and Wealth Management Cooperation Framework Agreement entered into between the Company and Shanghai Securities, pursuant to which, the Company and Shanghai Securities agreed on the investment and wealth management cooperation, for a term commencing from 23 April 2021 to 31 December 2023 (both days inclusive). Pursuant to the terms of the Investment and Wealth Management Cooperation Framework Agreement, Lianhua Huashang, a subsidiary of the Company, entered into the Single Asset Management Contract dated 8 July 2021 with Shanghai Securities and the Custodian Bank in relation to the setting up of the Scheme and the investment and management of Entrusted Assets by Shanghai Securities for the benefit of Lianhua Huashang.

As the Single Asset Management Contract is expiring on 31 December 2023, Lianhua Huashang, entered into the Supplemental Agreement with Shanghai Securities and the Custodian Bank, on 27 September 2023, to renew the Single Asset Management Contract in relation to the provision of the asset management and investment services for the Entrusted Assets by Shanghai Securities and the Custodian Bank and make certain amendments to the Single Asset Management Contract, for an extended term of 3 years commencing from 1 January 2024 and ending on 31 December 2026 (both days inclusive), pursuant to which, Shanghai Securities will invest and manage the Entrusted Assets that entrusted to it by Lianhua Huashang, on a discretionary basis, in accordance with the requirements of the applicable laws and regulations, regulatory requirements and investment guidelines provided under the Single Asset Management Contract (as supplemented). As at 15 September 2023, the balance of net assets of the Scheme in the escrow account maintained by the Custodian Bank is RMB698.6236 million. Under the Supplemental Agreement, Lianhua Huashang agreed to increase the total amount of Entrusted Assets to RMB1,350 million, which shall be paid in full by no later than 29 February 2024.

## II. SUPPLEMENTAL AGREEMENT

### 1. The Principal Terms of The Supplemental Agreement

The Date of the Supplemental Agreement:	27 September 2023
Parties:	(1) Lianhua Huashang (as Entrustor);  (2) Shanghai Securities (as Manager); and  (3) The Custodian Bank (as custodian)
Term:	The Supplemental Agreement is for a term of three years commencing from 1 January 2024 to 31 December 2026 (both days inclusive).
Entrusted Assets:	Under the Supplemental Agreement, Lianhua Huashang agreed to increase the total amount of Entrusted Assets to RMB1,350 million, such increased amount (being the difference between the increased total amount of Entrusted Assets and the net assets of the Scheme as at 1 January 2024) shall be paid in full by no later than 29 February 2024. As at 15 September 2023, the balance of net assets of the Scheme in the escrow account was RMB698.6236 million.

Subject to the terms and conditions of the Single Asset Management Contract (as supplemented), based on the market conditions, Lianhua Huashang shall have the right to withdraw the Entrusted Assets by serving written redemption notice upon Shanghai Securities copying the Custodian Bank at least three business days before the application date of the withdrawal, provided that, the total amount of Entrusted Assets after withdrawal shall not be less than RMB10 million. During the extended term of the Single Asset Management Contract, in the event of shortfall of the total amount of Entrusted Assets as a result of withdrawal, Lianhua Huashang will make addition to the Entrusted Assets, provided that, the total amount of Entrusted Assets after addition made thereto shall not exceed RMB1,350 million (being the principal of the assets entrusted under the Scheme in accordance with the terms of the Single Asset Management Contract (as supplemented)).

Asset Management  
and Investment  
Services:

Pursuant to the terms of the Single Asset Management Contract (as supplemented), Shanghai Securities shall invest and manage the Entrusted Assets, on a discretionary basis, in accordance with the requirements of the applicable laws and regulations, regulatory requirements and the investment scope and investment guidelines as set forth below:

The Scheme is a fund-of-funds asset management scheme that aims to primarily invest more than 80% of its total assets in asset management products issued by institutions subject to the supervision of the financial regulatory authorities under the State Council including, but not limited to, publicly offered securities investment funds, asset management products issued by fund management companies and their subsidiaries, asset management products issued by futures companies and their subsidiaries, asset management plans of securities companies and their subsidiaries, asset management plans issued by insurance companies and their subsidiaries, asset management products issued by commercial banks and their asset management subsidiaries, trust plans, and asset management products issued by private fund managers registered with the AMAC.

In particular, comprises:

- (1) Fixed-income assets: including, but not limited to, cash, bank deposits, money market instruments, money market funds, bond reserve repurchase, inter-exchange and inter-bank listed and traded treasury bonds, local government bonds, corporate bonds (企業債), corporate bonds (公司債), various types of financial bonds (including sub-ordinated bonds and hybrid capital bonds), central bank notes, inter-bank certificates of deposit, convertible bonds (including segregable trading bonds), exchangeable bonds, various types of debt financing instruments approved and registered for issuance by NAFMII (e.g., super-short-term commercial paper (SCP), short-term commercial paper (CP), mid-term notes (MTN), pooled notes, pooled bonds, asset-backed notes (ABN) and private placement notes (PPN), private corporate bonds, asset-backed securities (ABS), bond funds, fixed-income asset management plans issued under the supervision of the financial regulatory authorities under the State Council, and other fixed-income assets;

- (2) Equity assets: including, but not limited to, A-share stocks (including primary market subscription and secondary market purchase and sale) traded in the market of SSE and SZSE according to PRC laws and regulations and publicly issued and listed (exclusive of ST stocks), equity funds, hybrid funds (including ETFs and LOFs), equity asset management products issued under the supervision of the financial regulatory authorities under the State Council;
- (3) Hybrid asset management products issued under the supervision of the financial regulatory authorities under the State Council;
- (4) Futures and derivatives asset management products (excluding investment in over-the-counter derivatives) that are subject to regulation and issuance by the financial regulatory authorities under the State Council; and
- (5) Positive bond repurchase.



The ratio of the investment portfolio under the Scheme shall strictly comply with relevant laws and regulations, and shall satisfy the following requirements: (1) fixed-income assets shall account for 0% to 80% (exclusive) of the total assets of the Scheme, of which (a) the proportion of investment in other than currency fund, bond funds or fixed-income asset management plans subject to the supervision and issuance of the financial regulatory authorities under the State Council shall account for 0% to 20% (exclusive) of the total assets of the Scheme, and (b) the balance of the financed funds raised from positive bond repurchase shall not exceed 100% of the net asset value of the Scheme on the previous day, and the balance of the financed funds used in reverse bond repurchase shall not exceed 100% of the net asset value of the Scheme on the previous day, unless otherwise stipulated by the relevant laws, regulations and policies; (2) equity assets shall account for 0% to 50% (exclusive) of the total assets of the Scheme; (3) the value of contracts for positions in futures and derivatives shall account for not less than 20% of the total assets of the Scheme, and the interest in futures and derivatives accounts shall account for not less than 50% (inclusive) of the total assets of the Scheme; (4) the Manager shall carry out penetration calculations on the investment ratios of the above types of assets, and the source of data for the penetration calculations shall be based on the latest valuation data provided by the asset management products in which the investments are made.

The risk level of the Scheme under the Supplemental Agreement is categorised as R3 (medium risk), where the investment guidelines require up to 80% of the total assets of the relevant Schemes shall be mainly invested in fixed-income assets and the remaining funds shall be invested in low-risk quantitative arbitrage strategies, seeking stable returns with cost-effectiveness while keeping volatility and drawdowns to a relatively low level, and is suitable for professional investors and qualified investors with a rating at C3 (conservative) and above.

Asset Custody  
Services:

The Custodian Bank shall open an escrow account in the name of the Scheme for the Entrusted Assets and a securities account or other specific account for specific use by the Scheme. Lianhua Huashang will deposit the Entrusted Assets in the escrow account, and the Custodian Bank shall provide asset custody services to Lianhua Huashang and Shanghai Securities in respect of the Entrusted Assets, perform the obligation of supervising the investment and arrange payment in accordance with the terms and conditions under the Single Asset Management Contract (as supplemented).

Distribution of  
Returns:

Profit of the Scheme refers to the balance of interest income, investment income, gain in change in fair value, and other income net of related expenses. Realized profit of the Scheme refers to the balance of profit of the Scheme net of gain in change in fair value. Distributable profit of the Scheme refers to the lower of the undistributed profit of the Scheme and the realized profit of the undistributed profit of the Scheme as of the benchmark date for distribution of returns. The distribution of returns of the Scheme shall adhere to the following principles:

- (1) during the term of the plan, the distribution of returns shall be not more than twice a year, there is no fixed date for the distribution of returns, and distribution of returns shall be conducted by way of cash;

- (2) when Lianhua Huashang withdraws the Entrusted Assets, the Manager shall determine the distribution of returns date and amount based on the income situation of the Entrusted Assets, and inform Lianhua Huashang;
- (3) the distribution of returns shall be denominated in RMB, and rounded to two decimal places. Losses due to rounding shall be borne by the Entrusted Assets, as well as the generated income; and
- (4) compliance with any other provisions as regulated by laws, regulations, or regulatory authorities.

The plan of the distribution of returns of the Scheme shall be formulated by the Manager, reviewed by the Custodian Bank, and the Manager shall inform Lianhua Huashang for confirmation.

Early Warning  
and Stop-loss  
Mechanism:

During the term of the Scheme, including after the payment of increased Entrusted Assets and throughout the term of the extended period of the Single Asset Management Contract (as supplemented), the early warning line of the Scheme is unit net value of the Entrusted Assets of RMB0.95 and the stop-loss line of the Scheme is unit net value of the Entrusted Assets of RMB0.90. If the unit net value of the Entrusted Assets at the end of the trading day falls below the warning line, Shanghai Securities will inform Lianhua Huashang relevant circumstances within 24 hours, and submit a report in written to Lianhua Huashang within three business days; and in the event of the unit net value of the Entrusted Assets at the end of the trading day falls below the stop-loss line, Shanghai Securities shall close the position. The initial unit net value of the Entrusted Assets is RMB1.00, and as at 31 August 2023, the unit net value of the Entrusted Assets is RMB1.0517.

Charges under the Scheme:

During the term of the Supplemental Agreement, Lianhua Huashang shall pay:

***To Shanghai Securities***

(1) the management fee:

- at 0.3% per annum based on the net asset value of the Scheme on the previous calendar day, to be accrued on a daily basis and automatically charged within five business days of the beginning of every month (in case of legal holidays, rest days, etc., the payment date will be postponed by next day); and

(2) the performance fee:

- to be accrued (i) on the date of application for withdrawal of the Entrusted Assets or upon expiry of liquidation of the Scheme, or (ii) on the income distribution date (collectively, the “**performance fee accrual date(s)**”). Under the latter circumstance, the performance fee shall not be accrued more frequently than once every 12 months;
- Shanghai Securities will differentiate between each portion of investment made by Lianhua Huashang based on the time of participation, and calculate the actual annualised rate of return (*Note*) and performance fee for each portion of investment separately;

calculated based on the realised gains on different portions of investment (i.e. various types of gains obtained from the investment operation of Entrusted Assets, including but not limited to investment bonus, dividends, bond interest, the price difference between buying and selling securities, bank deposit interest and other income) of the Scheme during the performance fee accrual period (i.e. from the commencement of the Scheme to the first performance fee accrual date or the period from each performance fee accrual date to the next performance fee accrual date): if the actual annualised rate of return (*Note*) exceeds 4.25%, which is the benchmark annualised rate of return, subject to the terms of the Supplemental Agreement, the adjustment may be made by the Manager based on PBOC's three-year fixed deposit benchmark rate), then 20% of the excess portion shall be payable by Lianhua Huashang to Shanghai Securities as performance fee for such performance fee accrual period; if the annualised rate of return is lower than or equal to the benchmark annualised rate of return, no performance fee for such performance fee accrual period is required to be paid by Lianhua Huashang.

*Note:*

Actual annualised rate of return = [(unit net value of Entrusted Assets at the end of the period – unit net value of Entrusted Assets at the beginning of the period)/unit net value of the Entrusted Assets at the beginning of the period] \* 100% \* (365/days of operations from the beginning (inclusive) to the end of the period (exclusive)). Among them, the unit net value of Entrusted Assets = (total value of Entrusted Assets – liabilities of Entrusted Assets)/total units of Entrusted Assets. The total value of Entrusted Assets refers to the total value of various types of negotiable securities, principal and interest of bank deposits, securities investment fund shares and other assets under the Scheme.

***To the Custodian Bank***

The custodial fee: at 0.015% per annum based on the net asset value of the Scheme on the previous calendar day, to be accrued on a daily basis and automatically charged within five business days of the beginning of every month (in case of legal holidays, rest days, etc., the payment date will be postponed by next day and the termination date of the Supplemental Agreement (or the date for early termination)).

Information  
Disclosure and  
Reporting:

Shanghai Securities shall disclose the net value of Entrusted Assets under the Scheme to Lianhua Huashang at least once every trading day; circulate quarterly reports within one month after the end of each quarter and annual reports within four months after the end of each year on management and custody to Lianhua Huashang, disclosing the work report of the Manager and the Custodian Bank, explaining the investment performance, investment portfolio, leverage ratio (if any), financial report, the basis, method and payment of the management fee, custodial fee and performance fee (if any), changes of investment managers, material events relating to the interests of Lianhua Huashang, such as substantial related transactions of the Entrusted Assets during the reporting period, and other matters as required by CSRC.

If an event occurs that materially affects the interests of Lianhua Huashang or as agreed in the Single Asset Management Contract (as supplemented), Shanghai Securities shall disclose it to Lianhua Huashang within five business days from the date of the occurrence of the relevant event.

Shanghai Securities and the Custodian Bank shall fulfill their reporting obligations in accordance with the laws and regulations and the requirements of the regulator

Lianhua Huashang may inquire Shanghai Securities about the investment operation of the Entrusted Assets under the Scheme and the Custodian Bank about the custody of the Entrusted Assets under the Scheme. Lianhua Huashang is able to inspect or copy the disclosed information in accordance with the time and manner as agreed in the Supplemental Agreement.

Effectiveness: The Supplemental Agreement will be established once it is signed by Lianhua Huashang, Shanghai Securities and the Custodian Bank and the official seal/special seal for contractual purpose is affixed.

Termination: The Scheme will be terminated in the case of the occurrence of the followings. The Supplemental Agreement will be terminated once the Scheme is terminated:

- (1) the Scheme expires and is not renewed;
- (2) it is terminated by Lianhua Huashang, Shanghai Securities and the Custodian Bank upon negotiation;
- (3) Lianhua Huashang is dissolved, cancelled, declared to go bankruptcy in accordance with the law;

- (4) Shanghai Securities is disqualified from asset management business in accordance with the law, or dissolved, cancelled, declared to go bankruptcy in accordance with the law without new manager succeeding within six months;
- (5) the Custodian Bank is disqualified from fund custody in accordance with the law, or dissolved, cancelled, declared to go bankruptcy in accordance with the law without new custodian succeeding within six months;
- (6) failure to complete the filing or non-filing in the AMAC; or
- (7) other terminations required by laws, administrative regulations, the Supplemental Agreement and the CSRC.

Liabilities for  
Default:

Except for special circumstances such as force majeure, if Shanghai Securities or the Custodian Bank violates the provisions of laws, administrative regulations or the Supplemental Agreement and cause damage to the Entrusted Assets or Lianhua Huashang in the process of performing their respective duties, they should be respectively liable for their own actions and for direct losses according to law.

If Shanghai Securities violates the relevant provisions of laws and administrative regulations, and is legally revoked by the CSRC for the securities asset management business license, ordered to suspend business for rectification, or unable to perform its duties due to business suspension, dissolution, revocation, bankruptcy, etc., it shall properly handle relevant matters in accordance with relevant regulatory requirements.



## 2. Historical Amounts

The management fees paid by Lianhua Huashang to Shanghai Securities for the two years ended 31 December 2021 and 31 December 2022 and eight months ended 31 August 2023 are as follows

<b>For the Year/Period ended</b>	<b>Amount of Management Fees Paid</b> <i>(approximately RMB)</i>
31 December 2021	400,122
31 December 2022	346,679
31 August 2023	254,952

During the term of the Single Asset Management Contract and up to the date of this announcement, there was no performance fee incurred under the Single Asset Management Contract.

The total realised profit (also being the net profit) from the transactions under the Single Asset Management Contract for the year ended 31 December 2021, 31 December 2022 and the period ended 31 August 2023 were RMB14.64 million, RMB3.53 million and RMB17.61 million, respectively.

### 3. Basis for Pricing and the Proposed Annual Caps

#### *Basis for Increase in the Principal Amount of Entrusted Assets*

As at 15 September 2023, the balance of net assets of the Scheme of Lianhua Huashang under the Single Asset Management Contract was RMB698.6236 million. As at 31 August 2023, the net unit value of assets under the Scheme was RMB1.0517, representing an annualised return rate of approximately 2.47%. Lianhua Huashang has paid a custody fee of RMB254,300 to the Custodian Bank at the annual rate of 0.015%. In connection with the proposed increase in the total amount of Entrusted Assets, the Company and Lianhua Huashang have considered the following factors:

1. the past daily maximum investment balance during the term of the Single Asset Management Contract and the terms of historical transactions thereunder including, among other things, the transaction amounts, risk level and return generated for each type of financial products under the Single Asset Management Contract entered into between Lianhua Huashang.
2. with reference to the historical transactions. In 2022, the financial markets experienced several unexpected challenges, resulting in both stocks and bonds taking a hit. The Shanghai and Shenzhen 300 Index, along with mixed-type public mutual funds, saw varying degrees of decline or losses in their average performance. Nevertheless, the collaborative products between Lianhua Huashang and Shanghai Securities managed to achieve positive annualised returns. In addition, considering the recent significant decline in bank deposit interest rates and the fact that the PBOC's latest one-year fixed deposit interest rate benchmark's highest floating standard is lower than the annualised returns achieved by the collaborative products between Lianhua Huashang and Shanghai Securities, and with expectations of further reductions in the one-year fixed deposit interest rate benchmark in the future, therefore, the Group proposed to adjust the capital structure and convert part of the term deposits and idle working capital (if any) of Lianhua Huashang into financial investment so as to realize the maximization of capital interests and returns to Shareholders. As at 30 June 2023, the cash and cash equivalents and the term deposits of the Group amounted to approximately RMB8.16 billion.

### ***Pricing Terms of the Management Fee and Performance Fee***

Prior to entering into the Supplemental Agreement, Lianhua Huashang has reviewed the pricing policy for the Single Asset Management Contract with reference to the actual amount incurred under the Single Asset Management Contract based on the latest market conditions. The Company considers that such pricing policy is concluded after arm's-length negotiation between the parties based on normal commercial terms, and is fair and reasonable.

When concluding the management fee and performance fee payable by Lianhua Huashang to Shanghai Securities under the Single Asset Management Contract (as supplemented), the following factors were taken into account:

1. based on factors including, among others, target return, risk and volatility, the management fee, benchmark annualised rate of return and the accrual ratio of performance fees were determined between Lianhua Huashang and Shanghai Securities through arm's-length negotiation with reference to the terms in respect of asset management and investment services in similar nature and amounts provided by two comparable independent financial institutions;
2. the fixed management fee (i.e. 0.3% per annum) charged by Shanghai Securities to Lianhua Huashang is in line with the prevailing market rates for industry peers and is not less favourable than the terms and conditions provided by Shanghai Securities to its independent third party customers for asset management and investment services of similar nature and amount;
3. the benchmark annualised rate of return (i.e. 4.25%) charged by Shanghai Securities to Lianhua Huashang was determined with reference to the actual annualised rate of return under the Single Asset Management Contract, the current benchmark three-year fixed deposit rate announced by PBOC and the market rate of return of similar single asset management schemes in the market, and in accordance with the risk appetite of Lianhua Huashang and the expected return;
4. the accrual ratio of performance fees (i.e. 20%) charged by Shanghai Securities to Lianhua Huashang is in line with the prevailing market terms for industry peers and is not less favourable than the terms and conditions provided by Shanghai Securities to its independent third party customers for asset management and investment services of similar nature and amount.

While concluding the custody fee (i.e. 0.015% annual rate) payable by Lianhua Huashang to the Custodian Bank under the Supplemental Agreement, the Company has taken into account the following factors:

1. fixed-rate custodial fee is one of the common quotation methods for the custodial fees of standardized securities companies' asset management products. It is usually linked to the size of the product in that the smaller the product size is, the higher the fixed rate is; and
2. the custodial fees charged by the Custodian Bank to Lianhua Huashang are in line with the industry rates that should be charged for asset management and investment services of a similar nature and amount.

***Proposed Annual Caps and Basis of Proposed Annual Caps***

The annual caps in respect of the management fees and performance fees payable by Lianhua Huashang to Shanghai Securities under the Single Asset Management Contract (as supplemented) for each of the financial years ending 31 December 2024, 31 December 2025 and 31 December 2026 are set out as follows:

<b>For the year ended 31 December</b>	<b>Amount of Management Fees (RMB '000)</b>	<b>Amount of Performance Fees (RMB '000)</b>
2024	4,200	11,200
2025	4,200	11,200
2026	4,200	11,200

In determining the above annual caps for the management fees and performance fees payable to Shanghai Securities under the Single Asset Management Contract (as supplemented) during the extended term, the Company and Lianhua Huashang have taken into account of the historical transaction amounts, the increase in the Entrusted Assets and the scale of investment assets, the fixed management fee rate and the method for calculating the performance fees under the Single Asset Management Contract (as supplemented), the composition and allocation of assets managed and to be managed by Shanghai Securities, the historical performance of the Scheme, the expected annualised return rate and the inherent volatility of the capital market.

The Directors (including the independent non-executive Directors) consider that the above proposed annual caps in respect of the asset management and investment services transactions contemplated under the Single Asset Management Contract (as supplemented) are fair and reasonable.

### **III. REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL AGREEMENT**

To increase the cash revenue of the Group, Lianhua Huashang intends to enter into the Supplemental Agreement with Shanghai Securities and the Custodian Bank to renew the Single Asset Management Contract to effectively manage existing idle fund through conducting investments under the Scheme without affecting the ordinary operating liquidity.

Considering that the cash and bank balance of the Group has amounted to approximately RMB8.16 billion as at 30 June 2023 and that the interest rate for term deposits in commercial banks is experiencing a downturn as affected by the macro-economy, the Group proposed to adjust the capital structure and convert part of the term deposits and idle working capital (if any) of Lianhua Huashang into financial investment, which will bring higher returns to the Group compared with fixed term deposits in commercial banks in the PRC. In order to realize the maximization of capital interests with controllable risks, the Group has conducted detailed investigation and comparison in the market. Having considered that Shanghai Securities is one of the reputable securities companies in the PRC with abundant investment management experiences, and taking into account of its track record, ranking, asset scale and reputation as well as the risk level of the investment products and entrusted investment services provided by Shanghai Securities, the Directors are of the view that the financial investment cooperation with Shanghai Securities will enable the Group to effectively improve the efficiency of capital use, better operate the self-owned funds, and realize the maximization of capital interests with controllable risks.

In view of the above, the Directors (excluding the independent non-executive Directors, whose opinion on the matters will be set forth in the circular by reference to the advice of the Independent Financial Adviser in this regard) are of the view that the terms of the Supplemental 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.

#### **IV. INTERNAL CONTROL AND PRICING POLICY**

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

1. notwithstanding the sound investment strategy and risk control system of the wealth management products issued, and the asset management and investment services provided, by Shanghai Securities under the Single Asset Management Contract (as supplemented), due to the coexistence of revenue and risks in the wealth management products and no promise of principal guaranteed policy restriction for the products, Lianhua Huashang will strengthen the project management on investment particulars of Shanghai Securities and monitor the net value of the assets under the Scheme on a daily basis and the performance of the Scheme on a regular basis. Accordingly, the Company will ensure the sum of the total amount of Entrusted Assets and the returns accrued thereon in the escrow account maintained by the Custodian Bank shall not exceed RMB1,400 million, and such limit on balance of the escrow account was determined by the Company mainly based on its internal policies for project management on investment and management of idle working capital, with reference to the amount of the Group's cash, cash equivalent and term deposit as at 30 June 2023, in order to ensure the safety of the Group's internal resources as well as the liquidity of cash;
2. prior to make any withdrawal from the Entrusted Assets under the Scheme (or subsequent addition thereto, if any), Lianhua Huashang shall review and consider the past performance of the Scheme, the rate of return and risk profile of the relevant underlying investment products, as well as the then prevailing market conditions and the assessment of the expected returns, in order to ensure the withdrawal from the Entrusted Assets under Scheme (or subsequent addition thereto, if any), based on the advice from the head of financial department of the Company, shall be carried out in accordance with the terms of the Single Asset Management Agreement (as supplemented) with a view to maximize the interests of the Shareholders;
3. the external auditors of the Company will conduct an annual review on the pricing and the annual caps of the continuing connected transactions;

4. the audit committee of the Company will review at least twice a year the analysis reports and the improvement measures prepared by the Company's management based on the implementation of the continuing connected transactions by the Company;
5. the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions; and
6. the Company shall disclose the Single Asset Management Contract (as supplemented) and the transactions contemplated thereunder in its annual and interim report in accordance with the relevant requirements of the Listing Rules.

The Directors are of the view that the internal controls have been effectively implemented and proven to be effective such that the terms of the historical transactions under the Investment and Wealth Management Cooperation Framework Agreement are no less favourable than those provided by the independent third parties, and the actual transaction amounts incurred thereunder have not exceeded the annual caps.

## **V. 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 Shanghai Securities**

Shanghai Securities is a subsidiary of Bailian Group, principally engaged in securities business. As at the date of this announcement, Shanghai Securities is held as to 50%, 24.99%, 16.33%, 7.68% and 1% by Bailian Group (a company directly 100% held by Shanghai State-owned Assets Supervision and Administration Commission), Guotai Junan Securities Co., Ltd. (the H shares of which are listed on the Stock Exchange under the stock code 02611 and the A shares of which are listed on the Shanghai Stock Exchange under the stock code 601211), Shanghai Sitico Assets Management Co., Ltd.\* (上海上國投資產管理有限公司)(a company indirectly 100% held by Shanghai State-owned Assets Supervision and Administration Commission), Shanghai International Group Co., Ltd.\* (上海國際集團有限公司)(a company directly 100% held by Shanghai State-owned Assets Supervision and Administration Commission), and Shanghai Chengtou Group Corporation (上海城投(集團)有限公司)(a company directly 100% held by Shanghai State-owned Assets Supervision and Administration Commission), respectively.

## **Information of the Custodian Bank**

The Custodian Bank is a joint stock limited company incorporated in the PRC with limited liability, and is principally engaged in a range of banking services and related financial services. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Custodian Bank and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

## **VI. BOARD'S APPROVAL**

The Board has approved the entering into the Supplemental Agreement and its proposed annual caps, and none of the Directors has any material interests 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 resolutions of the Board to approve the entering into the Supplemental Agreement.

Save as disclosed above, none of the other Directors was required to abstain from voting to approve the resolutions in relation to the connected transaction and continuing connected transactions.

## **VII. LISTING RULES IMPLICATIONS**

As the highest applicable percentage ratio in respect of the increase in Entrusted Assets under the Supplemental Agreement is more than 100%, the increase in Entrusted Assets contemplated thereunder constitutes a very substantial acquisition, and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.



As at the date of this announcement, Bailian Group is a substantial Shareholder, and Shanghai Securities is a subsidiary of Bailian Group. As such, Shanghai Securities constitutes a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, (i) the increase in Entrusted Assets constitutes a connected transaction of the Company, as the applicable percentage ratios in respect thereof are more than 5%, the increase in Entrusted Assets is subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules; and (ii) the transactions in respect of the asset management and investment services contemplated under the Single Asset Management Contract (as supplemented) constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules, as the highest applicable percentage ratio for the highest proposed annual cap in aggregate under the Single Asset Management Contract (as supplemented) is more than 0.1% but less than 5%, the transactions contemplated under the Supplemental Agreement are subject to the reporting, annual review, announcement requirement, but exempt from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **VIII. EGM**

An EGM will be convened for the Independent Shareholders to consider and, if appropriate, approve, among others, the entering into the Supplemental Agreement and the transactions contemplated thereunder.

As at the date of this announcement, Bailian Group and its associates, including Shanghai Bailian, held approximately 513,869,400 Shares, representing 45.90% of the issued share capital of the Company. Shanghai Securities, being a party to the Supplemental Agreement and a subsidiary of Bailian Group, has material interests in the transactions contemplated thereunder. Therefore, Bailian Group and its associates, including Shanghai Bailian, are required to abstain from voting on the relevant resolutions to be proposed at the EGM to approve the Supplemental Agreement.

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

An Independent Board Committee comprising all the independent non-executive Directors (who have no material interest in the relevant continuing connected transactions) will be formed to advise the Independent Shareholders on the Supplemental Agreement. The Company has appointed Lego as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Supplemental Agreement in accordance with the Listing Rules.

## IX. DESPATCH OF CIRCULAR

A circular containing, among other things, (i) particulars of the entering into the Supplemental Agreement; (ii) a letter of recommendations from the Independent Board Committee; (iii) a letter of advice from the Independent Financial Adviser; and (iv) a notice of the EGM is expected to be despatched to the Shareholders on or before 6 November 2023, which is beyond 15 business days after the publication of this announcement as additional time is required for the Company to prepare the circular and other relevant documents for the EGM.

## X. DEFINITIONS

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

“AMAC”	Asset Management Association of China (中國證券投資基金業協會)
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Bailian Group”	Bailian Group Co., Ltd.* (百聯集團有限公司), a limited liability company incorporated in the PRC and a substantial Shareholder
“Board”	the board of Directors 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
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Custodian Bank”	Shanghai Branch of China Construction Bank Corporation

“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if appropriate, to approve, among others, the Supplemental Agreement
“Entrusted Assets”	the principal amount of assets entrusted by Lianhua Huashang under the Scheme, which shall be invested and managed by Shanghai Securities pursuant to the Supplemental Agreement
“Entrustor”	the entrustor under the Scheme, i.e., Lianhua Huashang
“ETF”	exchange traded fund
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign shares of nominal value of RMB1.00 each in the registered capital of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	independent board committee of the Company comprising all of the independent non-executive Directors
“Independent Financial Advisor” or “Lego”	Lego Corporate Finance Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement, which is a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
“Independent Shareholders”	the Shareholders, other than Bailian Group, Shanghai Bailian and their respective associates, who will abstain from voting on the relevant resolution in relation to the Supplemental Agreement at the EGM

“Investment and Wealth Management Cooperation Framework Agreement”	the investment and wealth management cooperation framework agreement entered into between the Company and Shanghai Securities on 23 April 2021, details of which are disclosed in the announcement of the Company dated 23 April 2021 and the circular of the Company dated 27 May 2021
“Lianhua Huashang”	Hangzhou Lianhua Huashang Group Co., Ltd.* (杭州聯華華商集團有限公司), a subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“LOF”	listed open-ended fund
“Manager”	the manager under the Scheme, i.e., Shanghai Securities
“NAFMII”	National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會)
“PBOC”	the People’s Bank of China
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“percentage ratio”	has the meaning ascribed to it under the Listing Rules
“RMB”	Renminbi, the lawful currency of the PRC
“Scheme”	the open-end, fixed-income asset management scheme to be carried out and provided by Shanghai Securities to the Company under the Supplemental Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

“Shanghai Bailian”	Shanghai Bailian Group Co., Limited* (上海百聯集團股份有限公司), a substantial Shareholder
“Shanghai Securities”	Shanghai Securities Co., Ltd. (上海證券有限責任公司), a subsidiary of Bailian Group
“Shareholder(s)”	the shareholder(s) of the Company
“Single Asset Management Contract”	the single asset management contract entered into between Lianhua Huashang, Shanghai Securities and the Custodian Bank on 8 July 2021 in relation to the asset management and investment services provided by Shanghai Securities to the Group
“SSE”	the Shanghai Stock Exchange
“State Council”	the State Council of the PRC
“ST stocks”	special treatment stocks and means special treatment for companies with financial problems (consecutive two fiscal years loss or audited net assets per share less than par value in the most recent fiscal year)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement to the Single Asset Management Contract entered into between Lianhua Huashang, Shanghai Securities and the Custodian Bank on 27 September 2023
“SZSE”	the Shenzhen Stock Exchange
“%”	per cent

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

Shanghai, the PRC, 27 September 2023

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

*Executive Director:* Chong Xiao-bing;

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

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

\* *For identification purpose only*