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

ANNOUNCEMENT

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

FINANCIAL SERVICES AGREEMENT

Reference is made to the announcement of the Company dated 24 September 2021 and the circular of the Company dated 26 October 2021.

As the Existing Financial Services Agreement is expiring on 31 December 2024, the Company entered into the Financial Services Agreement with Bailian Finance and Bailian Group on 7 April 2024 to renew the transactions under the Existing Financial Services Agreement, pursuant to which, Bailian Finance agreed to provide the Group with deposit services, loan services and other financial services subject to the terms and conditions provided therein for a term commencing from 1 January 2025 to 31 December 2027 (both days inclusive).

LISTING RULES IMPLICATIONS

As at the date of this announcement, Bailian Group is a substantial Shareholder, and Bailian Finance is a subsidiary of Bailian Group. As such, Bailian Finance constitutes a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in relation to the provision of deposit services under the Financial Services Agreement is more than 25%, the provision of deposit services under the Financial Services Agreement constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the highest proposed annual cap under the Financial Services Agreement exceeds 5%, the provision of deposit services under the Financial Services Agreement is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

AGM

An AGM will be convened for the Shareholders to consider, and if thought fit, approve the entering into the Financial Services Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (i) details of the Financial Services Agreement; (ii) a letter of recommendation from the Independent Board Committee; (iii) a letter of advice from Independent Financial Advisor; and (iv) the notice of AGM, is expected to be issued beyond 15 business days after the publication of this announcement, and despatched to the Shareholders on or before 6 May 2024, as the Company needs additional time to prepare the circular and other information in relation to the AGM.

I. BACKGROUND

Reference is made to the announcement of the Company dated 24 September 2021 and the circular of the Company dated 26 October 2021.

As the Existing Financial Services Agreement is expiring on 31 December 2024, the Company entered into the Financial Services Agreement with Bailian Finance and Bailian Group on 7 April 2024 to renew the transactions under the Existing Financial Services Agreement, pursuant to which, Bailian Finance agreed to provide the Group with deposit services, loan services and other financial services subject to the terms and conditions provided therein for a term commencing from 1 January 2025 to 31 December 2027 (both days inclusive).

II. FINANCIAL SERVICES AGREEMENT

Date

7 April 2024

Parties

- (1) The Company;
- (2) Bailian Group; and
- (3) Bailian Finance

Term

The Financial Services Agreement is for a term of three years commencing from 1 January 2025 to 31 December 2027 (both days inclusive).

Major Terms

- (1) Bailian Finance shall provide the Group with the following major services subject to the terms and conditions provided therein:
 - (i) acceptance of deposits from members;
 - (ii) handling loans for members;
 - (iii) handling note discounting for members;
 - (iv) handling cash settlement and receipts and payments for members;
 - (v) providing members with entrusted loans, bond underwriting, non-finance guarantees, financial advisor, credit assurance and consultation agency services;
 - (vi) handling draft acceptance for members; and
 - (vii) other financial services approved by NFRA.

- (2) Deposit cap: the maximum daily balance of the Group's deposits with Bailian Finance (including any interest accrued therefrom) for each of the three years ending 31 December 2027 is RMB2.0 billion.
- (3) Bailian Finance has undertaken to adhere to the principles below in relation to the provision of the aforementioned financial services to the Group:
- (i) the interest rates payable by Bailian Finance to the Group for any deposits shall not be lower than the benchmark interest rates for comparable deposits as announced by the PBOC and shall not be lower than the interest rates paid by other major commercial banks in the PRC for comparable deposits. As at the date of this announcement, the benchmark interest rates for deposits as announced by the PBOC for 6-month deposit, one-year deposit and three-year deposit are 1.3%, 1.5% and 2.75% per annum, respectively. The average annual interest rates offered by Bailian Finance to the Group for the two financial years ended 31 December 2022, 31 December 2023 and the two months ended 29 February 2024 were 3.11%, 3.14% and 3.16% per annum, respectively;
 - (ii) the interest rates to be charged for loans to be granted to the Group by Bailian Finance shall not be higher than the Loan Prime Rate (LPR) as announced by the PBOC during the same period and shall not be higher than the lending rates charged by other major commercial banks in the PRC for comparable loans during the same period. As at the date of this announcement, the LPR as announced by the PBOC for the term of one year and over five years are 3.45% and 3.95%, respectively;
 - (iii) the service fees to be charged by Bailian Finance for the provision of other financial services to the Group, other than the deposit and loan services, shall not be higher than the service fees charged by other financial institutions in the PRC for comparable services, and the total service fees to be charged by Bailian Finance for the provision of other financial services to the Group shall not be more than RMB5 million per annum; and
 - (iv) the terms of services to be provided to the Group by Bailian Finance shall be no less favourable than those of comparable services provided by other financial institutions in the PRC.

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

Capital Risk Control Measures

Bailian Finance shall take the following capital risk control measures:

- (1) Bailian Finance shall ensure the safety, liquidity and reasonable profitability of the Group's deposited funds.
- (2) Bailian Finance shall ensure efficient, prompt and safe settlement of the Group's funds with the use of Bailian Finance's internet banking system and its direct business connection technology and service platform.
- (3) Bailian Finance shall implement periodic evaluation system and establish internal control system and risk monitoring indicators to ensure the secure operation of its fund settlement and clearance network, protect the safety of funds, control risk exposure and satisfy the withdrawal requests from the Group for any deposited funds.

- (4) Bailian Finance shall ensure that it is in strict compliance with the risk monitoring indicators for financial institutions issued by the NFRA and that its major regulatory indicators such as gearing ratio, inter bank borrowing ratio and liquidity ratio will also comply with the requirements of the NFRA and other relevant laws and regulations.
- (5) Bailian Finance shall provide annual audit reports periodically to the Company and other financial reports upon the Company's request, and shall report its operation and financial condition to the Company periodically and authorize the Company's auditors to review and inspect its relevant accounting records so as to allow the Company to fulfill certain requirements of the Listing Rules.

Historical Amount

Deposit Services:

The historical maximum daily balance of the Group's deposits for the deposit services provided by Bailian Finance are as follows:

For the Year/Period ended	Maximum daily balance of the Group's deposits (RMB thousand)
31 December 2021	1,004,539
31 December 2022	1,174,048
31 December 2023	943,214
29 February 2024	912,364

Other Services:

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

For the Year/Period ended	Transaction amounts <i>(RMB thousand)</i>
31 December 2021	0
31 December 2022	0
31 December 2023	0
29 February 2024	0

Proposed Annual Caps and Basis for Proposed Annual Caps

Deposit Services:

The proposed annual caps in respect of the maximum daily deposit balance (including any interest accrued therefrom) with Bailian Finance for the financial years ending 31 December 2025, 31 December 2026 and 31 December 2027 under the Financial Services Agreement are set out as follows:

Period	Maximum daily balance of the Group's deposits <i>(RMB thousand)</i>
From 1 January 2025 to 31 December 2025	2,000,000
From 1 January 2026 to 31 December 2026	2,000,000
From 1 January 2027 to 31 December 2027	2,000,000

Such maximum daily balance of the Group's deposits is determined after taking into account the following primary factors:

- (1) the historical maximum daily deposit balance placed by the Group in Bailian Finance, which was approximately RMB1,004.539 million, RMB1,174.048 million, RMB943.214 million and RMB912.364 million for each of the three years ended 31 December 2023 and for the two months ended 29 February 2024, respectively;
- (2) in view of the existing scale of deposits of the Company and its subsidiaries, and with a position of it held in fixed-term deposit in local commercial banks, which will gradually mature starting from 2024, concerning such upcoming matured deposit, and taking into account the Group's estimated deposit requirements for each of the three years ending 31 December 2027;
- (3) based on the Group's relevant internal risk control requirements and the relevant principle-based internal control requirements relating to, among others, the qualification and net capital of the depository banks, the Group is required to transfer the deposits held in local commercial banks maturing from 2024 to the institutions which comply with the internal control requirements, and concerning such deposit requirements and from the perspective of deposit security, to consider the estimated scale of deposits under the Financial Services Agreement that the Group may need to increase in each of the three years ending 31 December 2027; and
- (4) in view of the long standing position cooperation relationship with Bailian Finance in the past and taking into account the expected amount of interest income from Bailian Finance with reference to a comparison of the interest income that could otherwise be obtained by placing comparable amount of deposits with other major commercial banks in the PRC, the deposit yields of Bailian Finance is slightly higher than the market averages.

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) consider that the proposed annual caps in respect of the provision of deposit services by Bailian Finance under the Financial Services Agreement are fair and reasonable.

Loan Services:

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

Other Services:

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

The proposed annual caps in respect of the maximum transaction amounts for other services payable by the Group to Bailian Finance for the financial years ending 31 December 2025, 31 December 2026 and 31 December 2027 under the Financial Services Agreement are set out as follows:

Period	Maximum annual transaction amount <i>(RMB thousand)</i>
From 1 January 2025 to 31 December 2025	5,000
From 1 January 2026 to 31 December 2026	5,000
From 1 January 2027 to 31 December 2027	5,000

The proposed annual cap of the maximum annual transaction amount in respect of other services payable to Bailian Finance is determined after taking into account the following primary factors:

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

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

In view of the above, the Directors (including the independent non-executive Directors) consider that the proposed maximum transaction amounts for other services payable by the Group to Bailian Finance under the Financial Services Agreement are fair and reasonable.

Reasons for and Benefits of Entering into the Financial Services Agreement

- (1) The interest rates on deposits and loans to be offered by Bailian Finance to the Group will be equal to or more favourable than those offered by other major commercial banks in the PRC in respect of comparable deposits and loans.

- (2) Bailian Finance is established as a non-banking financial institution regulated by the PBOC and the NFRA and provides its services in accordance with the rules and operational requirements of these regulatory authorities. In addition, capital risks are reduced through the introduction of the risk control measures stipulated in the Financial Services Agreement.
- (3) Bailian Group has undertaken to guarantee the repayment of all the Group's deposits (including any interest accrued therefrom) placed with Bailian Finance.
- (4) The Group is expected to benefit from Bailian Finance's better understanding of the operations of the Group which will allow more expedient and efficient services than those rendered by other PRC commercial banks. For example, in the event that the Group considers that it is necessary to obtain loan and guarantee from Bailian Finance in view of its business and financial needs, it is expected that the time required for the examination and approval for the loans and guarantee to be provided by Bailian Finance will be shorter than those required by other commercial banks.
- (5) By entering into the Financial Services Agreement with Bailian Group and Bailian Finance, the Group will be able to centralize its control and management over the financial resources of the Group, therefore improve the utilization and efficiency of fund usage and mitigate its operating risks. It can also accelerate the turnover of funds and reduce transaction costs and expenses, thereby further enhancing the amount and efficiency of funds utilisation. Meanwhile, the financial services to be provided under the Financial Services Agreement are diversified and can meet the business needs of the Group.

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

Internal Control and Pricing Policy

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

The Company implements rigorous stringent internal control policies with regard to financial service transactions, and in accordance with the relevant internal risk control requirements of the Group, the Company and its subsidiaries are mandated to open accounts within the list of banks featured in the “Top 100 Banks in China in 2023 (2023年中國銀行業百強名單)” with a core tier 1 net capital of over RMB100 billion as announced by the China Banking Association, and generally, as a principle, accounts should not be opened with non-joint-stock bank. The relevant personnel of the finance department of the Company would compare the deposit interest rates quoted from other independent third parties (including at least three financial institutions and commercial banks in the PRC, such as China Construction Bank Corporation, China Everbright Bank Company Limited and China Zheshang Bank Co., Ltd.) and from the PBOC on a regular basis, and such research and comparison results will be reported by the relevant personnel of the finance department to the head of the finance department of the Company. Based on the aforementioned research and comparison results, the head of the finance department of the Company (who has the approval power for deposit transaction with Bailian Finance) will make sure the interest rates receivable by the Company for the Company’s deposits with Bailian Finance shall not be lower than the interest rates receivable from those offered by other independent commercial banks for comparable deposits during the same period. Moreover, pursuant to the Financial Services Agreement, Bailian Group, as the parent company and controlling shareholder of Bailian Finance, undertakes to bear unlimited joint and several guarantee obligations for the deposits and corresponding interests under the Financial Services Agreement in the business of cooperation, and the deposits of the Group under the Financial Services Agreement are protected to a certain extent.

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

III. 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 the Bailian Finance

Bailian Finance is a non-banking financial institution established in the PRC. As at the date of this announcement, its registered capital is RMB1,000 million. 75% of its share capital is held by Bailian Group, and 25% of that is held by Shanghai Bailian. The principal business of Bailian Finance mainly includes the provision of deposit services, loan services, entrusted loan services and settlement services.

Information of the Bailian Group

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

IV. BOARD'S APPROVAL

The Board has approved the entering into of the Financial Services Agreement and the proposed annual caps, and none of the Directors has any material interest in the transactions contemplated thereunder.

Since Mr. Pu Shao-hua, Ms. Zhang Hui-qin, Mr. Chong Xiao-bing, Ms. Zhang Shen-yu and Mr. Dong Xiao-chun are either holding senior positions or are directors in Bailian Group and/or its subsidiaries, they have abstained from voting on the relevant resolution of the Board to approve the entering into of the Financial Services 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. LISTING RULES IMPLICATIONS

As at the date of this announcement, Bailian Group is a substantial Shareholder, and Bailian Finance is a subsidiary of Bailian Group. As such, Bailian Finance constitutes a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in relation to the provision of deposit services under the Financial Services Agreement is more than 25%, the provision of deposit services under the Financial Services Agreement constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the highest proposed annual cap under the Financial Services Agreement exceeds 5%, the provision of deposit services under the Financial Services Agreement is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

VI. AGM

An AGM will be convened for the Independent Shareholders to consider and, if appropriate, approve, among others, the entering into the Financial Services 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. Bailian Finance, being a party to the Financial Services 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 AGM to approve the Financial Services Agreement.

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

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 Financial Services Agreement. The Company has appointed VBG Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Financial Services Agreement in accordance with the Listing Rules.

VII. DESPATCH OF CIRCULAR

A circular containing, among other things, (i) details of the Financial Services Agreement; (ii) a letter of recommendation from the Independent Board Committee; (iii) a letter of advice from Independent Financial Advisor; and (iv) the notice of AGM, is expected to be issued beyond 15 business days after the publication of this announcement, and despatched to the Shareholders on or before 6 May 2024, as the Company needs additional time to prepare the circular and other information in relation to the AGM.

VIII. DEFINITIONS

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

“AGM”	the annual general meeting of the Company to be convened to consider and, if appropriate, to approve, among others, the Financial Services Agreement
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Bailian Finance”	Bailian Group Finance Co., Ltd.* (百聯集團財務有限責任公司), a subsidiary controlled by Bailian Group
“Bailian Group”	Bailian Group Co., Ltd.* (百聯集團有限公司), a controlling 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”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Existing Financial Services Agreement”	the Financial Services Agreement dated 24 September 2021 entered into among the Company, Bailian Finance and Bailian Group, 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
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign shares of nominal value of RMB1.00 each in the registered capital of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all of the independent non-executive Directors
“Independent Financial Adviser” or “VBG Capital”	VBG Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the provision of deposit services under the Financial Services Agreement (including the respective proposed annual caps), and a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

“Independent Shareholders”	the Shareholders, other than Bailian Group and Shanghai Bailian and their respective associates, who will abstain from voting on the relevant resolutions in relation to the continuing connected transactions at the AGM
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“NFRA”	National Financial Regulatory Administration (國家金融監督管理總局)
“PBOC”	People’s Bank of China (中國人民銀行)
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Financial Services Agreement”	the Financial Services Agreement entered into among the Company, Bailian Finance and Bailian Group on 7 April 2024, details of which are disclosed in this announcement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Bailian”	Shanghai Bailian Group Co., Limited* (上海百聯集團股份有限公司), a substantial Shareholder of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“%”

per cent

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

Shanghai, the PRC, 7 April 2024

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

Executive Directors: Chong Xiao-bing and Zhang Hui-qin;

Non-executive Directors: Pu Shao-hua, 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*