
LETTER FROM THE BOARD



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

(Stock Code: 00980)

Executive Directors:

Mr. Chong Xiao-bing
Ms. Zhang Hui-qin (*Vice Chairman*)

Non-executive Directors:

Mr. Pu Shao-hua (*Chairman*)
Ms. Hu Xiao
Ms. Zhang Shen-yu
Ms. Yang Qin
Mr. Wong Tak Hung

Independent Non-executive Directors:

Mr. Xia Da-wei
Mr. Lee Kwok Ming, Don
Mr. Chen Wei
Mr. Zhao Xin-sheng

Registered Office:

Room 713, 7th Floor
No. 1258 Zhen Guang Lu
Shanghai
The PRC

*Principal Place of Business
in Hong Kong:*

30/F
3 Lockhart Road
Wanchai
Hong Kong

31 July 2024

To the Shareholders

Dear Sir or Madam,

- (1) CONNECTED TRANSACTION IN RELATION TO THE PROPOSED
SUBSCRIPTION OF NEW DOMESTIC SHARES;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION;
AND
(4) NOTICE OF EGM**

I. INTRODUCTION

Reference is made to the Announcement dated 12 May 2024 in relation to, among other things, the Domestic Share Subscription (including the Share Subscription Agreement and the transactions contemplated thereunder, and the Specific Mandate), the Whitewash Waiver and the proposed amendments to the Articles of Association.

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On 12 May 2024, the Company entered into the Share Subscription Agreement with Bailian Group. According to the terms of the Share Subscription Agreement, the Company has conditionally agreed to issue not more than 360,000,000 new Domestic Shares, and Bailian Group has conditionally agreed to subscribe in cash for 360,000,000 new Domestic Shares at the Subscription Price of RMB1.00 (equivalent to approximately HK\$1.10051) per new Domestic Share, which is expected to raise gross proceeds of approximately RMB360 million (equivalent to approximately HK\$396 million), and the net proceeds (after deduction of relevant costs and expenses) from the Domestic Share Subscription is expected to be approximately RMB357 million (equivalent to approximately HK\$393 million), which is intended to be used in (a) business ecological transformation; and (b) enhance general working capital of the Company.

The purpose of this circular is to provide you with information regarding, among other things, (i) details of the Domestic Share Subscription (including the Share Subscription Agreement and transactions contemplated thereunder, and the Specific Mandate), the Whitewash Waiver and the proposed amendments to the Articles of Association; (ii) a letter of recommendation from the Connected Transaction IBC to the Independent Shareholders on the Domestic Share Subscription (including the Share Subscription Agreement and transactions contemplated thereunder, and the Specific Mandate); (iii) a letter of recommendation from the Whitewash Waiver IBC to the Independent Shareholders on the Domestic Share Subscription (including the Share Subscription Agreement and the transactions contemplated thereunder, and the Specific Mandate) and the Whitewash Waiver; (iv) a letter of advice by the Independent Financial Adviser to the Independent Board Committees and the Independent Shareholders on the Domestic Share Subscription (including the Share Subscription Agreement and transactions contemplated thereunder, and the Specific Mandate) and the Whitewash Waiver; and (v) a notice of EGM together with the form of proxy, to enable you to make an informed decision on whether to vote for or against the proposed resolutions at the EGM.

II. PROPOSED DOMESTIC SHARES SUBSCRIPTION

1. Share Subscription Agreement

The major terms and conditions of the Share Subscription Agreement are set out as follows:

Date

12 May 2024

Parties

- (1) The Company (as the issuer); and
- (2) Bailian Group (as the Subscriber).

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Number of Subscription Shares

Pursuant to the Share Subscription Agreement, Bailian Group agreed to subscribe for 360,000,000 Subscription Shares, with par value of RMB1.00 each and an aggregate par value of RMB360,000,000. The Subscription Shares represent approximately 32.15% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 24.33% of the enlarged total issued share capital of the Company upon completion of the Domestic Share Subscription. Assuming there is no change to the issued share capital of the Company other than the issue of the new Domestic Shares pursuant to the Share Subscription Agreement, immediately after the Completion, Bailian Group will directly hold approximately 649,661,400 Domestic Shares, indirectly hold approximately 224,208,000 Domestic Shares through Shanghai Bailian, and hold an aggregate of 873,869,400 Shares, representing approximately 43.91%, 15.15% and 59.06% of the enlarged total issued share capital of the Company, respectively. Same with the Domestic Shares existing in issue, the transfer and subsequent sale of the Subscription Shares to be issued can be made in accordance with the relevant provisions of the Articles of Association, subject to the applicable PRC laws. The issue size of the Domestic Share Subscription is subject to adjustment as finally approved by the regulatory authorities and shall in any event not more than 360,000,000 Subscription Shares.

Subscription Price

RMB1.00 (equivalent to approximately HK\$1.10051) per Subscription Share. For the purpose of this circular, all figures in HK\$ are calculated based on the exchange rate of HK\$1 to RMB0.90867 as quoted by The People's Bank of China as at the Last Trading Day. The Subscription Price is subject to corresponding adjustment upon the occurrence of any ex-rights and ex-dividend events including, among others, dividend distribution, bonus shares, capitalization of capital reserve during the period from the date of the Announcement to the date of Completion, and the Company shall have the right to adjust the Subscription Price according to the final approval from the regulatory authorities, provided that the Subscription Price shall not be lower than the par value of RMB1.00 after adjustment.

The Subscription Price of RMB1.00 (equivalent to approximately HK\$1.10051) per Subscription Share represents:

- (1) a premium of approximately 185.85% to the price of approximately HK\$0.385 per H Share based on the closing price as quoted on the Stock Exchange on the Latest Practicable Date;*
- (2) a premium of approximately 249.37% to the price of approximately HK\$0.315 per H Share based on the closing price as quoted on the Stock Exchange on the Last Trading Day;*

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- (3) a premium of approximately 273.05% to the average closing price of approximately HK\$0.295 per H Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;
- (4) a premium of approximately 323.27% to the average closing price of approximately HK\$0.260 per H Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day; and
- (5) a premium of approximately 1,452.80% to the audited consolidated net asset value per Share attributable to the Shareholders as at 31 December 2023 of approximately RMB0.0644 (equivalent to approximately HK\$0.0711) per Share calculated based on the audited consolidated equity attributable to owners of the Company of approximately RMB72,126,000 as at 31 December 2023 as extracted from the annual report of the Company for the year ended 31 December 2023 and 1,119,600,000 Shares then in issue (based on the exchange rate of HK\$1: RMB0.90622 as at 29 December 2023 published by The People's Bank of China for illustration purposes).

The Subscription Price for the Domestic Share Subscription is determined after arm's length negotiations between the Company and Bailian Group, in accordance with the restriction under the Company Law of the PRC that the Subscription Price shall not be lower than the par value of RMB1.00, with reference to the net assets position of the Company, the view of Bailian Group on the future development of the Company, the recent price of H Shares and the prevailing market conditions. The total Subscription Price for the Domestic Share Subscription (i.e. RMB360,000,000) shall be payable by Bailian Group upon Completion.

Conditions precedent to the Share Subscription Agreement

The Domestic Share Subscription is conditional upon:

- (1) the approval by the Board, the board of directors of Shanghai Bailian and the board of directors of Bailian Group;
- (2) the Executive having granted, and not having withdrawn or revoked such grant, the Whitewash Waiver and the fulfilment of all conditions (if any) attached to the Whitewash Waiver;

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- (3) the approval by (i) at least 75% of the votes in favour cast by the Independent Shareholders at the EGM in respect of the Whitewash Waiver; and (ii) more than two-thirds of the votes in favour cast by the Independent Shareholders at the EGM in respect of the Share Subscription Agreement and the transactions contemplated thereunder and the Specific Mandate;
- (4) the approval of the plan for the Domestic Share Subscription by Shanghai SASAC or its authorised organizations;
- (5) the approval of registration by CSRC; and
- (6) the shareholders of the Company, other relevant third parties and/or governmental or regulatory authorities or agencies (including the relevant authorities in the PRC and Hong Kong), to obtain all necessary licenses, consents, approvals, authorisations, permits, exemptions, orders, reliefs or notices required for the execution and performance of the Share Subscription Agreement or the issue of the Subscription Shares, and which have not been withdrawn prior to the issue of the Subscription Shares.

None of the conditions can be waived under the Share Subscription Agreement.

As at the Latest Practicable Date, there was no such licence, consent, approval, authorisation, permit, exemption, order, relief or notice required as set out in paragraph (6), and such condition set out in paragraph (6) shall be treated as fulfilled for so long as no circumstances have arisen to trigger the relevant requirements on or before the Completion. As at the Latest Practicable Date, except for the conditions set out in paragraphs (1) and (4) above, which have been fulfilled, none of the other conditions to the Domestic Share Subscription has been or has been treated as fulfilled.

If any of the precedent conditions under the Share Subscription Agreement as set out above in the section headed “Conditions precedent to the Share Subscription Agreement” is not satisfied after eighteen months from the date of the Share Subscription Agreement, the Share Subscription Agreement shall not take effect and neither party shall have any claims against the other save for any antecedent breaches.

Completion

The completion of Domestic Share Subscription shall take place within 10 business days following all the conditions precedent to the Share Subscription Agreement have been fulfilled, upon which the Company shall issue the Subscription Shares to Bailian Group and the total Subscription Price shall be paid by Bailian Group in one lump sum to the account designated by the Company in accordance with the terms of the Share Subscription Agreement in cash.

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Termination of the Share Subscription Agreement

The Share Subscription Agreement shall terminate on the date of occurrence of any of the following circumstances:

- (1) The Company, based on its actual situation and relevant laws and regulations, believes that the purpose of the issuance of the Subscription Shares can no longer be achieved and takes the initiative to withdraw the application materials from the state-owned assets supervision agency or its authorized organizations, or the CSRC;
- (2) The issuance of the Subscription Shares has not been approved by the Board of Directors or the general meeting of the Shareholders, the board of directors of the Subscriber, the board of directors of Shanghai Bailian, the state-owned assets supervision agency or its authorised organizations, the CSRC and/or the SFC or any of the conditions for the commencement of the Share Subscription Agreement has not been fulfilled within eighteen months from the date of the Share Subscription Agreement;
- (3) Force majeure events occurring in the course of the performance of the Share Subscription Agreement and the termination of the Share Subscription Agreement by mutual consensus;
- (4) Other circumstances under which the Share Subscription Agreement shall be terminated in accordance with the relevant laws of the PRC.

Specific Mandate

The 360,000,000 Subscription Shares will be issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM.

2. Ranking of the Subscription Shares

The Subscription Shares to be issued pursuant to the Share Subscription Agreement will rank, upon issue, *pari passu* in all respects with the existing issued Domestic Shares held by the Company at the time of issue of such Subscription Shares including, in particular, as to dividends and other distributions, voting rights and return of capital. For the avoidance of doubt, following the Completion of the Domestic Share Subscription, the new and existing Shareholders shall be entitled to the accumulated undistributed profits of the Company before the issuance of the Domestic Shares in proportion to their respective shareholdings.

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3. Effect on the Shareholding Structure of the Company

The following table illustrates the shareholding structure of the Company as at the Latest Practicable Date and immediately after the completion of the Domestic Share Subscription (assuming no other changes to the issued share capital of the Company prior to Completion):

	Share class	As at the Latest Practicable Date		Immediately after the completion of Domestic Share Subscription	
		Number of Shares held	Percentage of total issued Shares	Number of Shares held	Percentage of total issued Shares
Bailian Group and parties acting in concert with it					
Bailian Group	Domestic	289,661,400	25.87%	649,661,400	43.91%
Shanghai Bailian <i>(Note 1)</i>	Domestic	224,208,000	20.03%	224,208,000	15.15%
Sub-total		513,869,400	45.90%	873,869,400	59.06%
Other Domestic Shareholders					
Alibaba (China) Technology Co., Ltd. <i>(Note 2)</i>	Domestic	201,528,000	18.00%	201,528,000	13.62%
Sub-total		201,528,000	18.00%	201,528,000	13.62%
Unlisted foreign Shareholders					
Wong Sun Hing Investment Company Limited <i>(Note 3)</i>	Unlisted foreign shares	31,602,600	2.82%	31,602,600	2.14%
Sub-total		31,602,600	2.82%	31,602,600	2.14%
Total domestic and unlisted foreign Shares		747,000,000	66.72%	1,107,000,000	74.82%
H Shareholders					
H Shareholders <i>(Note 4)</i>	H Shares	372,600,000	33.28%	372,600,000	25.18%
Total H Shares		372,600,000	33.28%	372,600,000	25.18%
Total issued Shares		1,119,600,000	100.00%	1,479,600,000	100.00%

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Notes:

1. Shanghai Bailian is a joint stock limited company incorporated in the PRC, the shares of which are listed on Shanghai Stock Exchange (stock code: 600827/900923). Based on the disclosure of the first quarterly report of 2024 of Shanghai Bailian for the three months ended 31 March 2024, as at 31 March 2024, the shares of Shanghai Bailian were held as to approximately 47.62% by Bailian Group, as to approximately 2.88% by Shanghai Bailian Holding Co., Ltd.* (上海百聯控股有限公司), as to approximately 2.66% by Shanghai Yuying Enterprise Management Co., Ltd.* (上海豫贏企業管理有限公司) and as to approximately 0.01% by Bailian Omni-channel International Procurement Co., Ltd.* (百聯全渠道國際採購有限公司), and Shanghai Bailian Holding Co., Ltd.* (上海百聯控股有限公司), Shanghai Yuying Enterprise Management Co., Ltd.* (上海豫贏企業管理有限公司) and Bailian Omni-channel International Procurement Co., Ltd.* (百聯全渠道國際採購有限公司) are subsidiaries of Bailian Group. In addition to the aforementioned shares held directly and/or indirectly by Bailian Group and its subsidiaries, the rest of top 10 shareholders of Shanghai Bailian are Hong Kong Securities Clearing Company Limited (holding approximately 0.60%), Industrial and Commercial Bank of China Limited – CSI Shanghai State-owned Enterprises Traded Open-ended Index Securities Investment Fund* (中國工商銀行股份有限公司—中證上海國企交易型開放式指數證券投資基金)(holding approximately 0.57%), Agricultural Bank of China Limited – CSI 500 Traded Open-End Index Securities Investment Fund* (中國農業銀行股份有限公司—中證500交易型開放式指數證券投資基金)(holding approximately 0.55%), Schroder International Selection Fund (approximately 0.32%), Beijing Tingquan Private Equity Fund Management Co. Ltd.* (北京靈泉私募基金管理有限公司—靈泉新紀元一號私募證券投資基金)(holding approximately 0.30%), Liu Jia*(劉佳)(holding approximately 0.24%) and Shanghai South Shanghai Commercial Real Estate Company Limited*(上海南上海商業房地產有限公司)(holding approximately 0.22%), all of which are Independent Third Parties. Therefore, as at the Latest Practicable Date, for the purpose of the SFO, Bailian Group is deemed to be interested in the 224,208,000 Domestic Shares held by Shanghai Bailian and Shanghai Bailian is a party acting in concert with Bailian Group.
2. As at the Latest Practicable Date, the entire shares of Alibaba (China) Technology Co., Ltd.* (阿里巴巴(中國)網絡技術有限公司) are held as to approximately 57.59% by Taobao (China) Software Co., Ltd.* (淘寶(中國)軟件有限公司)(an indirect wholly-owned subsidiary of Alibaba Group Holding Limited*(阿里巴巴集團控股有限公司)), held as to approximately 35.75% by Zhejiang Tmall Technology Company Limited*(浙江天貓技術有限公司) and held as to approximately 6.66% by Alibaba.com China Limited*(阿里巴巴網絡中國有限公司)(both of which are wholly-owned or controlled by Alibaba Group Holding Limited*(阿里巴巴集團控股有限公司)), respectively. Alibaba (China) Technology Co., Ltd.* (阿里巴巴(中國)網絡技術有限公司) holds 201,528,000 shares of the Company, representing 18.00% share capital of the Company.
3. Wong Sun Hing Investment Company Limited is a private company incorporated in Hong Kong with limited liability, holds approximately 2.82% equity interest in the Company as at the Latest Practicable Date.
4. The H Shareholders are public Shareholders.
5. Figures shown above are calculated assuming that no other Shares will be issued or transferred after the Latest Practicable Date until the completion of the Domestic Share Subscription.
6. The Company confirms that it will continue to meet the minimum public float requirements under the Listing Rules immediately after the Domestic Share Subscription.
7. Any discrepancies in this table between totals and sums of amounts listed in the table above are due to rounding.

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As at the Latest Practicable Date, except for the issued 1,119,600,000 Shares, the Company has no other convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange Shares.

4. Use of proceeds

The Company expects to raise gross proceeds of approximately RMB360 million (equivalent to approximately HK\$396 million) from the Domestic Share Subscription and the net proceeds (after deduction of relevant costs and expenses) from the Domestic Share Subscription is expected to be approximately RMB357 million (equivalent to approximately HK\$393 million). The net Subscription Price per new Domestic Share (being the net proceeds per Subscription Share) is RMB0.99 (equivalent to approximately HK\$1.09).

The Company intends to apply the net proceeds from the Domestic Share Subscription, after deduction of relevant costs and expenses, for the following purposes: (a) approximately 85% (approximately RMB303 million) of which will be used for the business ecological transformation, which primarily comprises: (i) approximately 39.2% (approximately RMB140 million) and 35% (approximately RMB125 million) will be used for the conversion of supermarket and hypermarket outlets, respectively, including but not limited to upgrading product categories, vigorously developing key categories and proprietary brand; tailoring store layout to local conditions, developing boutique supermarkets and community shopping centres among other innovative formats; advancing store integration and increasing the density of stores outlet deployment in strategic areas; enhancing supply chain management and increasing the proportion of direct procurement; (ii) approximately 10.8% (approximately RMB38 million) will be used for driving digital transformation; upgrading digital systems for merchandising, procurement, logistics, finance, internal supply chains, and digital store systems, thus improving the Group's standardization and management efficiency; and (b) approximately 15% (approximately RMB54 million) of which will be used to enhance general working capital of the Group.

Among other things, in terms of the expected timeline in utilizing the relevant net proceeds for the business ecological transformation, subject to the Company's business development plan or market conditions, the Company intends to invest the relevant net proceeds (i) in the conversion of supermarket and hypermarket outlets of the Company from the Completion of the Domestic Share Subscription up to 2026; and (ii) in the promotion of the Company's digitalization transformation from the Completion of the Domestic Share Subscription up to 2026. During the above period, the Company may adjust the progress of the use of net proceeds accordingly to meet the specific needs of its actual operations.

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5. Reasons for and benefits of the Domestic Share Subscription

The Board (including the members of the Independent Board Committees whose views have been set out in the letters from the Independent Board Committees in this circular having considered the advice from the Independent Financial Advisor, but excluding Mr. Pu Shao-hua, Ms. Zhang Hui-qin, Mr. Chong Xiao-bing, Ms. Zhang Shen-yu and Ms. Yang Qin, being the Directors who had abstained or shall abstain from voting on the relevant Board resolutions and providing on views on the matters) is of the view that the Domestic Share Subscription will provide necessary financial support for the potential reform, transformation and future sustainable development of the Company, and Bailian Group will be able to support the Company's long-term business development in a more efficient and flexible manner and to promote the Company's strategic transformation, which will in turn enable the Company to create greater value to Shareholders as a whole. The replenishment of working capital will enhance the capital strength of the Company and effectively broaden the channels of capital reserve to cope with possible fluctuations in the industry in the future. At the same time, the issue of Subscription Shares and the Domestic Share Subscription will effectively reduce the debt-to-assets ratio of the Company, optimise the capital structure, improve the overall financial position of the Company and lower the financial risks.

As such, the Board (including the members of the Connected Transaction IBC and Whitewash Waiver IBC, whose views are set out in the letter from the Connected Transaction IBC and letter from the Whitewash Waiver IBC, respectively, but excluding Mr. Pu Shao-hua, Ms. Zhang Hui-qin, Mr. Chong Xiao-bing, Mr. Zhang Shen-yu and Ms. Yang Qin, being the Directors who had abstained or shall abstain from voting on the relevant Board resolutions and providing on the views on the matters) consider that Domestic Share Subscription (including the Share Subscription Agreement and transactions contemplated thereunder, and the Specific Mandate) are fair and reasonable, on normal commercial terms, and although not in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole.

Prior to contemplating the Domestic Share Subscription, the Company also considered alternative financing options, including debt financing, as well as other equity financing methods such as open offer and rights issue.

(a) Debt Financing

Should the Company opt for debt financing, (i) the Company will incur additional interest expenses and subject to pressure on interest and principal payments to a certain extent; (ii) the gearing ratio would increase, potentially leading to increased financial and operational risks. Consequently, the Board considers that the debt financing would be an inappropriate choice for fund raising.

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(b) Other Equity Financing Methods

In the case of other equity financing such as open offer and rights issues, (i) the process is time-consuming and the outcome is highly uncertain, influenced by market conditions and the share price performance of the Company, and extra time may be required for the lengthy negotiation process with potential commercial underwriters. Conversely, the Domestic Share Subscription is quicker, and the capital strength of Bailian Group is solid, ensuring a high certainty of the funds raised; (ii) the costs are higher, including but not limited to other additional costs such as underwriting commissions and the preparation of application documents. Therefore, the Board also considers other equity financing such as open offer and rights issues currently infeasible.

In summary, compared to other financing methods, the Board believes the issuance of Subscription Shares offers a viable financing choice that allows the Company to raise sufficient funds quickly and at lower costs.

6. Recent fund raising

The Company has not conducted any fund raising activities through any issue of equity securities within the 12 months immediately prior to the Latest Practicable Date.

7. Proposed amendments to the Articles of Association

The Board proposed to make certain amendments to the Articles of Association, to take effect subject to and upon completion of the Domestic Share Subscription, in order to reflect the latest registered capital and shareholding structure of the Company as a result of the issue of the Subscription Shares.

- (1) The current provisions in the Articles of Association proposed to be amended state that:-

(a) Article 21

When the Company was established, it issued 415,000,000 shares of common stock, including:

- (1) Friendship Group subscribed for 211,640,000 shares;
- (2) Shanghai Industrial Commerce subscribed for 131,683,000 shares;
- (3) Mitsubishi subscribed for 41,900,000 shares;
- (4) Wong Sun Hing subscribes for 17,557,000 shares;
- (5) Shanghai Liding subscribed for 12,220,000 shares.

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Until the effective date of the Articles of Association, The Company shall issue a total number of 1,119,600,000 ordinary shares, which consist of:

- (1) 715,397,400 domestic shares (289,661,400 shares to be held by Bailian Group Co. Ltd.; 224,208,000 by Shanghai Bailian Group Co., Limited; and 201,528,000 by Alibaba (China) Technology Co.,Ltd.), and 31,602,600 non-listed foreign shares (31,602,600 by Wong Sun Hing);
- (2) total number of 372,600,000 overseas-listed foreign shares.

(b) Article 22

The registration capital of the Company is RMB1,119,600,000 Yuan.

- (2) Subject to the approval by Shareholders at the EGM and the registration and filing with the relevant PRC government authorities, and upon completion of the Domestic Share Subscription, the relevant provisions of the Articles of Association set out in (1) above will be replaced in their entirety with the following:-

(a) Article 21

When the Company was established, it issued 415,000,000 shares of common stock, including:

- (1) Friendship Group subscribed for 211,640,000 shares;
- (2) Shanghai Industrial Commerce subscribed for 131,683,000 shares;
- (3) Mitsubishi subscribed for 41,900,000 shares;
- (4) Wong Sun Hing subscribes for 17,557,000 shares;
- (5) Shanghai Liding subscribed for 12,220,000 shares.

Until the effective date of the Articles of Association, The Company shall issue a total number of 1,479,600,000 ordinary shares, which consist of:

- (1) 1,075,397,400 domestic shares (649,661,400 shares to be held by Bailian Group Co. Ltd.; 224,208,000 by Shanghai Bailian Group Co., Limited; and 201,528,000 by Alibaba (China) Technology Co.,Ltd.), and 31,602,600 non-listed foreign shares (31,602,600 by Wong Sun Hing);
- (2) total number of 372,600,000 overseas-listed foreign shares.

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(b) Article 22

The registration capital of the Company is **RMB1,479,600,000** Yuan.

The proposed amendments to the Articles of Association are subject to approval by the Shareholders by way of special resolution at the EGM and the registration and filing with the relevant PRC government authorities.

8. Intention of Bailian Group regarding the Company

Bailian Group shares the view of the Board (including the members of the independent Board Committees whose views have been set out in the letters from the Independent Board Committees in this circular having considered the advice from the Independent Financial Advisor, but excluding Mr. Pu Shao-hua, Ms. Zhang Hui-qin, Mr. Chong Xiao-bing, Ms. Zhang Shen-yu and Ms. Yang Qin, being the Directors who had abstained or shall abstain from voting on the relevant Board resolutions and providing on views on the matters) as disclosed in the paragraph headed “Reasons for and Benefits of the Domestic Share Subscription” above, in which it is mentioned that the Domestic Share Subscription is in the interests of the Group and the Shareholders as a whole.

Bailian Group intends to allow the Company to continue the existing business of the Company upon the completion of the Domestic Share Subscription. Bailian Group has no intention to introduce any major changes to the existing business of the Company (including any redeployment of the fixed assets of the Company). It is also the intention of Bailian Group that the employment of the existing employees of the Group should be continued following Completion except for changes which may occur in the ordinary course of business.

9. Listing rules implications

As at the Latest Practicable Date, Bailian Group and its subsidiary, Shanghai Bailian, directly and indirectly holds an aggregate of 513,869,400 Domestic Shares, representing approximately 45.90% of the Company’s total issued share capital. According to the Listing Rules, Bailian Group constitutes a controlling shareholder of the Company and hence, a connected person of the Company. Accordingly, the Domestic Share Subscription constitutes a connected transaction of the Company and is subject to reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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10. Implications under the Takeovers Code and application for Whitewash Waiver

As at the Latest Practicable Date, Bailian Group and its subsidiary, Shanghai Bailian, directly hold 289,661,400 Domestic Shares and 224,208,000 Domestic Shares, representing approximately 25.87% and approximately 20.03% of the Company's total issued share capital, respectively, pursuant to which, Bailian Group, Shanghai Bailian and parties acting in concert with any of them under the Takeovers Code collectively hold an aggregate of 513,869,400 Domestic Shares, representing approximately 45.90% of the Company's total issued share capital. In addition, according to the Equity Entrustment Agreement, Bailian Group entrusted the management of 254,160,000 Domestic Shares held by it to Shanghai Bailian, representing approximately 22.70% of the total issued share capital of the Company, and Shanghai Bailian shall exercise the Shareholder's rights of the entrusted Domestic Shares, except for the assets earning right and the disposal right, in accordance with the Articles of Association.

After completion of the Domestic Share Subscription and assuming no other changes to the issued share capital of the Company prior to Completion, Bailian Group, Shanghai Bailian and parties acting in concert with any of them under the Takeovers Code will together be interested in a total of 873,869,400 Domestic Shares, representing approximately 59.06% of the Company's enlarged issued share capital. As the Domestic Share Subscription will cause an increase in the shareholding of Bailian Group, Shanghai Bailian and parties acting in concert with any of them under the Takeovers Code in aggregate from approximately 45.90% to approximately 59.06%, pursuant to Rule 26.1 of the Takeovers Code, the issue of Subscription Shares to Bailian Group will give rise to an obligation on part of Bailian Group and Shanghai Bailian to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by Bailian Group, Shanghai Bailian and parties acting in concert with any of them unless the Whitewash Waiver is obtained from the Executive.

Completion of the Domestic Share Subscription is subject to, under the Takeovers Code, among other things, the granting of the Whitewash Waiver by the Executive and approval by at least 75% and more than 50% of the votes cast by the Independent Shareholders either in person or by proxy by way of poll in respect of the Whitewash Waiver and the Domestic Share Subscription (including the grant of the Specific Mandate and the approval of the Share Subscription Agreement), respectively, at the EGM. If the Whitewash Waiver is not granted, the Share Subscription Agreement shall not take effect and the Domestic Share Subscription will not proceed.

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On 6 June 2024, an application was made on behalf of Bailian Group and Shanghai Bailian to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it is minded to grant the Whitewash Waiver, subject to approval by at least 75% on the Whitewash Waiver and more than 50% on the Domestic Share Subscription (including the Share Subscription Agreement and the transactions contemplated thereunder, and the Specific Mandate) of independent votes by Independent Shareholders in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver will be proposed by way of resolution to be passed by at least 75%, and the Domestic Share Subscription (including the Share Subscription Agreement and the transactions contemplated thereunder, and the Specific Mandate) will be proposed by way of resolution(s) to be passed by more than two-third, in each case of the vote that are cast either in person or by proxy at the EGM. Bailian Group, Shanghai Bailian and parties acting in concert with any of them and their respective associates and any other Shareholders who are interested or involved in the Domestic Share Subscription (including the grant of Specific Mandate and approval of Share Subscription Agreement) and/or the Whitewash Waiver will be required to abstain from voting in respect of the resolution(s) to approve the Domestic Share Subscription (including the Share Subscription Agreement and the transaction contemplated thereunder, and the Specific Mandate) and the Whitewash Waiver at the EGM.

Immediately after Completion (if materialised) of the Domestic Share Subscription, whereby the Executive would have had granted the Whitewash Waiver and the Independent Shareholders would have had approved the Domestic Share Subscription (including the Share Subscription Agreement and the transaction contemplated thereunder, and the Specific Mandate) and the Whitewash Waiver at the EGM, and assuming no other changes to the issued share capital of the Company, the maximum potential holding of voting rights by Bailian Group, Shanghai Bailian and parties acting in concert with any of them resulting from the Domestic Share Subscription will exceed 50% of the voting rights of the Company and Bailian Group, Shanghai Bailian and parties acting in concert with any of them may further increase their holding without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

LETTER FROM THE BOARD

As at the Latest Practicable Date:

- (i) save for the Share Subscription Agreement, during the six months immediately prior to the date of the Announcement and up to and including the Latest Practicable Date, none of Bailian Group, Shanghai Bailian and parties acting in concert with any of them had sold or purchased any shares of the Company, acquired or entered into any agreement to acquire any voting rights of the Company or had dealt for value in any relevant securities of the Company (as defined in Note 4 to Rule 22 of the Takeovers Code);
- (ii) during the six months immediately prior to the date of the Announcement and up to and including the Latest Practicable Date, none of the Bailian Group, Shanghai Bailian and parties acting in concert with any of them has entered into or will enter into any disqualifying transactions (as referred to in paragraph 3 of Schedule VI to the Takeovers Code) which may result in the Executive not granting the Whitewash Waiver or any Whitewash Waiver granted being declared invalid;
- (iii) save for the Share Subscription Agreement, none of Bailian Group, Shanghai Bailian and parties acting in concert with any of them acquired or disposed of, or will acquire or dispose of any of the voting rights of the Company during the period from the date of the Announcement to the Completion of the Domestic Share Subscription;
- (iv) apart from the Equity Entrustment Agreement and save as disclosed in the about section headed “Effect on the Shareholding Structure of the Company” in this circular, there are no voting rights in the Company or any rights over Shares owned, controlled or directed by Bailian Group, Shanghai Bailian or any party acting in concert with any of them;
- (v) none of Bailian Group, Shanghai Bailian and parties acting in concert with any of them holds any options, warrants or convertible securities or any derivatives relating to Shares that are not yet exercised;
- (vi) none of Bailian Group, Shanghai Bailian and parties acting in concert with any of them has entered into any agreement in respect of outstanding derivative in relation to the securities of the Company that are not yet exercised;
- (vii) there is no arrangement of the kind (whether by way of option, indemnity or otherwise) as referred to in Note 8 to Rule 22 of the Takeovers Code or that had been entered into any contract, in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company, Bailian Group or Shanghai Bailian;

LETTER FROM THE BOARD

- (viii) none of Bailian Group, Shanghai Bailian and parties acting in concert with any of them has secured any irrevocable undertaking from any person as to whether or not he/she will vote in favour of or against the resolutions approving the Share Subscription Agreement and the transactions contemplated thereunder, the Special Mandate and/or the Whitewash Waiver;
- (ix) save for the Share Subscription Agreement, there is no agreement or arrangement to which Bailian Group, Shanghai Bailian or any party acting in concert with any of them is a party which involves circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Domestic Share Subscription and/or the Whitewash Waiver;
- (x) save for the Subscription Price payable under the Share Subscription Agreement, no other consideration, compensation or benefit in whatever form to the Company has been or will be paid by Bailian Group, Shanghai Bailian or parties acting in concert with any of them to the Company in relation to the Domestic Share Subscription;
- (xi) apart from the Share Subscription Agreement, there is no understanding, arrangement or agreement or special deal (as defined in Rule 25 of the Takeovers Code) between Bailian Group, Shanghai Bailian or parties acting in concert with any of them on the one hand and the Company on the other hand;
- (xii) there is no understanding, arrangement or agreement or special deal (as defined in Rule 25 of the Takeovers Code) between any Shareholders, and (a) Bailian Group, Shanghai Bailian or parties acting in concert with any of them, or (b) the Company, its subsidiaries or associated companies; and
- (xiii) none of the Bailian Group, Shanghai Bailian or parties acting in concert with any of them has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

The Company confirms that the Domestic Share Subscription (including the Share Subscription Agreement and the transactions contemplated thereunder, and the Specific Mandate) and the Whitewash Waiver do not and will not give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules).

LETTER FROM THE BOARD

III. INFORMATION OF THE RELEVANT PARTIES

Information relating to the Group

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

Information relating to Bailian Group

The principal business of Bailian Group covers retail businesses such as theme department stores, shopping centres, hypermarkets, standard supermarkets, convenience stores and professional specialty stores, as well as fields including automobile trading, e-commerce, warehousing and logistics, consumer services and electronic information, etc. Bailian Group is owned as to 71% by Shanghai Municipal State-owned Assets Supervision and Administration Commission, 19% by Shanghai Land (Group) Co., Ltd., and 10% by Shanghai Municipal Finance Bureau.

Information relating to Shanghai Bailian

The core businesses of Shanghai Bailian include department stores, shopping centres, outlet malls and supermarket chains, and its current scope of business covers almost all types of retail business. Shanghai Bailian is a joint stock company listed on the Shanghai Stock Exchange (stock code: 600827/900923) and Bailian Group is the controlling shareholder of Shanghai Bailian with direct and indirect shareholding in aggregate of approximately 53.18%.

IV. EGM

The EGM will be convened to consider and, if thought fit, approve the Domestic Share Subscription (including the Share Subscription Agreement and the transactions contemplated thereunder, and the grant of the Specific Mandate), the Whitewash Waiver and the proposed amendments to the Articles of Association.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Bailian Group and its subsidiary, Shanghai Bailian, directly hold 289,661,400 Domestic Shares and 224,208,000 Domestic Shares, representing approximately 25.87% and approximately 20.03% of the Company's total issued share capital, respectively, pursuant to which, Bailian Group, Shanghai Bailian and parties acting in concert with any of them under the Takeovers Code collectively hold an aggregate of 513,869,400 Domestic Shares, representing approximately 45.90% of the Company's total issued share capital. In addition, according to the Equity Entrustment Agreement, Bailian Group entrusted the management of 254,160,000 Domestic Shares held by it to Shanghai Bailian, representing approximately 22.70% of the total issued share capital of the Company, and Shanghai Bailian shall exercise the Shareholder's rights of the entrusted Domestic Shares, except for the assets earning right and the disposal right, in accordance with the Articles of Association. As at the Latest Practicable Date:

- (1) except for the Equity Entrustment Agreement, there was no voting trust or other agreement, arrangement or understanding entered into by or binding upon Bailian Group or Shanghai Bailian;
- (2) none of Bailian Group or Shanghai Bailian was subject to any obligation or entitlement whereby they had or might have temporarily or permanently pass control over the exercise of the voting rights in respect of their respective shares in the Company to a third party, whether generally or on a case-by-case basis; and
- (3) except for the Equity Entrustment Agreement, it was not expected that there would be any discrepancy between each of the beneficial shareholding interest of Bailian Group and Shanghai Bailian in the Company as disclosed in this circular and the number of shares in the Company in respect of which each of them would control or would be entitled to exercise control over the voting right at the EGM.

Bailian Group, Shanghai Bailian and parties acting in concert with any of them and their respective associates and any other Shareholders who are interested or involved in the Domestic Share Subscription (including the grant of Specific Mandate and approval of Share Subscription Agreement) and/or the Whitewash Waiver will be required to abstain from voting on the resolutions to be proposed at the EGM for approving the Domestic Share Subscription (including the Share Subscription Agreement and the transactions contemplated thereunder, and the Specific Mandate) and the Whitewash Waiver. Save for Bailian Group and Shanghai Bailian none of the Shareholders are required to abstain from voting on the resolutions 1 to 4 proposed at the EGM.

LETTER FROM THE BOARD

The EGM of the Company is to be held at 9:30 a.m. on Tuesday, 27 August 2024 at the Conference Room, 13th Floor, Bailian Central Plaza, No. 1258 Zhen Guang Lu, Shanghai, the PRC. Notice of the EGM, together with the proxy form, are enclosed herein. The proxy form should be completed and returned to the relevant addresses listed on the proxy form in accordance with the instructions printed thereon. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM should you so wish.

The notice of EGM, together with the proxy form, has been despatched to the Shareholders on 31 July 2024.

V. RECOMMENDATION

Your attention is drawn to: (i) the letter from the Connected Transaction IBC set out on pages 27 to 28 of this circular and (ii) the letter from the Whitewash Waiver IBC is set out on pages 29 to 30 of this circular, containing its recommendation to the Independent Shareholders in respect of the Domestic Share Subscription (including the Share Subscription Agreement, the transactions contemplated thereunder and the Specific Mandate) and the Whitewash Waiver and (iii) the letter from the Independent Financial Adviser set out on pages 31 to 57 of this circular, containing its advice to the Independent Board Committees and the Independent Shareholders in respect of the Domestic Share Subscription (including the Share Subscription Agreement, the transactions contemplated thereunder and the Specific Mandate) and the Whitewash Waiver.

The Board (including the members of the Connected Transaction IBC and Whitewash Waiver IBC, whose views are set out in the letter from the Connected Transaction IBC and letter from the Whitewash Waiver IBC, respectively, but excluding Mr. Pu Shao-hua, Ms. Zhang Hui-qin, Mr. Chong Xiao-bing, Ms. Zhang Shen-yu and Ms. Yang Qin, being the Directors who had abstained or shall abstain from voting on the relevant Board resolutions and providing on the views on the matters) consider that the Domestic Share Subscription (including the Share Subscription Agreement and transactions contemplated thereunder, and the Specific Mandate) are fair and reasonable, on normal commercial terms, and although not in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Since Mr. Pu Shao-hua, Ms. Zhang Hui-qin, Mr. Chong Xiao-bing, Ms. Zhang Shen-yu and Mr. Dong Xiao-chun, being the Director at the time of entering into the Share Subscription Agreement, 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 Share Subscription Agreement. Save as disclosed above, none of the other Directors, who were entitled to receive notice of the Board meeting at the time of entering into the Share Subscription Agreement, was required to abstain from voting to approve the resolutions in relation to the Domestic Share Subscription.

The Directors (including the independent non-executive Directors) consider that the proposed amendments to the Articles of Association as described in this circular are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the proposed amendments to the Articles of Association.

VI. ADDITIONAL INFORMATION

Your attention is drawn to the additional information which is also set out in the appendices to this circular.

Since Completion is subject to the fulfilment of the conditions as set out in the Share Subscription Agreement, the Domestic Share Subscription may or may not proceed.

The Whitewash Waiver may or may not be granted by the Executive and if granted, will, among others things, be subject to the approval by at least 75% of the votes cast by the Independent Shareholders by way of poll in respect of the Whitewash Waiver and more than 50% of the votes cast by the Independent Shareholders by way of poll in respect of the Domestic Share Subscription and the grant of the Specific Mandate, respectively, at the EGM. Completion is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders.

Shareholders and potential investors are reminded to exercise caution when dealing in the Shares, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

Yours faithfully,

For and on behalf of the Board of
Lianhua Supermarket Holdings Co., Ltd.

Pu Shao-hua

Chairman