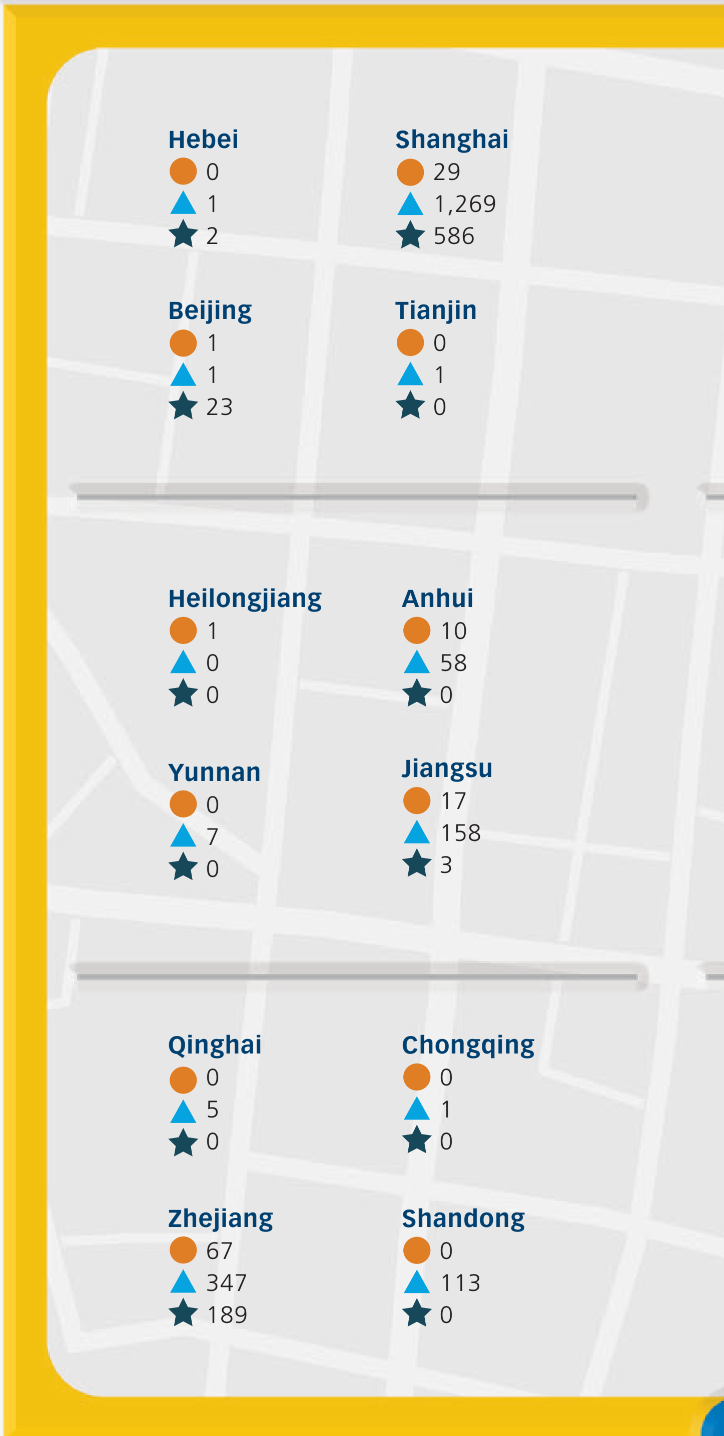
2022 ANNUAL REPORT

Stock Code: 0980

联华超市股份有限公司
LIANHUA SUPERMARKET HOLDINGS CO.,LTD.

Lianhua Supermarket Holdings Co., Ltd. ("Lianhua Supermarket" or the "Company") commenced its business in Shanghai in 1991. In the past 31 years, it has developed into a nationwide retail chain operator with a full range of retail segments, expanding through a combination of direct operation, franchises and merger and acquisitions. As at 31 December 2022, Lianhua Supermarket and its subsidiaries (the "Group") operated a total of 3,352 outlets (excluding those operated by the Company's associated companies) in 24 provinces and municipalities across the nation. The Company has maintained its leading position in the fast moving consumer goods retail industry in the People's Republic of China (the "PRC"). Lianhua Supermarket was the first Chinese retail chain operator to be listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 June 2003.

The Group operates in three main retail segments – hypermarkets, supermarkets and convenience stores, catering for the diverse needs of consumers. These three segments expand under the brand names of "Century Mart", "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik", respectively. In recent years, "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik" have been awarded as one of the "China Outstanding Franchise Brands"（「中國優秀特許品牌」） by the Franchise Committee of China Chain Store & Franchise Association.



Henan
● 8
▲ 7
★ 0

Liaoning
● 0
▲ 0
★ 144

Guangdong
● 0
▲ 3
★ 0

Guangxi
● 3
▲ 237
★ 0

Hunan
● 0
▲ 24
★ 0

Shanxi
● 0
▲ 1
★ 0

Hainan
● 0
▲ 5
★ 0

Hubei
● 0
▲ 2
★ 0

Fujian
● 1
▲ 0
★ 0

Sichuan
● 0
▲ 6
★ 0

Jiangxi
● 0
▲ 2
★ 0

Gansu
● 0
▲ 20
★ 0

● Hypermarket ▲ Supermarket
★ Convenience Store

Lianhua Supermarket operated a total of 3,352 outlets

Contents

Corporate Information

Directors

Executive Director

Mr. Chong Xiao-bing

Non-executive Directors

Mr. Pu Shao-hua *(Chairman)*
Mr. Shi Xiao-long *(Vice Chairman)*
Mr. Xu Hong (Resigned on 28 March 2022)
Mr. Xu Pan-hua
Ms. Zhang Shen-yu
Mr. Dong Xiao-chun
Mr. Wong Tak Hung

Independent Non-executive Directors

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

Board Committees

Audit Committee

Mr. Lee Kwok Ming, Don *(Chairman)*
Mr. Xia Da-wei
Mr. Zhao Xin-sheng
Mr. Dong Xiao-chun

Remuneration and Appraisal Committee

Mr. Xia Da-wei *(Chairman)*
Mr. Shi Xiao-long
Mr. Chen Wei
Mr. Zhao Xin-sheng

Strategic Committee

Mr. Pu Sha-hua *(Chairman)*
Mr. Shi Xiao-long
Mr. Xu Hong (Resigned on 28 March 2022)
Mr. Xu Pan-hua
Mr. Chong Xiao-bing
Ms. Zhang Shen-yu

Nomination Committee

Mr. Pu Sha-hua *(Chairman)*
Mr. Chen Wei
Mr. Xia Da-wei
Mr. Zhao Xin-sheng

Environmental、Social and Governance (ESG) Committee

Mr. Chong Xiao-bing *(Chairman)*
Ms. Zhang Shen-yu
Mr. Lee Kwok Ming, Don
Mr. Chen Wei

Supervisors

Mr. Li Feng *(Chairman)*
Ms. Tang Hao
Ms. Tian Ying-jie

Joint Company Secretaries

Ms. Xu Xiao-yi
Ms. Leung Shui Bing

Authorised Representatives

Mr. Chong Xiao-bing
Ms. Xu Xiao-yi

International Auditor

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

Legal Advisers to the Company

As to Hong Kong laws

Baker & McKenzie

As to PRC laws

Grandall Law Firm (Shanghai)

Investors and Media Relations Consultant

Christensen China Limited

Principal Bankers

Industrial and Commercial Bank of China
Pudong Development Bank
China Merchants Bank

Registered and Business Office

Registered Office in the PRC

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

Place of Business in the PRC

5th to 14th Floors
No. 1258 Zhen Guang Road
Shanghai, PRC

Principal Place of Business in Hong Kong

16th Floor, Methodist Building,
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Wanchai
Hong Kong

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Company Website

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Shareholder's Enquiries

Contact Information of the Company

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Fax: 86 (21) 5279 7976

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Share Information

Listing Place

The Stock Exchange of Hong Kong Limited

Listing Date

27 June 2003

Stock Code

980

Number of H Shares Issued

372,600,000 H shares

Year-end Date

31 December

Results Announcements

Interim Results for 2022 were published on 30 August 2022
Annual Results for 2022 were published on 28 March 2023

Dividends

Interim Dividends: Nil
Proposed Final Dividends: Nil

Major Achievements

January

1. Yuan Jia-jun (袁家軍) (the secretary of CPC Zhejiang Provincial Committee) and Wang Hao (王浩) (the deputy secretary of CPC Zhejiang Provincial Committee and acting governor of Zhejiang Province) visited Zhejiang Nonghua Quality Agricultural By-product Distribution center Co., Ltd. (浙江農華優質農副產品配送中心有限公司), the Smart Fresh Logistics Park under Hangzhou Lianhua Huashang Group Co., Ltd. ("Lianhua Huashang"), to learn about how the company ensured supply and food safety during the holiday.

2. On Chinese New Year's Eve, Lianhua Huashang provided 113,100 "New Year Gift Packs" (新春大禮包) to citizens quarantined due to the pandemic, successfully completing the emergency supply mission assigned by Hangzhou Municipal Committee and Municipal Government.

February

1. Lianhua Huashang became the exclusive food ingredient warehouse supplier for athletes of the 19th Hangzhou Asian Games and the 4th Asian Para Games.

2. Guangxi Lianhua Supermarket Joint Stock Co., Ltd ("Lianhua Guangxi Company") rushed to the fight against the pandemic in Baise, Guangxi. With the support of our headquarters in Shanghai and Lianhua Huashang, Lianhua Guangxi Company collected more than 20,000 sets of daily necessities such as quilt, cushion, blanket, quilt cove at a fast and effective "Lianhua Speed", contributing to the fight against the pandemic and supply guarantee in Baise, Guangxi with "Lianhua Strength".

March

1. In March, in the face of the severe pandemic prevention and control in Shanghai, the party and government teams of the Company set up the "Leading Group for Joint Prevention and Control" and "Supply Guarantee Group for Pandemic Prevention Materials and Living Materials" to ensure vegetable supply to citizens with all its efforts by capitalizing on its supply chain strength and ensure the online supply of commodities for people's livelihood by leveraging the platform advantages of "Bailian to Home". Lianhua Logistics Co. Ltd. ("Lianhua Logistics Company") operated 24 hours a day, and together with the stores, responded quickly to the urgent needs of the community for pandemic prevention materials. On March 19, Shanghai Jing'an District Commercial Committee required the Company to provide 41,000 sets of "Anti-pandemic Packages" within 24 hours, which was the first order to ensure food supply the Company received from the government. The Leading Group for Joint Prevention and Control of the Company immediately organized the implementation of procurement, supply, logistics grouping and subcontracting, and the headquarters organized a hundred employees to the Jiangqiao logistics base of Lianhua Logistics Company that night to work with those in Jiangqiao logistics base. 41,000 sets of "Anti-pandemic Packages" were successfully delivered after their 24 hours' continuing hard work.

2. Lianhua Guangxi Company was awarded "Liuzhou Advanced Enterprise in 2021" (2021年度柳州市先進企業) by Liuzhou Municipal Government and "Demonstration Unit for Safe Consumption" (放心消費創建示範單位) by Liuzhou Municipal Administration of Market Supervision.

3. Lianhua Huashang held the Lianhua Huashang Blood Donation Month under the theme of "Welcoming the Asian Games with Blood Donation and Love, Connecting Lianhua with One Heart" (獻血獻愛迎亞運，同心同行聯華情) and inauguration ceremony of "Zhou Zhoujun Blood Donation for Love" (周洲軍凝心聚愛 • 無償獻血) workshop. Pan Lingling (潘凌凌), the deputy director of Zhejiang Provincial Blood Center, awarded a plaque to the workshop on behalf of Zhejiang Provincial Blood Center and Zhejiang Blood Donation Volunteers Association.

April

1. In April 2022, Li Qiang (李強), the then Secretary of Shanghai Municipal Committee, visited Hongkou Football Stadium and the Caojiadu store of Shanghai Lianhua Supermarket Development Co., Ltd. ("Lianhua Supermarket Development"), sending his regards to the frontline staff of Lianhua Supermarket who were working day and night to deliver living materials to the residents of Hongkou District and more than 90 residential communities around Caojiadu.

2. The Company provided ordering and delivery services through telephone, WeChat and SMS channels during the "Bailian Warm Spring Action" (百聯暖春行動), focusing on solving the "urgent, worrying and difficult" issues in respect of living materials for the disabled, the elderly over 80 years old living alone and groups in special difficulties. The total number of incoming lines was 4,839, with over 2,500 orders completed and nearly 25,000 items delivered, and the exposure of the Warm Spring Action in mainstream media reached 8.97 million viewers.

3. 20 Hangzhou stores of Lianhua Huashang officially launched the digital RMB payment acceptance business, allowing its Whale-Choice online digital RMB business to access Agricultural Bank of China.

4. Zhu Congjiu (朱從玖), the vice governor of Zhejiang Province, investigated the construction of the exclusive warehouse of food ingredients for athletes of the Hangzhou Asian Games (Asian Para Games) in the Smart Fresh Logistics Park of Lianhua Huashang. He also visited Lianhua Whale-Choice Lakeside Store of Lianhua Huashang to learn about the advancement of digital RMB pilot work.

May

1. On May 31, Gong Zheng (龔正), Shanghai Mayor, visited the Huangpu Xinyuan store of Shanghai Century Lianhua Supermarket Development Co., Ltd. ("Century Lianhua") to investigate the anti-pandemic work to ensure supplies.

2. Lianhua Huashang, together with Zhejiang Nutrition Society, combined with the hot spots of the National Nutrition Week, built the "Food Education Base" (食育教育基地) of Lianhua.

3. All stores of Anhui Century Lianhua Development Co., Ltd. ("Lianhua Anhui Company") provided material support for the fight against the pandemic in Meilong Town, Shanghai on 19 May, and the supply guarantee task was successfully completed with the joint efforts of our elite employee teams.

4. Shanghai Chongming Hualian Supermarket Co., Ltd. undertook the work to ensure supplies for more than 350,000 households in all the 16 townships of the Chongming District, Shanghai during the epidemic prevention and control period in 2022.

June

1. The Leading Group for Joint Prevention and Control of the Company fully mobilized the resources, coordinated various segments, and promoted work through multiple channels. Government supply guarantee teams cooperated with the district governments to supply citizens with gift packages and pandemic prevention supplies; enterprise supply guarantee teams worked with enterprises, public institutions and mobile cabin hospitals to provide protective clothing, sleeping bags and other pandemic prevention materials; and segment supply guarantee teams served surrounding streets and communities with fruits and vegetables, livelihood supplies, etc. During the second quarter, the Company ensured the supply of anti-pandemic living materials worth RMB810 million.

2. The Xijia Plaza store of Century Lianhua, the first "Metaverse" concept store of Lianhua Huashang, was opened.

July

1. In July 2022, the Company was awarded the banner of "Safeguard People's Livelihood During the Pandemic Prevention and Control and Assume Responsibility as a State-owned Enterprise" issued by the Shanghai Jing'an District Commerce Committee.

2. The Company's themed IP activity — "Lighting up Dream Dinner Season Three" (點亮夢想晚餐第三季) covering the areas of Shanghai, Zhejiang, Jiangsu, Anhui and Guangxi, achieved a total of 2.08 million store visits, representing a year-on-year increase of 96%, adding 111,000 new members, representing a year-on-year increase of 160%.

3. The Chaohu store operated by Lianhua Anhui Company has become the Living Material Security Unit of the Chaohu Bureau of Commerce, and was awarded the "Anhui Tax Payment Green Credit Card – Grade A Taxpayer for Three Consecutive Years" (安徽納稅信用綠卡 — 三連A) and the title of "Level A Rating for Labor Security Integrity" (勞動保障誠信等級評價A級) issued by Chaohu City.

August

1. The Cashier Class of the Qingchun store of Lianhua Huashang under the Flagship Shop League Branch of the League Committee of Lianhua Huashang was recognized as "One-star National Youth Civilization Unit" by the Central Committee of the Communist Youth League.

2. Lianhua Huashang was honored as the "Leader in Efficiency Per–Mu" (畝均效益領跑者) of Zhejiang Province in 2022 at the Provincial Service Industry High-quality Development Conference held by the CPC Zhejiang Provincial Committee and Zhejiang Provincial Government.

3. Lianhua Huashang was awarded "Exemplary New Retailer in Hangzhou" by the Hangzhou Bureau of Commerce at the opening ceremony of the 9th China (Hangzhou) International E-commerce Expo in 2022.

4. The "Aigou Shanghai" (愛購上海) e-coupons have been vigorously promoted, and all business segments and stores of the Company participated in both online and offline activities. A total of 594 stores participated in the four rounds of coupon distribution, with a total of 1,566,200 coupons certified, achieving sales of RMB156.4 million, and receiving government grants of RMB58.93 million. The number of e-coupons used accounted for 6.75% of the total amount distributed for the city.

September

1. The "Pudong Supply Security Team" (浦東保供團隊) in the second zone of the Hypermarket Operation Centre (Shanghai) of the Company was awarded the title of "Pioneer Workers of Shanghai City" (上海市工人先鋒號) by Shanghai Federation of Trade Unions in 2022.

2. The "new supermarket 3.0" model store of Lianhua Supermarket Development has officially opened in Xinzha store, Shanghai. We set up fresh selected supermarkets for consumers near their homes, enhancing the quality and style of Lianhua's products; improve the rate of fresh standard products, the proportion of 3R products, self-owned products and imported products, thereby developing our own specialty categories, and gradually establish visual usage standards of the brand to help build a 15-minute community life circle.

3. On 8 September, a team led by Zhang Wei (張為), a member of the Standing Committee of the Shanghai Municipal Party Committee and Deputy Mayor, visited Lianhua Logistics Company to learn about our contingency reserve capacity and our capability of ensuring supplies as a large-scale logistics enterprise.

October

1. The Taizhou store of Lianhua Supermarket (Jiangsu) Co., Ltd. ("Lianhua Jiangsu Company") undertook the contingency commodities supply work in Hailing District, Taizhou City for more than 10 days, providing 25,645 commodities worth RMB928,500 with 55 participants, contributing our efforts to the success of the "encounter action" of the pandemic in Taizhou City.

2. Lianhua Huashang was selected as one of the first batch of supermarket enterprises which launched group buying on TikTok during the internal tests.

3. The Xingwu store of Lianhua Anhui Company was awarded the title of "Food Contingency Supply Network" by Wuhu Food and Strategic Reserves Administration (蕪湖市糧食和物資儲備局) and the title of "Level A Rating for Labor Security Integrity" (勞動保障誠信等級評價A級) by the Bureau of Human Resources and Social Security of Jinghu District, Wuhu City.

4、 The "Red Training Camp" of the Company's party committee was awarded the honorary title of the party building culture brand of the Shanghai SASAC party committee.

November

1. The Company held the "First Igniting Carnival", together with the subsidiaries of Bailian Group Company Limited, and created a large-scale marketing event in Shanghai by incorporating elements of the FIFA World Cup. The event's exposure has reached over 150 million viewers and more than 53.127 million readers, with over 2,000 daily participants at the main venue.

2. The Hanghai Road store in Hangzhou of Lianhua Huashang was awarded the title of "Pioneer Workers of Hangzhou City" (杭州市工人先鋒號) by Hangzhou Federation of Trade Unions.

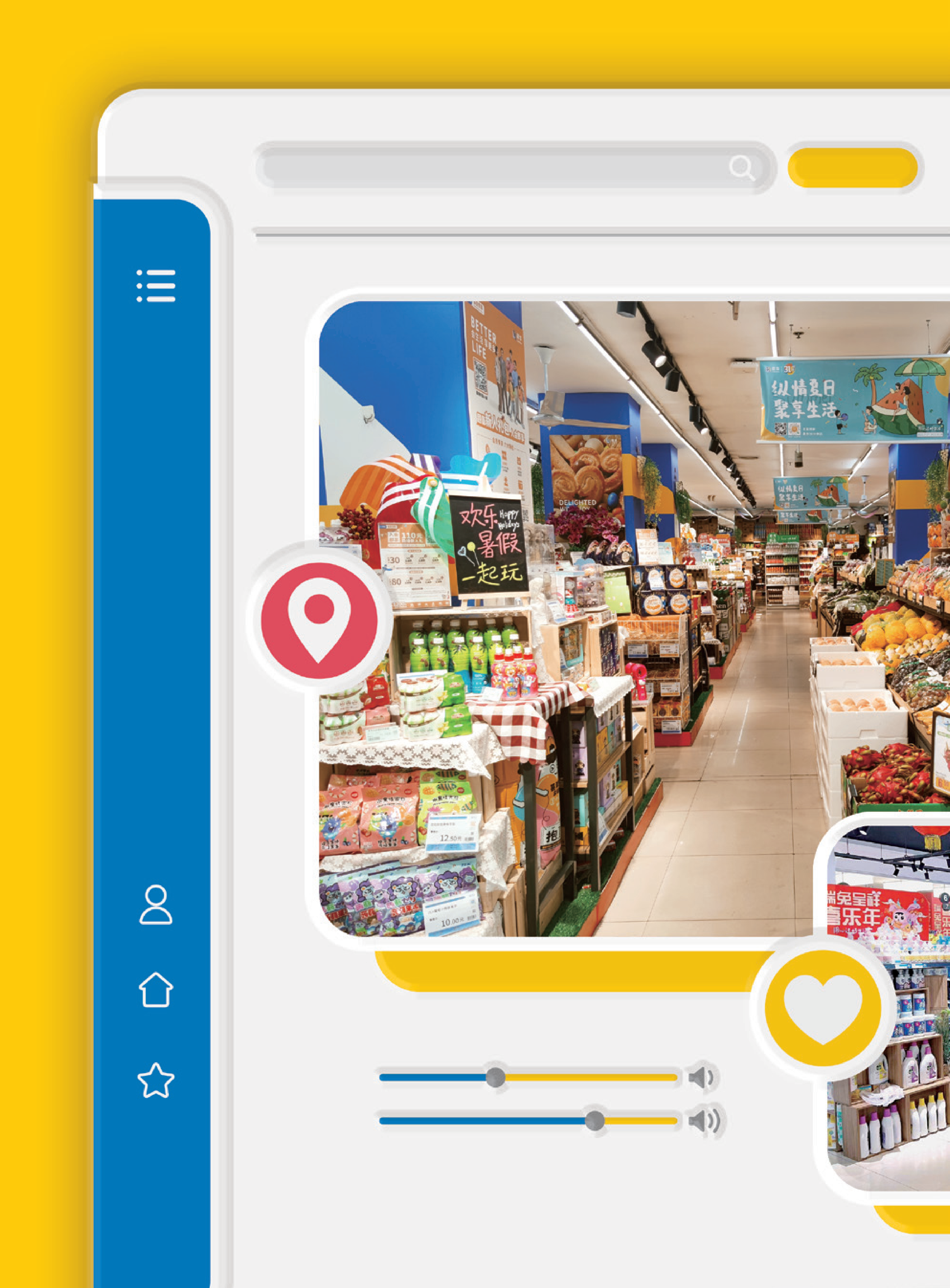
3. As a unit to ensure supplies during the pandemic assigned by the government, upon receiving the notice from the Commerce Bureau of Dantu District, Zhenjiang City, the Dantu store of Lianhua Jiangsu Company immediately contacted the suppliers to check the list of commodities, place urgent orders, and arrange employees to pack commodities overtime at night. During the week-long anti-pandemic action, the Dantu store delivered 2,739 commodities with a total value of RMB263,000.

December

1. The Yiwu Yinyue City (formerly known as Yiwu Tiwer Century City) of Lianhua Huashang held a soft opening after its upgrade and renovation. Focused on locations within a distance of three kilometers and in line with the consumption demands and consumption power of local customers, 111 first stores and influencers' brands with high compatibility were introduced according to local conditions, including 23 first-store brands in Yiwu and 60 first-store brands in regional areas, creating a new business landmark for the local community.

2. In December 2022, the Party Branch of Lianhua Anhui Company was honored the title of "Three-star Party Branch of Non-public Enterprises (Social Organizations) in 2022"(2022年度非公企業(社會組織)3星級黨支部)by the CPC Luyang District Committee of Hefei City(中共合肥市廬陽區委).

3. The Songhong store of Century Lianhua was officially opened. As the first selected store, the Songhong store of Century Lianhua has created a life- and scenario-oriented shopping environment based on consumer demands, implemented category management, optimized commodity structures, and enhanced shopping experience, bringing more "refined" choices for consumers.


欢乐
暑假
一起玩
Happy Holidays
纵情夏日
聚享生活
BETTER LIFE

Connection

Chairman's Statement

I am pleased to present the annual results of Lianhua Supermarket Holdings Co., Ltd. to all shareholders of the Company (the "Shareholders") for the year ended 31 December 2022.

In 2022, the dual impact of the COVID-19 pandemic and the Russo-Ukrainian War has ushered in an era of high inflation, high-interest rates, high debt, high costs and low growth for the global economy. The haze of the impact has shrouded the world, and the risk of economic downturn and even recession continued to rise. The downward pressure on China's economy has increased dramatically due to the repeated outbreak of the COVID-19 pandemic, coupled with the triple pressures of shrinking demand, supply shock and weakening expectations. In 2022, given that the competition in the whole retail industry has become increasingly fierce, retailers faced challenges such as a dramatic decrease in net profit, a decrease in customer flow, frequent store closures and pressure on business performance. However, numerous retailers have made satisfactory progress in their active transformation during this difficult time and continued to expand the online-to-home business, group-buying, hard discount and other new business models and performance models, which provide direction and momentum for hesitant retailers during this challenging time.

During the extraordinary year 2022, the Group achieved astonishing results with dedication and moved forward through breakthroughs. We fought against the pandemic and ensured supply to take our social responsibility, while moved with the times and grew resiliently through focusing on priorities including the promotion of business transformation, the upgrade of terminal store, the acceleration of the online-to-home business and omni-channel operation, digital transformation and promotion, organizational reform and process optimization, the development of ecological supply chain, theme integrated marketing and the iteration of partnership model. In 2022, the overall operation of the Group has improved and recorded a revenue of approximately RMB24,681 million, representing a decrease of approximately 0.3% compared with last year. The gross loss was narrowed by approximately RMB250 million to approximately RMB24 million compared with last year. The loss for the year attributable to Shareholders of the Company was narrowed by approximately RMB211 million to approximately RMB212 million, compared with last year. The loss per share amounted to approximately RMB0.19.

At the end of March 2022, most offline businesses of the Group's stores in Shanghai were temporarily suspended due to the impact of the pandemic. As a state-owned enterprise, the Group took a responsibility for the supply of anti-pandemic materials and commodities for people's livelihood during the pandemic. During the pandemic prevention and control period of more than two months, Shanghai region has served more than 5,400 neighborhood and village committees, and completed the supply of 4.5 million gift packs and over 1.4 million emergency supplies. At the same time, Zhejiang region also actively participated in the regional supply guarantee work. During the pandemic, the Group has completed its supply guarantee work, with a total supply guarantee amount exceeding RMB1 billion, which was not only highly appraised by all walks of life, but also helped Lianhua train a team that is always ready for and able to win the challenge.

In 2022, the Group has also achieved key breakthroughs in the transformation of business segments with outstanding innovation achievements. Yiwu Yinyue City, a large community-based shopping mall, held a soft opening on 28 December 2022 and was official opened on 14 January 2023. With the brand mission of "thriving communities and benefiting neighborhood", Yiwu Yinyue City upholds the concept of "praising daily life, creating a brand new lifestyle to address the needs of local consumers for quality life", and has transformed from providing "necessities of life" to offering "pursuits of life". The first store with community fresh produce 3.0 model under the supermarket segments was first opened in Xinzha store, Shanghai, which clarified the positioning as a "select store", with 80% of goods being new products, imported and proprietary brands.

In 2022, the Group continued to develop the delivery-to-home business. We selected core online categories, launched Taoxianda (淘鮮達), JD one-hour delivery service (京東1小時達) and brought traffic through multiple channels to access users. In addition, we launched the store-houses integration and commenced multi-mode online businesses relying on central storehouses, expanding the delivery-to-home online business to Jiangsu region, Anhui region and Guangxi region, which facilitated the omni-channel development.

In 2022, the Group continued to promote the optimization of supply chain. For room temperature products, we focused on the optimization of product categories and accelerating the iteration of new products to improve comprehensive income. For fresh produce categories, we focused on providing quality products and strengthening the best-selling online and livelihood-based products to improve the operation capacity of fresh produce. We had 16 new direct/joint purchasing bases of fresh produce as compared to last year, focused on the promotion of seasonal base fruits and the best-selling products of new bases such as Aksu apples and mandarine oranges. In addition, we accomplished our self-operated fresh food plan,

increasing the number of SKUs of existing categories and expanding new categories such as soybean products, cooked food and bakery.

In 2022, the Group not only participated in the "Bailian's Welcome Shopping Season"(「百聯迎新購物季」), "Beautiful Daily Life"(「美好日常」)and other promotional activities organized by Bailian Group, but also hosted a series of themed integrated marketing activities, such as the "Blessings of the Auspicious Year of Tiger-2022 CNY"(「福聚虎運年2022CNY」), "Better Life--Thirty-first Anniversary of Lianhua"(「『聚享美好生活』聯華31周年慶」), "Summer Fun Day – Summer Life Festival"(「『縱情夏日，聚享生活』縱夏生活節」), "Blissful Harmony – Mid-Autumn Festival and National Day"(「『花好月圓心相聚』中秋國慶」), and the "First Igniting Carnival of Lianhua" which incorporated elements of the FIFA World Cup. During these marketing activities, leveraging hot topics, community marketing and memberships operations, a total of 1,188 presses were released, with an exposure of 200 million views. The Group's brand image and customer preference have been enhanced through PR communication.

In 2022, the Group continued to deepen and iterate the partnership system in stores, piloted the models including upgrading of "5+1" exceptional stores, fission-like expansion of fresh produce category, "1 to 1" mentor system for store managers, internal franchise and continuously optimized and adjusted the incentive system for partners to ensure the sustainability of the incentive mechanism. By the end of 2022, the number of partnership stores of the Group reached 553.

The year 2022 has already passed. In 2023, with the substantial adjustment and optimization of China's pandemic prevention and control policies, the economic and social operations gradually returns to normal, and China's economy will usher a restorative growth. With the general direction of expanding domestic demands, the development of the retail industry in China will show trends of restoring normality, returning to basics, pursuing value, relying on traffic, improving experience, pursuing health, integrating and reorganizing, and digital upgrading.

We have fully understood the true meaning of "competition" and "cooperation" over the past three years of the pandemic. Looking forward to 2023, Lianhua needs to establish a new consciousness to understand how to operate and reshape consumers expectations for a better life. Lianhua will be more aware of its own weaknesses and growth potential, adapt to and seek changes in an active manner, continue to optimize the iteration and upgrade of categories, firmly promote innovation in business segments, and accelerate digital empowerment in a practical manner.

In 2023, Lianhua will also focus on the strategic priorities of "segment transformation and improvement, category optimisation, systems upgrade + talent development and incentives" (3+1). It will, based in the Yangtze River Delta, leverage advantageous network resources in regions which are dominated by the two principal segments of supermarket and hypermarket to integrate national and regional complementary supply chain system, thus to develop a whole-area sales network integrating online and offline sales, and continue to build a new Lianhua for sustainable development. In 2023, we will embrace the concept of pragmatism and move forward courageously and decisively.

Finally, on behalf of the Board, I would like to extend my respect to our management team and all our employees for their efforts and contribution, as well as to express my heartfelt gratitude to our Shareholders and business partners for their continued support.

By order of the Board
Pu Shao-hua
Chairman

28 March 2023
Shanghai, the PRC


速食调味 Instant

Integrate

Five Years Financial Highlights

Unit: RMB'000 For the year ended 31 December	**2022**	2021	2020	2019	2018
Revenue	**24,681,396**	24,759,659	26,331,155	25,859,198	25,389,082
Hypermarkets	**12,395,766**	13,580,446	15,025,717	14,976,770	14,838,130
– Percentage to turnover (%)	**50.22**	54.85	57.06	57.92	58.44
Supermarkets	**10,690,632**	9,407,111	9,571,907	8,958,752	8,571,730
– Percentage to turnover (%)	**43.32**	37.99	36.35	34.64	33.76
Convenience stores	**1,496,185**	1,500,828	1,576,588	1,829,787	1,896,690
– Percentage to turnover (%)	**6.06**	6.06	5.99	7.08	7.47
Other businesses	**98,813**	271,274	156,943	93,889	82,532
– Percentage to turnover (%)	**0.40**	1.10	0.60	0.36	0.33
Gross profit	**3,382,295**	3,061,729	3,535,291	3,518,840	3,587,399
Gross profit margin (%)	**13.70**	12.37	13.43	13.61	14.13
Consolidated income margin (%) (Note 1)	**23.95**	23.40	24.59	24.97	24.98
Operating (loss) profit (Note 1)	**87,954**	(316,961)	49,569	(32,163)	68,532
Operating (loss) profit margin (%) (Note 1)	**0.36**	(1.28)	0.19	0.12	0.27
(Loss) profit attribute to shareholders of the Company	**(211,747)**	(422,779)	(319,286)	(378,301)	(218,724)
Comprehensive (expenses) profit attributable to shareholders of the Company	**(211,747)**	(422,779)	(319,286)	(378,301)	(218,724)
Net (loss) profit margin (%) (Note 1)	**(0.86)**	(1.71)	(1.21)	(1.46)	(0.86)
(Losses) earnings per share (RMB)	**(0.19)**	(0.38)	(0.29)	(0.34)	(0.20)
Interim dividend per share (RMB) (Note 2)	**–**	–	–	–	–
Final dividend per share (RMB) (Note 2)	**–**	–	–	–	–

Unit: RMB'000 As at 31 December	**2022**	2021	2020	2019	2018
Net assets	**1,185,411**	1,254,397	1,755,094	2,046,506	2,459,926
Total assets	**22,927,846**	22,829,926	23,220,754	23,552,460	17,190,110
Total liabilities	**21,742,435**	21,575,529	21,465,660	21,505,954	14,730,184
Net cash flow	**1,005,489**	183,180	(188,263)	(462,561)	(916,407)
Average (loss) return on total assets (%)	**(0.93)**	(1.84)	(1.37)	(1.86)	(1.28)
Average (loss) return on net assets (%)	**(22.92)**	(34.06)	(19.80)	(19.26)	(10.06)
Gearing ratio (%) (Note 3)	**0.0**	47.8	0.0	0.0	0.00
Liquidity ratio (times)	**0.60**	0.48	0.44	0.65	0.78
Turnover of accounts payables (days)	**59**	54	59	60	62
Turnover of inventories (days)	**43**	40	39	38	37

Notes:

1. Consolidated income margin (%) = (Gross profit + Other revenues + Other income and other gains (losses)/Revenue
   Operating profit (loss) = profit (Loss) before tax—Share of profits of associates
   Operating profit (loss) margin (%) = (profit (Loss) before tax—Share of profits of associates)/Revenue
   Net (loss) profit margin (%) = (Loss) profit attribute to shareholders of the Company/Revenue

2. The total shares of the Company increased to 1,119,600,000 shares from 622,000,000 shares due to the bonus issue effective in September 2011. Meanwhile, the Board did not recommend the payment of the final dividend for the year ended 31 December 2022 at the Board meeting held on 28 March 2023.

3. Gearing ratio (%) = total interest-bearing liabilities/total equity

Management Discussion and Analysis

Operating Environment

In 2022, adhering to the principle of "steadiness" and "seeking progress while maintaining stability", the domestic economy withstood the triple pressure of shrinking demand, supply shocks and weakening expectations under the background of complex and severe international environment. In 2022, China's gross domestic product (GDP) exceeded RMB120 trillion, representing a year-on-year increase of 3.0%. The Chinese consumer market experienced significant ups and downs and showed an obvious V-shaped trend due to the impact of several rounds of pandemic, coupled with the implementation of a series of policies to stabilize the economy and promote consumption. In 2022, China's total retail sales of consumer goods fell to RMB44 trillion, representing a year-on-year decrease of 0.2%.

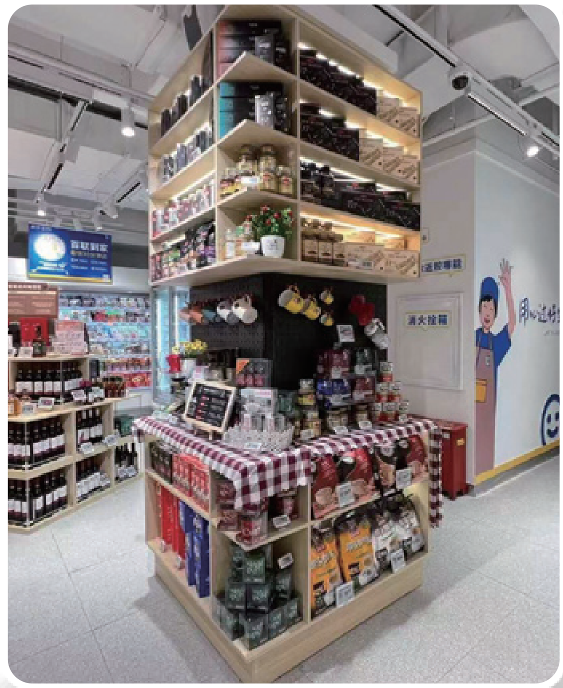
In 2022, Jiangsu, Zhejiang and Anhui provinces all achieved year-on-year growth in GDP. Shanghai's economy showed a V-shaped recovery, declining 0.2% for the year. At the beginning of 2022, Shanghai went through a 3-month severe prevention and control period while controlling the pandemic, which affected the Yangtze River Delta region and the upstream and downstream industries due to the shutdown of production and work, and significantly affected local consumption activities and consumer confidence. To resume development, Shanghai issued a series of policies to stabilize growth, including "21 measures" (21條) to fight the pandemic and help enterprises, "50 measures" (50條) to revive the economy, and "22 measures" (22條) to maintain steady growth. In addition, three rounds of electronic consumption vouchers worth RMB1 billion were distributed to promote market and economic recovery.

81% of the Group's stores were located in the Yangtze River Delta region where the production and daily life had gradually restored and consumer sentiment had recovered with the pandemic receding in the second half of the year. The Group's operating loss narrowed significantly in 2022, mainly due to the improvement in operating profit as the Group actively promoted the construction of its supply chain and cost management. In 2022, the Group continued to maintain high growth in online business by focusing on its operations in the Shanghai region and expanding the markets outside the region. In addition, during the pandemic period in the first half of 2022, Shanghai and Zhejiang regions accomplished the task of ensuring supply in an outstanding manner, and the temporary store closure loss during prevention and control period was largely compensated by sales for ensuring commodities supply.

Financial Review

Revenue

During the period under review, the Group's revenue was approximately RMB24,681 million, representing a year-on-year decrease of approximately RMB78 million, or approximately 0.3%. In the first half of 2022, due to the serious epidemic situation in Shanghai and surrounding areas, especially in Shanghai, most stores were closed for nearly two months. Given that, the Group organized forces in a timely manner, coordinated and implemented social resources, and took measures to ensure commodities supply during the epidemic. The sales for ensuring commodities supply made up for the decline in revenue caused by temporary store closures. In the second half of 2022, the resurgence of pandemic in various places, led to a decrease in offline customer traffic and a slight decrease in sales on a year-on-year basis.



Gross Profit

During the period under review, the Group's gross profit was approximately RMB3,382 million, representing a year-on-year increase of approximately RMB321 million, or approximately 10.5%. During the period under review, the overall gross profit margin of the Group was approximately 13.70%, representing an increase of approximately 1.33 percentage points as compared with the gross profit margin of 12.37% for the corresponding period of last year. The Group continued to promote supply chain optimization, with room temperature commodities focusing on category optimization and accelerating the iteration of new products to enhance the gross profit of sales. Meanwhile, during the period under review, the gross profit margin improved slightly due to a decrease in store promotions as a result of the resurgence of the pandemic.

Other Revenue

During the period under review, the Group's other revenue was approximately RMB2,059 million, representing a year-on-year decrease of approximately RMB197 million, or approximately 8.7%. In the second quarter of 2022, affected by the epidemic, there were some stores temporarily closed in Shanghai and surrounding areas, and the operation of tenants was also largely affected, reflected in the withdrawal of tenants and rental default. To retain tenants and ensure rental incomes, the Group discussed with tenants about rental reduction or exemption in accordance with the principle of sharing the pandemic risk and the government's policies on rental reduction or exemption, and offered tenants certain rental reductions or exemptions. During the period under review, our revenue from merchant solicitation decreased by approximately RMB141 million as compared with the corresponding period of last year. In addition, as a result of the decrease in promotional activities during the epidemic, our revenue from suppliers decreased by approximately RMB62 million as compared with the corresponding period of last year.

Other Income and Other Gains and Losses

During the period under review, the Group's other income and other gains amounted to approximately RMB471 million, representing a year-on-year decrease of approximately RMB5 million, or approximately 1.0%.

Distribution and Selling Expenses

During the period under review, the Group's distribution and selling expenses amounted to approximately RMB4,715 million, representing a year-on-year decrease of approximately RMB126 million, or approximately 2.6%. The Group continued to strengthen comprehensive budget management and standardised control over the entire process of expenses in all business sectors, and network operation expenses continued to decline after excluding the expenses related to epidemic prevention and control. Distribution and selling expenses accounted for approximately 19.1% of revenue, representing a year-on-year decrease of approximately 0.45 percentage point.

Administrative Expenses

During the period under review, the Group's administrative expenses amounted to approximately RMB789 million, representing a year-on-year decrease of approximately RMB85 million, or approximately 9.8%. During the period under review, the Group further enhanced its overall budget management system through ways and means such as system rationalization, system control and budget management enhancement, and optimized the management staffing model and employment mode in a continuous manner. Administrative expenses accounted for approximately 3.2% of revenue, representing a year-on-year decrease of approximately 0.33 percentage point.

Other Expenses

During the period under review, the Group's other expenses amounted to approximately RMB42 million, representing a year-on-year decrease of approximately RMB66 million, or approximately 61.0%, mainly due to the year-on-year increase of about RMB25 million in losses caused by the closure of certain hypermarket and the impairment loss of the right-of-use assets recorded in the same period last year was approximately RMB97 million.

Share of Results of Associates

During the period under review, the Group's share of losses of associates amounted to approximately RMB112 million, representing a year-on-year decrease in profits of approximately RMB154 million. This was mainly due to the losses of approximately RMB249 million of Shanghai Carhua Supermarket Co., Ltd., an associate of the Group, during the period under review. The Group recognised investment loss of approximately RMB112 million on a basis of proportion of investment, representing a year-on-year decrease in investment profits of approximately RMB153 million.

Loss before Tax

During the period under review, the Group's loss before tax amounted to approximately RMB24 million, representing a year-on-year decrease in loss of approximately RMB251 million.

Income Tax

During the period under review, the Group's income tax expense was approximately RMB109 million, representing a year-on-year increase of approximately RMB12 million.

Profit Attributable to Shareholders of the Company

During the period under review, the Group's loss attributable to shareholders of the Company amounted to approximately RMB211,747 thousand, representing a year-on-year decrease in loss of approximately RMB211,032 thousand, or approximately 49.9%. During the period under review, the net loss rate was approximately 0.86%, representing a year-on-year decrease of 0.85 percentage point. Based on the 1,119.6 million shares issued by the Group, the basic loss per share was approximately RMB0.19.

Liquidity and Financial Resources

As at 31 December 2022, the Group's cash and balance at the bank amounted to approximately RMB7,590,630 thousand. During the period under review, the net inflow of the Group's cash and balance at the bank amounted to approximately RMB839,204 thousand, which was mainly the cash inflows from operating activities.

For the year ended 31 December 2022, the accounts payable turnover period of the Group was 59 days, and the inventory turnover period was approximately 43 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 31 December 2022, there were no arbitrage financial instruments in issue by the Group.

Gearing Ratio

As at 31 December 2022, the gearing ratio of the Group (the gearing ratio is calculated by dividing total interest-bearing liabilities by total equity) was 0.0% (31 December 2021: 47.8%).

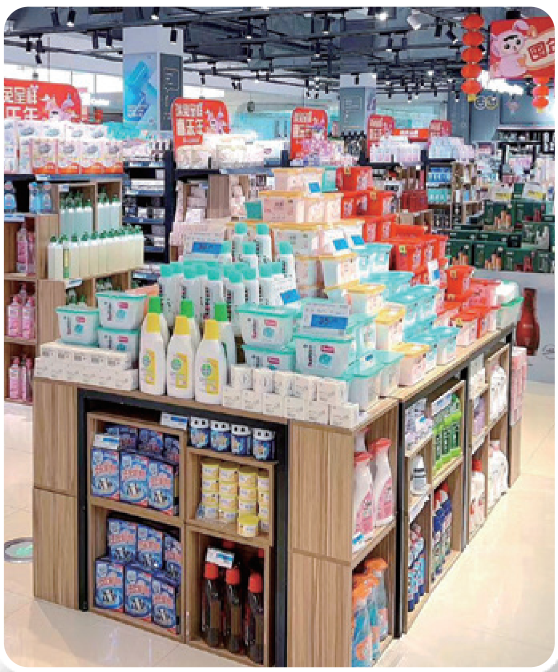
Growth of Each Retail Business

Hypermarkets

During the period under review, the revenue of the hypermarket segment amounted to approximately RMB12,396 million, representing a year-on-year decrease of approximately RMB1,185 million, or approximately 8.7%, accounting for approximately 50.2% to the Group's revenue. During the period under review, some stores of the hypermarket segment were temporarily closed due to the impact of pandemic prevention and control measures in Shanghai for nearly two months, coupled with recurrent outbreaks in other regions, resulting in a decrease in the store traffic and a year-on-year decrease in the revenue.

During the period under review, the hypermarket segment recorded a gross profit of approximately RMB1,759 million, representing a year-on-year increase of approximately RMB92 million. Gross profit margin increased by approximately 1.91 percentage points year on year to 14.19%. During the period under review, the increase in gross profit margin was attributable to factors including the optimized category portfolio of goods at room temperature, the reinforced efforts in cultivation of the best-selling online and livelihood-based fresh produce categories, the improved operational capabilities in terms of fresh produce and the increased direct/joint purchase bases of fresh produce. The hypermarket segment recorded a consolidated income of approximately RMB3,310 million, representing a year-on-year decrease of approximately RMB113 million, mainly due to the rental income decreased by approximately RMB127 million year on year as a result of the pandemic. The consolidated income margin increased 1.49 percentage points year on year.

During the period under review, the aggregate of distribution and selling expenses and administrative expenses of the hypermarket segment amounted to approximately RMB2,945 million, representing a year-on-year decrease of RMB318 million. The standardized process throughout the operation helped to effectively reduce the operating costs. At the same time, the capital investment in promotion was gradually reduced by improving the precise. marketing activities and optimizing the content operation. The hypermarket segment recorded an operating profit of approximately RMB143 million, representing a year-on-year increase in profit of approximately RMB290 million in profit. Operating profit margin increased by 2.23 percentage points year on year to approximately 1.15%.



	As at 31 December	
	2022	2021
Gross Profit Margin (%)	**14.19**	12.28
Consolidated Income Margin (%)	**26.70**	25.21
Operating Profit Margin (%)	**1.15**	-1.08

Supermarkets

During the period under review, the supermarket segment recorded a revenue of approximately RMB10,691 million, representing an increase of approximately RMB1,284 million or approximately 13.6% year on year, accounting for approximately 43.3% of the Group's revenue. During the period under review, most of the supermarket stores in Shanghai were closed for nearly two months due to the pandemic, but those stores took advantage of their close proximity to communities to actively provide commodities supply for communities and enterprises to make up for the sales gap. On the other hand, Hangzhou Lianhua Huashang Group Co., Ltd. ("Lianhua Huashang"), a subsidiary of the Company, has acquired Zhejiang Bailian Supermarket Co., Ltd. (浙江百聯超市有限公司) since January 2022, and recorded a revenue of approximately RMB587 million.

During the period under review, the supermarket segment recorded a gross profit of approximately RMB1,447 million, representing a year-on-year increase of approximately RMB244 million or 20.3%. Gross profit margin increased by 0.75 percentage point year on year to 13.54%. The recorded consolidated income was approximately RMB2,296 million, representing an increase of approximately RMB256 million year on year. The consolidated income margin decreased by 0.21 percentage point year on year.

During the period under review, the supermarket segment recorded an operating profit of approximately RMB164 million, representing an increase of approximately RMB113 million year on year. The operating profit margin increased by 0.99 percentage point to approximately 1.54%.

	As at 31 December	
	2022	2021
Gross Profit Margin (%)	**13.54**	12.79
Consolidated Income Margin (%)	**21.47**	21.68
Operating Profit Margin (%)	**1.54**	0.55

Convenience stores

During the period under review, the convenience store segment focused on building a new brand image of stores, updating the store equipment and facilities, constantly adding the popular elements, and strengthening the fresh produce function. During the pandemic, the convenience store segment in Shanghai was under prevention and control and closed for a long time with limited commodity categories, the stores had less ensure commodities supply business, and the income was affected to a certain extent. The convenience store segment recorded a revenue of approximately RMB1,496 million, representing a decrease of approximately RMB5 million or approximately 0.3% year on year, accounting for approximately 6.1% of the Group's revenue.

During the period under review, the convenience store segment recorded a gross profit of approximately RMB170 million, representing a decrease of approximately RMB6 million or approximately 3.6% year on year. The gross profit margin decreased by 0.38 percentage point to 11.34%. The recorded consolidated income was approximately RMB234 million, representing a year-on-year decrease of approximately RMB17 million, and the consolidated income margin decreased by 1.06 percentage points year on year to approximately 15.66%.

During the period under review, due to the impact of the pandemic, the operating loss of the convenience store segment was approximately RMB25 million, representing a year-on-year increase of approximately RMB22 million from the same period of last year, and the operating profit margin decreased by 1.47 percentage points to -1.69%.

	As at 31 December	
	2022	2021
Gross Profit Margin (%)	**11.34**	11.72
Consolidated Income Margin (%)	**15.66**	16.72
Operating Profit Margin (%)	**-1.69**	-0.22

Capital Structure

As at 31 December 2022, the Group's cash and cash equivalents were mainly held in Renminbi. The Group had no other bank borrowings.

During the period under review, the equity attributable to owners of the Group decreased from approximately RMB1,029,888 thousand to approximately RMB818,141 thousand, which was primarily attributable to the loss of approximately RMB211,747 thousand recorded in the period.

Details of the Group's Pledged Assets

As at 31 December 2022, the Group did not pledge any assets.

Foreign Exchange Risks

Most of the incomes and expenditures of the Group are denominated in Renminbi. During the period under review, the Group did not experience any material difficulties or negative effects on its operations or liquidity as a result of fluctuation in exchange rates. The Group neither entered into any agreements nor purchased any financial instruments to hedge its foreign exchange risk. The directors of the Company (the "Directors") believe that the Group is able to meet its foreign exchange demands.

Share Capital

As at 31 December 2022, the issued share capital of the Company was as follows:

Class of Shares Issued	Number of Shares	Percentage
Domestic Shares	715,397,400	63.90
Unlisted Foreign Shares	31,602,600	2.82
H Shares	372,600,000	33.28
Total	1,119,600,000	100.00

Contingent Liabilities

As at 31 December 2022, the Group did not have any material contingent liabilities.

Development of Sales Network: Enhancement of Business Integration

During the period under review, the Group accelerated the transformation of its business segments through measures such as hypermarket miniaturizing, 3.0 supermarket and franchise model innovation. Affected by the epidemic in 2022, the Group mitigated the impact on new stores, effectively controlled the number of stores closed in the later stage of the epidemic and maintained the growth of outlets through measures such as prudent stores closure and supporting franchisees. During the COVID-19 pandemic, the Group helped small and medium-sized merchants overcome the difficulties and retained those merchants through the rental reduction and exemption policies as well as the rental decrease policy during the contract period. At the same time, the Group accelerated its expansion into the community fresh produce stores and explored strategic project cooperation to stabilize the scale of stores. The renewal rate of existing outlets nationwide reached 90%.

During the period under review, the Group opened a total of 348 new stores, including 161 directly-operated stores and 187 new franchised stores. 298 of the new stores were located in the Yangtze River Delta region, accounting for 86% of the new stores. On the other hand, the Group adapted to changes in the market environment, continued to prudently streamline the stores and improved the overall quality of the physical outlets. As a result, 275 stores were closed, of which 117 were directly-operated stores and 158 were franchised stores.

Region	Business format	New stores opened during the period under review		Stores closed during the period under review	
		Quantity	Operating Area *(sqm)*	Quantity	Operating Area *(sqm)*
Greater East China	Hypermarkets	2	3,002.00	5	32,711.00
	Supermarkets	237	142,838.83	190	53,405.06
	Convenience stores	69	4,436.81	51	3,356.52
North China	Supermarkets	1	100.00	0	0.00
	Convenience stores	0	0.00	3	127.00
Northeast China	Convenience stores	1	22.00	10	550.50
Central China	Supermarkets	8	14,700.00	1	170.00
South China	Supermarkets	25	14,116.00	14	3,334.12
Southwest China	Supermarkets	3	10,600.00	1	120.00
Northwest China	Supermarkets	2	820.00	0	0.00
Total		348	190,635.64	275	93,774.20

Note: The above information is as at 31 December 2022.

During the period under review, the Group opened two new stores for the hypermarket segment in Shanghai, and closed five stores for the segment, including two in Shanghai and three in Zhejiang Province. In terms of the hypermarket segment, we integrated the miniaturized stores into the malls. To be specific, Qiaozi Wan Store became the first store implementing the transformation; the new Qingpu Caoying Store was put into operation in the Qingpu Shopping Mall of Bailian Group; and Wusong Store tried to cooperate with Bailian Group to jointly build a community living centre. As the Group's first outlet selection store, Songhong Road Store broke through limits of the fresh food business through the combination of small physical stores and excellent online stores to keep improving the self-operating capability in fresh produce. The Yinyue Complex store of Lianhua Huashang in Yiwu was transformed into a community-based shopping centre, creating a new lifestyle and addressing consumers' needs for quality life.

During the period under review, we continued to promote outlet expansion as well as store transformation and efficiency enhancement for supermarkets, the core segment of the Group. For the supermarket segment, a total of 276 new stores were opened, including 129 directly-operated stores and 147 franchised stores. 206 stores were closed, including 99 directly-operated stores and 107 franchised stores. The number of stores recorded a net increase of 70 stores. During the period under review, systematic store establishment standards were developed for the supermarket segment. In strict compliance with the standards, we deepened the potential for operation and management improvement, clarified the positioning as "select stores", and improved operation capabilities by optimizing the layout and commodity structures and creating innovative living scenarios. The Group adopted an independent marketing strategy and VI system to create a community fresh produce 3.0 selection model and increase the proportion of sales of new products and imported goods.

During the period under review, 70 new convenience stores were opened, including 30 directly-operated stores, and 40 franchised stores and 64 stores were closed, including 13 directly-operated stores and 51 franchised stores. The number of stores recorded a net increase of six stores. For the convenience store segment, the Group focused its efforts on creating a new brand image for stores and leveraged the information system to improve operations. The Group offered more equipment and facilities in stores with newly added trendy and young elements in its stores to attract younger consumers. At the same time, the Group optimized the core functions of stores. It strengthened the fresh food feature of stores based on the consumption scenarios such as breakfast, lunch, afternoon tea, dinner and late-night snacks, and reshaped the brand of "Lianhua Quik" and recognition of customers, thereby providing consumers with a safe, fashionable, comfortable and warm shopping environment.

As at 31 December 2022, the Group had a total of 3,352 stores, representing a net increase of 73 stores as compared to the end of 2021. Approximately 84.69% of the Group's stores are located in Greater Eastern China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Directly-operated	137	769	351	1,257
Franchised	–	1,499	596	2,095
Total	137	2,268	947	3,352

Note: The above information is as at 31 December 2022.

During the period under review, the Group promoted the omnichannel development through expanding cooperations, attracting customers through multiple channels and strengthening the integration of stores and warehouses. We integrated B2C with delivery-to-home business to optimize goods structure. We optimized and replaced goods based on the offline core lists to create an online core goods list to help improve product quality and efficiency. We expanded online business through cooperations to build a corporate welfare purchase platform. We established our stores on Taoxianda (淘鮮達) and JD one-hour delivery service (京東1小時達), and planned to establish our online stores on one-hour delivery service and half-day service of Tmall Supermarket to promote cooperation through alliance with leading brands. We allocated more efforts into content marketing, attracted customers through multiple channels, and enhanced user reach and attracted traffic through various channels such as communities, live streaming and official accounts. By improving targeted reach and optimizing content operation, we gradually reduced the investment in promotion expenses. We expanded the sources of traffic to form an all-around traffic source integrating offline, community, platform and external channel users, thus developing an online product procurement and operation strategy based on user profiles. Leveraging its central warehouse-based multi-mode online business, the Group has implemented the store-warehouse integration project and supported instant delivery and B2C.

Responsibility of a Stated-owned Enterprise in Ensuring Supply during the Epidemic

During the period under review, the Group's supply chain responded quickly with interconnections across segments, departments and channels, and completed the task of ensuring supplies for the year in an excellent manner. During the pandemic, the Group immediately set up an emergency supply guarantee team to connect with the district, sub-districts and residential communities, and established a grid-based supply guarantee network. With the high coordination among the operation, procurement and logistics, and sufficient support from finance and information

departments, we provided online and offline services and sought all resources to ensure supplies to meet the needs of people in different prevention and control situations. All employees of the Group participated in epidemic prevention and supply guarantee. During the period of the pandemic prevention and control in Shanghai, the Group served more than 5,400 village committees, and completed the supply of 4.5 million gift packs and over 1.4 million guaranteed supplies. The Group provided services for more than 30 mobile cabin hospitals and more than 100 related enterprises, and fulfilled more than 300,000 orders of epidemic prevention materials. At the same time, Lianhua Huashang also actively participated in the regional supply guarantee work. During the year, the Group's total supply guarantee amount exceeded RMB1 billion, and the Group was highly appraised by consumers, Bailian Group and the government!

Supply Chain Layout Optimization

During the period under review, the Group thoroughly rationalized the supply chain structure to optimize and improve the efficiency of the supply chain. The Group sought high-quality accesses through multiple channels, improved the fresh produce supply chain, strengthened the construction of fresh produce bases, and established a bidding mechanism to strictly control the purchase price. As of the end of 2022, the Group had 165 direct and joint procurement bases for fresh produce, representing a net increase of 16 bases. The bases focused on promoting seasonal fruits and developing popular products. For room temperature products, the Group optimized the structure of product supply chain, accelerated the iteration of new products, improved the structure of product categories, and explored new categories and new products with sales potential, thereby building a differentiated product supply chain to meet market demand.

Digital Transformation

During the period under review, the Group ramped up its efforts to promote its digital stores in external areas, accelerating the process of digital transformation projects. Based on its business, the Group focused on the overall planning of structure, cloud infrastructure, business data governance and coordinated ecological development to create a future-proof, flexible, stable, safe, efficient, agile and innovative digital Lianhua. Through the cooperation among three parties, the Group sought the core architecture strategy and promotion plan for digital transformation, overcame the difficulties in software and hardware, and introduced advanced systems and intelligent hardware to build a set of digital store systems that fit Lianhua and is applicable to front-end stores, driven by online and offline consumer experience enhancement and work efficiency improvement, thereby empowering digital operation capabilities, improving store operation efficiency, and enhancing customer experience in stores and at home.

Employment, Training and Development

As at 31 December 2022, the Group had a total of 28,701 employees, increased by 921 employees during the period under review, and the total labour costs amounted to approximately RMB2,347,317 thousand.

During the period under review, the Group consolidated the foundation, optimized and improved the process, and accelerated the process optimization. The Group comprehensively sorted out and reinvented various management systems and operation processes. In 2022, as a part of the system and process reinvention project under the leadership of the leaders of CPC Committee and top management of the Company, departments and offices in the headquarters fully clarified and rationalized management module and management boundary based on responsibilities of posts, department structure and core indicators. Through the seminars on the systems and processes of various departments, we identified and assembled the left-behind systems and management blind spots, which improved the management capability of the Company's systems, made various management rules and evidence-based, and further improved the standardization of management.

During the period under review, the Group benchmarked itself against the best companies in the industry and implemented organizational integration and staffing optimization, and continued to optimize the organizational structure of the headquarters, staffing of various departments and the functions and responsibilities of the posts. With respect to talent pool development, the Group, focusing on the "Eagle Series", revitalized the development of human resources, and made efforts to develop various reserve talent teams to establish a talent supply chain system that meets the future development needs of Lianhua. The supermarket partnership model continued to be optimized to ensure the vitality of the partnership incentive mechanism.

Consumer Experience and Marketing Improvement

During the period under review, the Group continued to carry out theme-based integrated marketing activities from multiple sources. With the help of community marketing and membership operation, the Group achieved brand image and customer preference enhancement through PR communication. The Group hosted a series of themed integrated marketing activities, such as "Blessings of the Auspicious Year of Tiger – 2022CNY" (福聚虎運年－2022CNY), "Better Life-Thirty-first Anniversary of Lianhua" (三十一周年聚享好生活－聯華三十一周年慶), "Summer Fun Day – Summer Life Festival" (縱情夏日•聚享生活－縱夏生活節), "Blissful Harmony – Mid-Autumn Festival and National Day" (花好月圓心相聚－中秋國慶) and "Thanksgiving Gathering Living Wholeheartedly – Thanksgiving Life Festival" (感恩相聚•用心生活-感恩生活節). At the same time, the Group cooperated with JBP suppliers to create diversified consumption scenarios, and carried out online and offline integrated multi-brand marketing activities, such as Lighting Up Dream Dinner (點亮夢想晚餐), and Lianhua Spark Festival (聯華燃動節). Leveraging the hot topics of the World Cup, the Group organized the first Lianhua Spark Festival, which increased traffic and improved exposure. To boost consumption in Shanghai and drive the economy, the municipal government of Shanghai issued four rounds of electronic consumption vouchers. In addition, Lianhua has launched consumption vouchers worth RMB10 million, which, together with the government consumption vouchers, formed a joint force with the Shanghai municipal government to help restore consumer confidence and promote urban economic growth.

Cost Control and Efficiency Improvement

During the period under review, the Group further improved its comprehensive budget management system by means of system streamlining, system control and budget management improvement. The Group streamlined and formulated the cost control process to enhance the awareness and responsibility of the departments responsible for cost control. The Group formulated specific cost control measures for each business line, promptly reviewed the expenses incurred by all business segments and the implementation of measures during the year, and promptly put forward management opinions and suggestions to prepare monthly rolling budgets. During the period under review, the operating and management expenses continued to decline year on year. At the same time, the Group strengthened capital operation and improved the return and value of capital to ensure the safety of capital and a higher return on capital use compared to the average market yield. We actively applied for fiscal and tax subsidies to reduce losses from the pandemic. The Group has been actively promoting the integration of business and finance. The finance department has been cooperating with the business departments to provide financial support for new business development, such as the pooling of funds for franchisees and attempts to build a front-end capital management platform, in a bid to support business development while reducing costs, increasing efficiency and improving output.

Major Risks

The business, financial position, operating results and prospects may be affected by risks and uncertainties relating to the Group's business. The Group incorporates its risk management procedures into the formulation of strategies, business planning, investment decision-making, internal control and day-to-day operation management. The major risks encountered by the Group and the mitigating measures are set out below:

Operational Risk

Factors including slower growth in retail market, increased downward pressure on the economy and changes in consumer habits, have a greater impact on physical stores. With the decrease in birth rate in China, the advantage of demographic dividend is no longer available, resulting in a continuous decline in consumer traffic and a decline in consumer purchasing power. At the same time, due to the weak supply chain integration capability and the lack of obvious effect of category optimisation, the efficiency improvement of fresh food supply chain was insufficient, and the replacement of goods and the introduction of new products were slow, making it difficult to improve comprehensive income. The Group's operations will face greater challenges.

Mitigating Measures

Based on the Yangtze River Delta region, the Group will take advantage of regional advantageous network resources with two major business formats, namely supermarkets and hypermarkets, and integrate the regional and nationwide supply chain system to achieve an integrated online and offline sales network. The Group focuses on the introduction and sales performance of new high-quality products. The Group implements a compulsory commodity elimination system to eliminate the worst-performing products and replace poor-selling products, in order to upgrade commodities to high-quality healthy, convenient products with attractive appearances, accelerating the development of its own brands and helping to improve the performance of its own brands. The Group continues to advance the introduction of suppliers of direct supply, automatic control/purchase and the transition from direct delivery to distribution, and to strengthen cooperation with JBP brands and direct supply partners. The Group strengthens the price negotiation of commodities to improve the comprehensive income of commodities. The Group takes measures to increase the gross profit margin of key categories; and focuses on the product selection and negotiation of the delivery-to-home business to improve the performance of the business. The Group continues to optimize the fresh food supply chain, accelerates the development of self-owned fresh food brands, and take measures to ensure the supply of fresh food. The Group formulates replenishment rules, clarifies the departments responsible for replenishment and develops a full-scenario forecast replenishment model. The Group establishes rules for the entry into warehouse of goods for suppliers, order rules, supply mode rules and performance evaluation rules, and optimise the logistics operation mode to increase the rate of goods entering the warehouse.

Risks of Development of Sales Network

With regular epidemic prevention and control, consumption is changing faster and faster, and with more new businesses entering the market, changes will be exceptionally rapid. At present, most of the stores under business formats of the Company are traditional, and the profitability model for those new stores under each business segment has not yet been well-established, therefore cost of the sales network is relatively high. The Group is subject to the risk of high difficulty in selecting outlet sites and slow development of outlets.

For the existing stores, the Group is faced with the increasing rental cost for the stores located alongside streets, and the rising proportion of rental cost in total costs leads to the risk of further compression of profit margin. Besides, due to the operating performance of the new store falling short of expectations, and the sharp rise in rent after the lease of the store expired, the uncertainty of the lease renewal of the store has been increased.

Mitigating Measures

The Group will pay close attention to large-scale residential communities, community neighbourhood centres and regional centres to achieve the community-centralized development of supermarkets, focusing on promoting the development in five new towns in Shanghai, the Lingang New Area, and Chongming District. Keeping up with market changes, the Group promptly followed the changes in outlets during the pandemic and the regular epidemic prevention and control so as to optimize strategic layout, explore special channels, establish strategic alliances, develop asset-light model and develop key projects. The Group also improved new outlet project approval standards (business district conditions, land conditions, property conditions, etc.), and strictly controlled low-point projects to prevent investment risks.

For the lease renewal of existing stores, the Group will give priority to renewal of leases, deepen the reduction of rents, and lengthen the lease renewal period, so as to improve the stability of store operations and reduce the closing rate.

Risk Related to Merchant Solicitation

Affected by the downward pressure on the economy and the impact of the post-epidemic era, the Group is facing severe tests such as the rising withdrawal rate and vacancy rate with hardware of the stores being old and the customer flow declining, making the rental premium capacity of investment continue to decline. Self-owned merchant brand base of Lianhua is not fully mature, and its ability to plan and implement business solicitation needs to be further improved.

Mitigating Measures

The Group will gradually optimize, rationalize and improve the business process of merchant solicitation, and establish management standards and standards for tenants to continuously reduce the vacancy rate and help stores reduce costs and increase efficiency. Based on the principle of sharing the risk of the pandemic, and considering the requirements of rental reduction and exemption policies, the Company retained tenants and guaranteed investment returns.

Risk related to Employees

There is a lack of clarity in the positioning of the headquarters and the management of the business format, capacity in the management and operation of the functional departments of the head office is insufficient; and there are difficulties such as ageing staff structure, overall low income of staff, insufficient operational capacity of the partners of the stores and insufficient incentive in remuneration. Although the incentive mechanism has covered all employees, it is still different from the intended outcome.

Mitigating Measures

On the one hand, we will continue to promote the organizational integration between the corporate headquarters and the business format headquarters, optimize staffing and process, continuously improve management efficiency, and reduce labour costs; and on the other hand, we will promote all employees to complete the performance appraisal and optimize the performance appraisal of management personnel. We will continue to integrate the organizational structure, promote organizational reform, further define the responsibilities of departments, and clarify the boundaries of departments to improve management efficiency. We will optimize store organization and staffing model to improve personnel efficiency; implement contract-based management for core positions, further optimize the incentive system for performance better than the required level, and will optimize the remuneration management system for front-line employees in stores. We will deepen the iterative calculation of the rights and responsibilities and interests of partners, and accelerate the promotion of the fresh food partnership system and other methods to improve the enthusiasm of employees.

Digital Transformation Risk

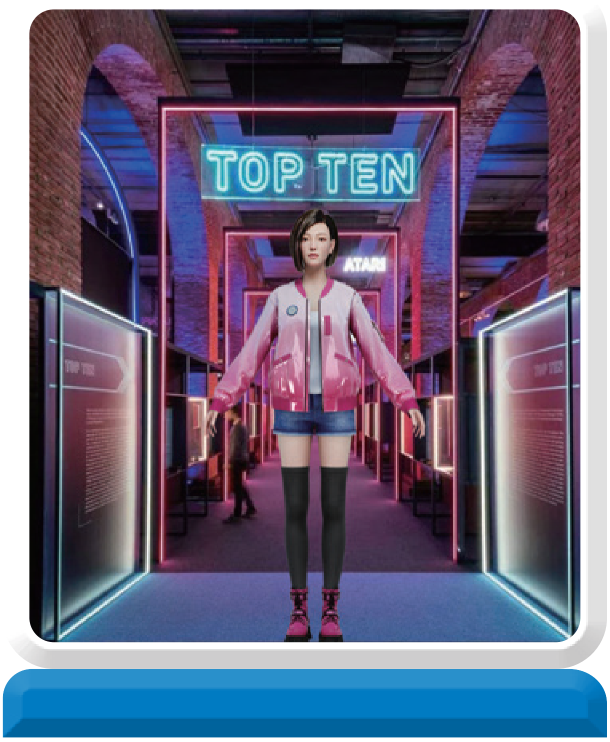
Digitalization is an important constraint on merchandise management, inventory management and promotion management. The existing hardware equipment cannot meet the development of innovative applications, business iteration and rapid deployment. At present, the existing system and new digital system of Lianhua are co-existing within a certain period of time. Those have led to the high cost of overall investment in the digital transformation and prolonged transformation period.

Mitigating Measures

We will continuously implement system iteration, accelerate the establishment of digital stores, formulate and improve plans for go-live of those stores, hardware preparation and training. We will launch the digital transformation project, create a digital transformation blueprint and plan, and implement the same in stages. At the same time, we will improve the team's digital cognition, and leverage the digitalization and digital intelligence to improve operation and management of the enterprise.

Compliance Risk Management

The Corporate Compliance Team of the Group, together with the Group's legal advisers, regularly reviews compliance with relevant laws and regulations, compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), disclosure requirements and compliance with the Group's standards of monitoring practices.



Strategy and Planning

2023 is the first year for the full implementation of the spirit of the 20th National Congress of the Communist Party of China. With the full lifting of the epidemic prevention and control policies, production and living will gradually return to normal, the domestic macroeconomic environment will be improved, and the domestic consumption is expected to recover. The Group believes that, in 2023, with the in-depth implementation of the strategy of expanding domestic demand, and the accelerated construction of the new development paradigm featuring dual circulation, in which domestic and overseas markets reinforce each other, with the domestic market as the mainstay, Chinese government will take active measures to revitalize economy, resume and expand consumption, and create more new consumption scenarios, unleashing new vitality into consumption.

In 2023, the Group will continue with its 3 + 1 annual strategic priorities and five supporting guarantee systems. The Group will focus its strategic efforts on business transformation. We will establish a profit model for the hypermarket segment. For the supermarket segment, we will accelerate the promotion of new supermarkets and the iteration of franchise stores, and achieve an industry-leading position in the delivery-to-home business. The Group will focus on category optimisation as its strategic work. We will optimize supply chain and category structure to improve category consolidation and extension as well as product management mechanism, and accelerate the introduction and replacement of products. The Group will prioritise system upgrade as its strategic work and implement Lianhua's digitalization strategy step by step through upgrading systems for its four centers. The Group will take talent development and incentives as its strategic priority. We will foster our core teams, implement contractual management, and improve the performance appraisal system.

In 2023, with the development and investment promotion as the support and guarantee, the Group will focus on the expansion of network in key cities in key regions across various business segments to stabilize the scale; clarify the investment promotion planning, standardize the investment promotion process and enhance the investment promotion performance management. The Group will take the optimization of internal supply chain as the support and guarantee, establish a unified replenishment team, and standardize the mode of operations in warehouses. The Group will take the enhancement of its overall marketing capability as the support and guarantee, facilitating its overall marketing through multi-dimensional reach. With the support of comprehensive budget management and improvement of management efficiency, the Group will strengthen comprehensive budget control through information system. The Group will take the capability and strong execution of the headquarters as support and guarantee to clarify the responsibilities of the headquarters and improve the efficiency of decision-making, thus strengthening the execution capability of the headquarters.

In 2023, the Group will grasp the development trend and characteristics, seek to make further breakthroughs in business development, with a focus on the sales improvement and proportion of imported goods. Centering on building a "15-minute community life circle", we will comprehensively deepen reform and innovation, promote high-quality development and sustainable growth, and gather the wisdom and strength of all the associates to make practical changes with courage and determination.

Material Investments and Acquisitions

During the year of 2022, we do not have material investments or acquisitions.

Future Plans for Material Investments or Capital Assets

There were no plans for material investments or capital assets as at 31 December 2022. However, in view of the challenging future environment, the Group will continue to look for new business opportunities to supplement and upgrade its existing business.

Environmental Policy, and Performance and Compliance of Laws and Regulations

Details of the environmental policy and performance of the Group in 2022 are set out in the Environmental, Social and Governance Report on page 227 to page 288 of the annual report.

The Group strives to comply in all material respects with the relevant laws and regulations which are regarded as having a significant impact on the Group, and did not encounter material breach or non-compliance during the period under review.

Subsequent Events

From 1 January 2023 to the date of the annual report, there was no non-financial event that may cause material effects on the results of the Company required to be disclosed.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Communication

Profiles of Directors, Supervisors and Senior Management

Executive Directors

Mr. Chong Xiao-bing, aged 58, graduated from Beijing Union University with a college degree majoring in Mechanical Design and Manufacturing. Mr. Chong started his career in 1985. Mr. Chong has been a technician of Far East Instrument Co., Ltd., deputy director of the Electric Instrument Research Office of China Coal Research Institute, and consultant of ICC Business Consulting Company. Mr. Chong has worked at Wumart Group since 1997, and has been the store manager, regional manager, development director, operation director, marketing director, deputy general manager of Beijing Wumei Supermarket Co.,Ltd., vice president of Wumart Group and general manager of East China Region, etc. Mr. Chong has been working in Wumart Group for 22 years, where he has been in charge of purchasing, operation, marketing, investment promotion, planning and other fields. He has rich experience in operation and management of retail chain enterprises. Mr. Chong has strong task management ability, self-confidence and is hardworking with strong execution ability, which can ensure the powerful advancement of target tasks. Mr. Chong served as the executive deputy general manager of the Company from August 2019 to April 2021, and has been an executive director and the general manager of the Company since 23 April 2021.

Non-executive Directors

Mr. Pu Shao-hua, aged 52, bachelor of arts, senior economist, is currently the president and deputy secretary of the Party Committee of Bailian Group Co., Ltd. ("Bailian Group") Mr. Pu served as general manager of Shanghai Ocean Fishery Co., Ltd. and deputy general manager of Shanghai Deep Sea Fishery Co., Ltd., director of foreign economic department of Shanghai Municipal Commission of Commerce, director of foreign economic department of Shanghai Economic Commission, director of the commercial industry management office Shanghai Municipal Commission of Commerce, director of the foreign trade development office of the Shanghai Municipal Commission of Commerce, president and deputy secretary of the Party Committee of Shanghai Fisheries Group Co., Ltd., secretary of the Party Committee, chairman and president of Shanghai Fisheries Group Co., Ltd., secretary of Party Committee, chairman of the board of Bright Dairy Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600597) and other positions. Mr. Pu has been a non-executive director of the Company and the chairman of the Board since 12 November 2021.

Mr. Shi Xiao-long, aged 46, graduate degree, doctor of economics, senior economist, is currently the executive director of the economic operation department of Bailian Group. Mr. Shi served as the deputy director of the strategy research office of Bailian Group, the director of the strategy research office of Bailian Group, the director of the strategy research office and the deputy director of the secretary office of the board of directors of Bailian Group, executive deputy director of the economic operation department of Bailian Group and other positions. Mr. Shi has been a non-executive director of the Company and the vice chairman of the Board since 12 November 2021.

Mr. Xu Hong, aged 49, graduated from the Department of Physics of Fudan University with a bachelor's degree in Science and is a member of the Chinese Institute of Certified Public Accountants (CICPA). He is now working at Alibaba Group Holding Limited ("Alibaba Group") as the Chief Financial Officer. Before joining Alibaba Group, Mr. Xu Hong worked in PricewaterhouseCoopers (PwC) and became a partner of PwC in July 2007. Mr. Xu Hong had been a non-executive director of the Company since 28 August 2018 and resigned as a non-executive director of the Company on 28 March 2022. In the past three years, Mr. Xu Hong had been a director of Suning Holdings Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 002024), Alibaba Health Information Technology Limited (a company listed on the Stock Exchange with stock code HK.0241), Red Star Macalline Group Corporation Ltd. (a company listed on both of the Stock Exchange and the Shanghai Stock Exchange with stock code HK.1528 and 601828 respectively), Meinian Onehealth Healthcare Holdings Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 002044), Alibaba Pictures Group Limited (a company listed on the Stock Exchange with stock code HK.1060) and Sun Art Retail Group Ltd. (a company listed on the Stock Exchange with stock code HK.6808).

Mr. Xu Pan-hua, aged 45, graduated from Shanghai Jiao Tong University with bachelor's degree in engineering and Emory University with MBA degree. He is currently a senior investment director in the strategic investment department of Alibaba Group. He joined Alibaba Group in 2012 and served as an investment manager, a senior investment manager, an investment director and a senior investment director in the strategic investment department. Prior to joining Alibaba Group, he was an assistant auditor at Deloitte Touche Tohmatsu Limited, and then an engineer and senior engineer at Nokia Siemens Networks, and then a senior research manager at Roth Capital Partners. Meanwhile, he is a board director and a member of the Strategic Committee of Sanjiang Shopping Club Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 601116), a board director and a member of the Strategic Committee of New Hua Du Supercenter Co., Ltd. (formerly known as "New Hua Du Supercenter Co., Ltd.", a company listed on the Shenzhen Stock Exchange, stock code: 002264), a board director of Zhejiang Wuhan Wushang Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000501) and a board director of Zhejiang Quzhou Oriental Group Co., Ltd. (a company listed on the NEEQ, stock code: 833374). Mr. Xu Pan-hua has served as a board director of Meinian Onehealth Healthcare Holdings Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002044). Mr Xu Pan-hua has been appointed as a non-executive director of the Company on 28 March 2022.

Ms. Zhang Shen-yu, aged 50, graduated from Shanghai Second Polytechnic University with a bachelor's degree in Business Administration and is currently the secretary of Party Committee and general manager of Shanghai Bailian Group Co., Limited ("Shanghai Bailian", a company listed on the Shanghai Stock Exchange, stock code: 600827). Ms. Zhang served successively as the manager of the market operation department of the department store department of Bailian Group, deputy general manager of the Investment Attraction and Procurement Headquarters of Shanghai Bailian, deputy general manager of Shanghai Youyicheng Shopping Center Co., Ltd. and general manager of Orient Shopping Center Nandong Store of Shanghai Bailian Department Store Management Co., Ltd. From June 2014 to June 2015, she served as the assistant general manager of Shanghai Bailian. From June 2015 to May 2020, she worked with Bailian Omni-channel Electronic Commerce Co., Ltd. as deputy general manager, deputy secretary of Party Committee and general manager successively. She has been the secretary of Party Committee and executive deputy general manager (in charge) of Shanghai Bailian since May 2020, a director of Shanghai Bailian since June 2020 and served as the general manager of Shanghai Bailian since March 2021. Ms. Zhang was appointed as a non-executive director of the Company on 22 June 2020.

Mr. Dong Xiao-chun, aged 58, senior accountant, holds a master's degree in Business Administration from Shanghai Jiaotong University and is currently the financial director and the secretary of the board of Shanghai Bailian. Mr. Dong Xiao-chun worked in Hualian Shangsha and Shanghai Hualian Supermarket Company in his early years. He served successively as the financial director of Hualian Supermarket Co., Ltd., financial director of the department store department of Bailian Group and financial director and secretary of the board of directors of Shanghai Bailian. From September 2011 to June 2015, he served as the financial director of Shanghai Friendship Group Co., LTD (now renamed as "Shanghai Bailian"), and also held the position of the secretary of the board of directors from February 2012. From June 2015 to May 2020, he served as the financial director of Bailian Electronic Commerce Co., Ltd. (renamed as "Bailian Financial Services Co., Ltd." from January 2019). Mr. Dong Xiao-chun has been the financial director of Shanghai Bailian since May 2020 and a director of Shanghai Bailian since June 2020. Mr. Dong Xiao-chun was appointed as a non-executive director of the Company on 22 June 2020.

Mr. Wong Tak Hung, aged 70, is the president of Wong Sun Hing Investment Co., Ltd. (王新興投資有限公司). From 1970 to 1978, Mr. Wong was the manager of Sun Hing Textile Factory (新興毛紡織造廠), and from 1978 to 1990, he was the managing director of Wong Sun Hing Company Limited (王新興有限公司). Since 1990, he has been the president of Wong Sun Hing Group (王新興集團). He has also been the chairman of Shenzhen Xin Xing Entrepreneurship Guarantee Company Limited (深圳新興創業擔保有限公司) since 2003 and he has been the chairman of Guangzhou Wanling Properties Company Limited (廣州市萬菱置業有限公司) since 2004. Since 2005, he has also been the chairman of Wanling Industrial (Guangdong) Company Limited (萬菱實業(廣東)有限公司). Mr. Wong joined the Group in April 1997, and he has over 30 years of business experience.

Independent Non-executive Directors

Mr. Xia Da-wei, aged 70, holds a master's degree in Economics and is a professor and PhD tutor. From July 1985 to September 2000, Mr. Xia served as a teacher, the assistant principal and the vice president of Shanghai University of Finance and Economics. From September 2000 to August 2012, he served as the dean of Shanghai National Accounting Institute. Mr. Xia served as a professor, PhD tutor and director of the academic committee of Shanghai National Accounting Institute since August 2012. Mr. Xia has also served as the vice president of China Industrial Economics Association, the consultant expert of Accounting Standards Committee of the Ministry of Finance, the vice president of Chinese Accounting Association, the vice president of China Association of Chief Financial Officers, the president of Shanghai Accounting Association, the honorary professor of Chinese University of Hong Kong, adjunct professor of School of Management of Fudan University, and member of the expert committee of listed companies of Shanghai Stock Exchange, and he enjoys government subsidies from the State Council. Mr. Xia has served as an independent director of Guotai Junan Co., Ltd. (國泰君安股份有限公司) (a company listed on the Shanghai Stock Exchange and the Stock Exchange with stock code 601211 and HK.2611, respectively) since May 2016; has served as an independent director of Juneyao Airlines Co., Ltd. (上海吉祥航空股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 603885) since July 2017. Mr. Xia has been an external supervisor of Industrial Bank Co., Ltd. (興業銀行股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 601166) from May 2016 to May 2022, has served as an independent director of Yanggo Group Co.,Ltd (陽光城集團股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 000671) from December 2020 to August 2022 and has served as an independent director of Baoshan Iron and Steel Co., Ltd. (寶山鋼鐵股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600019) from April 2013 to September 2019. Mr. Xia has been an independent non-executive director of the Company since September 2004.

Mr. Lee Kwok Ming, Don, aged 65, is a fellow of the Hong Kong Institute of Certified Public Accountants (香港會計師公會) and an associate of the Chartered Institute of Management Accountants in the United Kingdom (英國特許管理會計師公會) and holds a master's degree of science in Business Administration from the University of Bath (英國巴富大學). He is now an independent non-executive director of Bossini International Holdings Limited (a company listed on the Stock Exchange with stock code HK.0592), Want Want China Holdings Limited (a company listed on the Stock Exchange with stock code HK.0151) and Tam Jai International Co. Limited (a company listed on the Stock Exchange with stock code HK.2217). Before his retirement in April 2020, he served as the financial director of Stella International Holdings Ltd. (九興控股有限公司, a company listed on the Stock Exchange with stock code HK.1836). Mr. Lee has held the position of financial director in various listed companies of the Stock Exchange and has more than 30 years of financial management experience and extensive experience in mergers and acquisitions, as well as corporate finance. He joined the Group in May 2003.

Mr. Chen Wei, aged 60, is the Professor of Management Practice at Peking University HSBC Business School (PHBS) and Director of Centre of Innovation and Entrepreneurship at PHBS. Mr. Chen has served as an independent director of Linklogis Inc. (a company listed on the Stock Exchange with stock code HK.9959) since March 2021. Prior to joining PHBS, Mr. Chen was the senior vice president for Didi Chuxing. Before Didi Chuxing, Mr. Chen served as executive vice president and Chief Human Resource Officer (CHRO) at Vanke Enterprises Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 000002). Mr. Chen Wei started up the Hay Group consulting business in China and later served as managing director for Greater China and North East Asia. He became the global executive team member in 2009 and board member in 2013 of Hay Group. Mr. Chen Wei also worked for Coca Cola and Nike in marketing and general management earlier in his business career. Mr. Chen Wei holds a bachelor's degree in Psychology from East China Normal University and a master's degree in Workforce Learning and Development from Pennsylvania State University in USA. He has also graduated from AMP (Advanced Management Program) from Harvard Business School. Mr. Chen has been an independent non-executive director of the Company since 28 March 2018.

Mr. Zhao Xin-sheng, aged 48, is a Charted Professional Accountant (CPA) of Canada and Certified Information System Auditor (CISA). He has been the managing director of Shanghai Think Bridge Business Consulting Co., Ltd. since October 2002. From September 1996 to September 2002, Mr. Zhao worked at the Audit and Business Advisory Department of Arthur Andersen, mainly responsible for the financial statement auditing of listed companies and multinational enterprises and business consulting in corporate risk and control. From 2010 to 2018, Mr. Zhao served as an independent director of Shanghai Yimin Commercial Group Co., Ltd. He has served as an independent director of Shanghai Bright Power Semiconductor Co., Ltd.（上海晶豐明源半導體股份有限公司）(a company listed on Shanghai Stock Exchange GEM with stock code 688368) since 22 May 2020. Mr. Zhao graduated from Shanghai University of Finance and Economics in 1996 with a bachelor's degree in accounting. He has rich experience in corporate accounting and financial consulting, human resources allocation, marketing, public relation, corporate merger and acquisition, risk management and internal control as well as legal compliance. Mr. Zhao has been an independent non-executive director of the Company since 29 March 2019.

Supervisors

Mr. Li Feng, aged 52, is a senior auditor and holds a master's degree of Public Administration at the School of International Relations and Public Affairs of Fudan University. He is currently the senior director of audit and risk control center of Bailian Group. From 1993 to March 2020, Mr. Li Feng worked in the Shanghai Audit Bureau, successively served as staff of Public Transport Audit Office, deputy chief staff member and chief staff member of the Foreign Investment Audit Office, the deputy director of the Law Department (Review and Hearing Office), the deputy director, third-level investigator and second-level investigator of the Law Department (Hearing Office) of the Shanghai Audit Bureau. Mr. Li Feng has served as the senior director of the audit and risk control center of Bailian Group since June 2020. Mr. Li has been a supervisor of Shanghai Bailian since June 2020 and the chairman of the supervisory committee of Shanghai First Pharmaceutical Co., Ltd. ("First Pharmaceutical",a company listed on the Shanghai Stock Exchange, stock code: 600833） since October 2020. Mr. Li Feng was appointed as a supervisor of the Company on 22 June 2020. He has been the chairman of the supervisory committee of the Company since 2 December 2021.

Ms. Tang Hao, aged 52, is a member of the Communist Party of China, with a master's degree majoring in the World Economy from the Graduate School of the Party School of the Central Committee of C.P.C. From July 1991 to December 2002, Ms. Tang worked in the second chemical supply company of Shanghai Chemical Industry Corporation, serving as the statistician, office clerk, and assistant to general manager. From December 2002 to December 2006, Ms. Tang worked in Shanghai Jingtong Chemical Co., Ltd., serving as the deputy manager of the first branch company, deputy manager of the second branch company and deputy manager of the plastic branch company. From December 2006 to September 2014, Ms. Tang worked in Shanghai Jingtong Chemical Development Co., Ltd., serving as the director of general office from December 2006 to February 2008, the assistant to general manager and director of general office from February 2008 to August 2009, the deputy general manager from August 2009 to May 2010, the deputy general manager, the deputy secretary of the Party branch and the secretary of the Discipline Commission from June 2010 to April 2012, the secretary of the Party branch, the deputy general manager and the secretary of the Discipline Commission from April 2012 to September 2014. From September 2014 to October 2017, she served as the member of the Party Committee of Shanghai Modern Logistics Investment and Development Co., Ltd. and the executive director, the secretary of the Party branch and the general manager of Shanghai Jingtong Chemical Development Co., Ltd. Since November 2017, Ms. Tang has been appointed as the deputy secretary of the Party Committee, the secretary of the Discipline Commission and president of labour union of the Company, and secretary of the Party Committee of Shanghai Lianhua Quik Convenience Stores Co., Ltd. Since October 2019, Ms. Tang has been the presiding deputy secretary of the Party Committee of the Company. Ms. Tang has been appointed as a supervisor of the Company on 11 December 2019.

Ms. Tian Ying-jie, aged 45, graduate degree, Chinese CPA, is currently the deputy general manager of Shanghai Bailian. Ms. Tian served as a senior auditor of Deloitte Touche Tohmatsu Nanjing Branch, manager of Deloitte Consulting (Shanghai) Co., Ltd., general manager of the financial center of Sasseur (Shanghai) Holdings Co., Ltd., director of the financial management department of Bailian Group Co., Ltd., the financial director of First Pharmaceutical, the general manager of the financial management department of Shanghai Bailian and other positions. Ms. Tian has been appointed as a supervisor of the Company on 2 December 2021.

Join t Company Secretaries

Ms. Xu Xiao-yi, aged 45, is a senior accountant and certified public accountant, holds a master's degree in Business Administration from Shanghai University of Finance and Economics. Ms. Xu Xiao-yi currently serves as the chief financial officer, the secretary of the Board, the authorised representative of the Company under Rule 3.05 of the Listing Rules and the authorised representative of the e-submission system of the Stock Exchange. She successively served as the head of the finance department of Shanghai Friendship Department Store Co., Ltd. and the head of the finance department of the shopping center division of Bailian Group. From February 2006 to August 2019, she worked in Shanghai Bailian and successively served as the manager of the tax management department of the finance headquarters, assistant to the director of the audit center, deputy director of the audit center, director of the audit center and director of the audit and risk control department. She served as the executive deputy director of the financial management department of Bailian Group from August 2019 to May 2020. Ms. Xu Xiao-yi was appointed as a joint company secretary of the Company on 2 July 2020 and was appointed as the chief financial officer of the Company on 8 July 2022.

Ms. Leung Shui Bing, aged 46, is a manager of the Listing Services Department of TMF Hong Kong Limited (a global corporate services provider). She has over 15 years of experience in the company secretarial field. Ms. Leung obtained a bachelor's degree in Business and Management Studies (Accounting and Finance) from the University of Bradford in the United Kingdom and a master's degree in Corporate Governance from The Open University of Hong Kong. She is a Chartered Secretary and Chartered Corporate Governance Professional, and was admitted as an associate member of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom. Ms. Leung was appointed as a joint company secretary of the Company on 2 July 2020.

Senior Management

Ms. Zhang Hui-qin, aged 49, held a master's degree in Quality Management of the Hong Kong Polytechnic University. Since July 2015, she has been vice-chairman, secretary of the Party Committee and general manager of Hangzhou Lianhua Huashang Group Co., Ltd. From August 1996 to June 2003, Ms. Zhang successively worked with Jiayou Supermarkets of Hangzhou Department Stores Company as deputy superintendent of operation department, store manager of Wensan Store, chief of Qingchun Store and vice manager of operation department. From July 2003 to June 2016, Ms. Zhang worked with Hangzhou Lianhua Huashang Group Co., Ltd. as manager of operation department, assistant to the general manager, deputy general manager, standing deputy general manager, general manager, secretary of the Party Committee and vice chairman. She has abundant operation and management experience in the retail commercial field. From June 2016 to June 2021, She has been deputy general manager of the Company, and served as executive deputy general manager of the Company since June 2021.

Mr. Liang Bao-long, aged 58, is a senior operator and a logistician. Mr. Liang graduated from Tongji University majoring in Management Engineering. From January 1999 to December 2001, he pursued a postgraduate degree at Shanghai Academy of Social Sciences, majoring in Economics. From July 1984 to February 2003, Mr. Liang was a deputy section chief of the catering department, a deputy section chief and section chief of the general affairs office, and manager of the logistics service centre of Shanghai Materials & Equipment School (上海市物資學校). From February 2003 to March 2012, he was the assistant to general manager and deputy general manager of Shanghai Modern Logistics Investment and Development Co., Ltd. (上海現代物流投資發展有限公司). He has concurrently worked as the general manager and deputy secretary of Party general branch of Shanghai Changqiao Logistics Co., Ltd. (上海長橋物流有限公司), and the chairman of board and the secretary of the Party Committee of Shanghai Bailian Distribution Industrial Co., Ltd. (上海百聯配送實業有限公司). From March 2012 to June 2021, he has been the deputy general manager of the Company, and served as deputy secretary of the Party Committee of the Company since June 2021.

Mr. Dong Gang, aged 44, graduated from Wuchang University of Technology in 2015 with a bachelor's degree. From September 2003 to July 2015, Mr. Dong Gang worked for Tesco China. From September 2003 to March 2006, he served as store general manager, purchasing manager, regional fresh commissioner in Dalian; from March 2006 to November 2008, he was the regional general manager of Shenyang; from November 2008 to May 2010, he was chief operating officer of Shandong Region; from May 2010 to June 2012, he served as chief operating officer of North China Region; from June 2012 to July 2015, he served as chief operating officer of Northeast Region. From November 2015 to April 2017, Mr. Dong Gang acted as head of store operations in Shenzhen Shunfeng Commercial Co., Ltd. Mr. Dong Gang has been appointed as deputy general manager of the Company since September 2017.

Mr. Wang Song, aged 40, holds a bachelor's degree in Management from Tiangong University. Previously, from April 2004 to March 2006, Mr. Wang Song served as the general ledger cost supervisor of Southseas Oil & Fats Industrial (Chiwan) Ltd. From March 2006 to December 2009, he served as the financial manager of Huawei Technologies Co., Ltd. From December 2009 to June 2012, he served as the head of the financial sharing service center of Yihai Kerry Investment Co., Ltd. From June 2012 to July 2015, he served as the financial director of China District of BreadTalk Group (a company listed in Singapore with stock code BRET). From July 2015 to July 2017, he served as the financial director of Shanghai Phicomm Communication Co., Ltd. From August 2017 to July 2018, he served as the financial director of Shanghai Hexi Investment Co., Ltd. From July 2018 to February 2019, he served as the senior financial director of Shanghai Yiguo E-Commerce Co., Ltd. From February 2019, he has served as the head of the integrated financial team of the financial department of Shanghai Hema Network Technology Co., Ltd. Mr. Wang Song has worked in the fields of fast-moving consumer goods, traditional retail chains, and online and offline new retail for nearly 16 years. He has extensive experience in financial team management, construction of financial system framework, and reform in the financial management driven by the capability construction of middle office. Mr. Wang Song has been appointed as the chief financial officer of the Company since 10 June 2020 and has resigned as the chief financial officer of the Company on 8 July 2022.

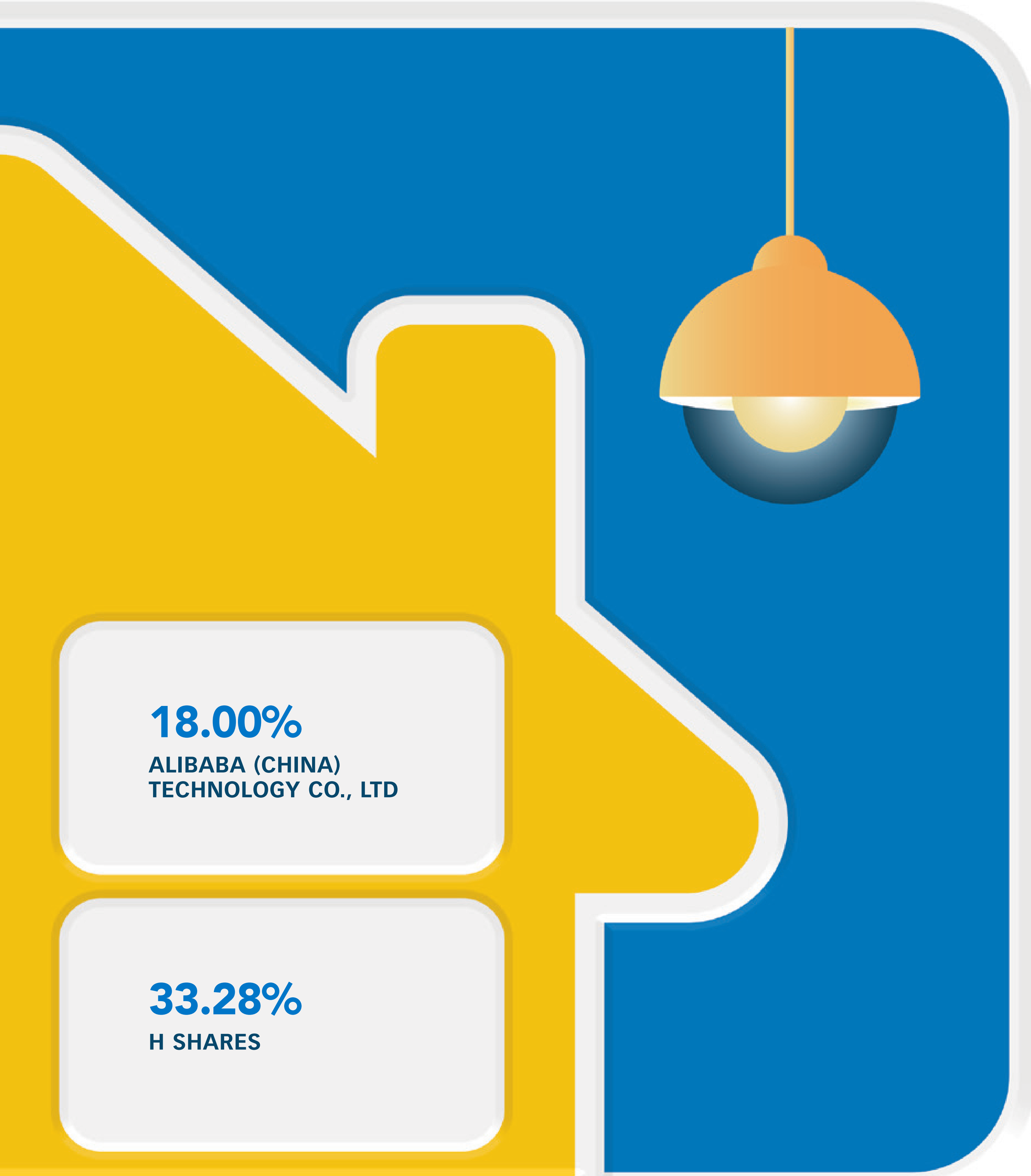
Mr. Gu Feng-min, aged 52, holds an MBA from Fudan University. From October 1996 to May 2002, Mr. Gu worked in McDonald's as the operation manager of Northeast China. From July 2002 to October 2010, he worked in Lotte Mart., successively served as the general manager of Suzhou Taicang and Zhejiang Zhuji Shopping Center and the director of China Innovation and Development Department. From October 2010 to October 2013, he worked as city manager and operation director of online shopping mall in Tesco. Since October 2013, he has worked in Carrefour China. He has served as the manager of Changzhou Carrefour, the manager of Jinqiao Carrefour, the general manager of Anhui Southern District and the fresh pilot district of Central China, and the general manager of Jilin District of Heilongjiang Province and the fresh pilot district of Northeast China. Since October 2019, he has served as the senior director of the commodity management center of Carrefour China headquarters. Mr. Gu was appointed as the deputy general manager of the Company on 26 July 2022.

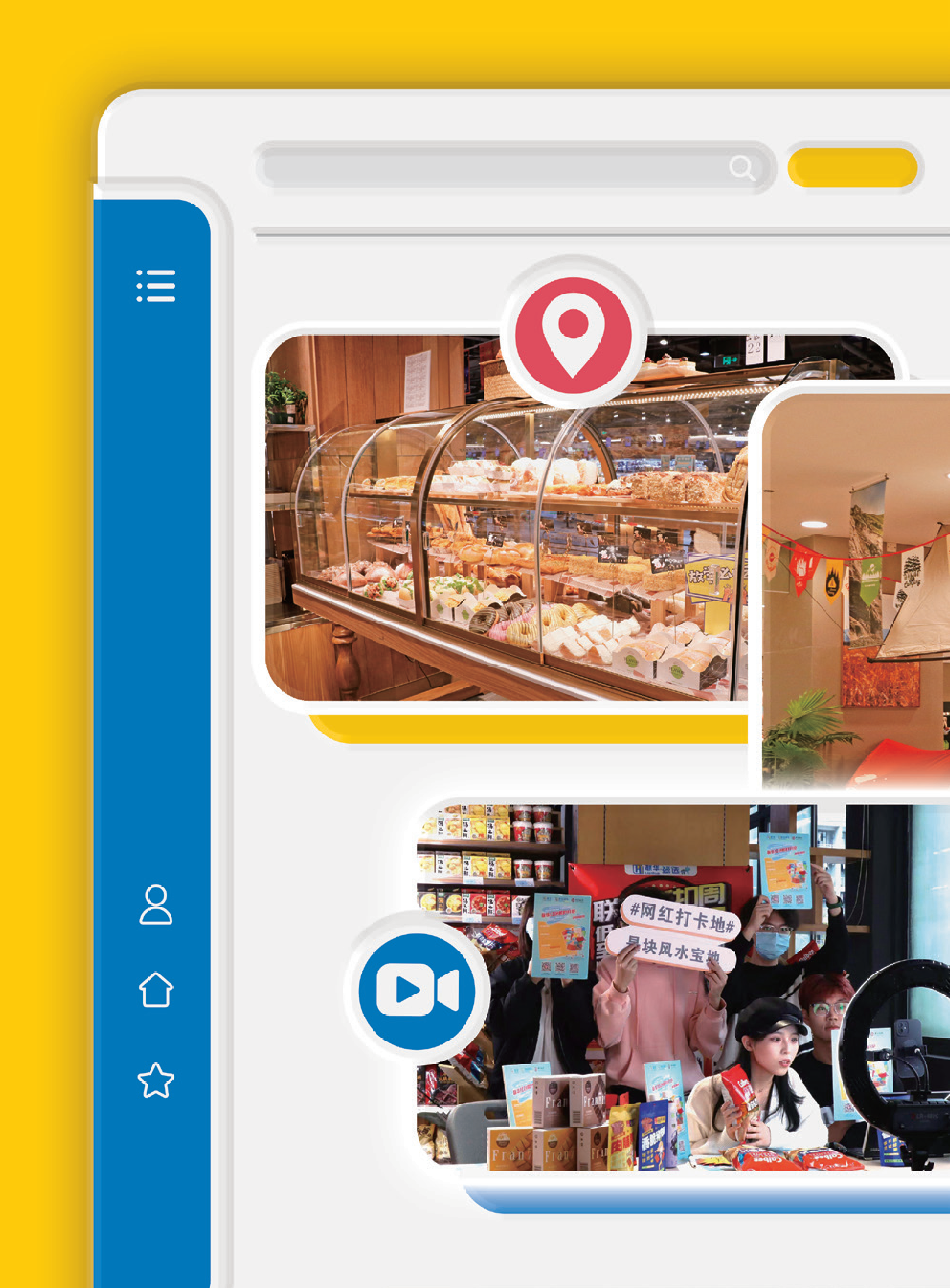
Shareholding Structure

2.82%
WONG SUN HING INVESTMENT CO., LTD

25.87%
BAILIAN GROUP CO., LTD.

20.03%
SHANGHAI BAILIAN GROUP CO., LIMITED


18.00%
ALIBABA (CHINA) TECHNOLOGY CO., LTD
33.28%
H SHARES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Response

The Board is pleased to present to the Shareholders the report of the Company for the year ended 31 December 2022.

Principal Activities and Business Review

The principal activities of the Group include the operation of hypermarkets, supermarkets and convenience stores in the PRC, mainly under four major brands of "Century Mart", "Lianhua Supermarket", "Hualian Supermarket" and "Lianhua Quik". The principal activities and other particulars of the subsidiaries are set out in note 22 and note 51 to the consolidated financial statements of the annual report.

Further discussion and analysis of these activities mentioned above, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the section headed "Management Discussion and Analysis" as set out on pages 20 to 39 of the annual report. These discussions form part of this directors' report.

The analysis of the principal activities of the Group during the financial year are set out in note 5 to the consolidated financial statements of the annual report.

Major Suppliers and Customers

Percentages of purchases and sales attributable to major suppliers and customers of the Company during the year are as follows:

	2022 percentage	2021 percentage
Purchases		
Largest supplier	**1.88**	2.21
Five largest suppliers	**6.69**	7.81
Sales		
Largest customer	**0.10**	0.11
Five largest customers	**0.40**	0.46

During the year ended 31 December 2022, to the best knowledge of the Directors, neither the Directors, Supervisors, their respective associates, nor any Shareholders (which to the knowledge of the Directors own more than 5% of the number of issued share capital of the Company) had any direct or indirect interest in the share capital of the Group's suppliers and customers mentioned above.

The analysis of the key relationship with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends can be found in the Environmental, Social and Governance Report as set out on pages 227 to 288 of the annual report.

Five-year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on pages 18 to 19 of the annual report.

Accounts

The audited results of the Group for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on page 133 of the annual report.

The financial condition of the Group as at 31 December 2022 is set out in the consolidated statement of financial position on pages 134 to 135 of the annual report.

The cash flow of the Group for the year ended 31 December 2022 is set out in the consolidated statement of cash flow on pages 137 to 138 of the annual report.

Dividend Distribution

The Company has adopted a policy on dividend payment in accordance with code provision F.1.1 of the Corporate Governance Code. The decision to pay dividends will depend on, among other things, the Company's financial results, current and future business operations, liquidity and capital requirements, financial position and other factors deemed relevant by the Board. The Company will regularly review the dividend policy.

The Board recommends not to distribute final dividend for the year ended 31 December 2022.

Reserves

Details of the movements in reserves during the period under review are set out in the consolidated statement of changes in equity on page 136 of the annual report.

Fixed Assets

Movements of fixed assets during the period under review are set out in note 16 to the consolidated financial statements of the annual report.

Charitable Donations

Charitable donations made by the Group during the financial year amounted to RMB575,270.

Bank Loans, Overdrafts and Other Borrowings

As at 31 December 2022, the Group had no bank borrowings.

Capitalised Interest

During the period under review, no interest of construction in progress has been capitalised.

Listing of Shares and Changes

H shares of the Company were listed on the Main Board of the Stock Exchange on 27 June 2003.

The Company placed 34,500,000 new H shares on 4 October 2004. Accordingly, the total number of shares of the Company in issue increased from 587,500,000 shares to 622,000,000 shares. H shares in issue increased from 172,500,000 shares to 207,000,000 shares, representing approximately 33.28% of the Company's total share capital.

The Company issued 8 additional shares to the Shareholders whose names appeared on the register of members of the Company on the record date, i.e. 28 June 2011, for every 10 shares held by them by way of capitalization of the capital reserve fund on 8 September 2011. The total number of shares of the Company in issue increased from 622,000,000 shares to 1,119,600,000 shares. H shares in issue increased from 207,000,000 shares to 372,600,000 shares, representing approximately 33.28% of the Company's total share capital. Please refer to the circular of the Company dated 13 May 2011 for details of the issue.

Information on the performance of H shares of the Company in 2022:

Highest trading price per H share during the year	HK$0.890
Lowest trading price per H share during the year	HK$0.350
Total turnover volume of H shares during the year	36.1 million shares
Closing price per H share as at 31 December 2022	HK$0.445

Public Float

The Company confirms that the Company's public float during the period under review complied with the applicable requirements of the Listing Rules.

Share Capital

As at 31 December 2022, the classes and number of shares of the Company are as follows:

Class of shares	Number of issued shares ('000 shares)	Percentage (%)
Domestic shares	**715,397.4**	63.90
Attributable to:		
Bailian Group Co., Ltd.	**289,661.4**	25.87
Shanghai Bailian Group Co., Limited	**224,208**	20.03
Alibaba (China) Technology Co., Ltd.	**201,528**	18.00
Unlisted foreign shares	**31,602.6**	2.82
Attributable to:		
Wong Sun Hing Investment Company Limited	**31,602.6**	2.82
H shares	**372,600.0**	33.28
Total	**1,119,600.0**	100.00

Number of Shareholders

As at 31 December 2022, details of Shareholders as recorded in the register of members of the Company are as follows:

Total number of Shareholders	31
Shareholders of domestic shares	3
Shareholders of unlisted foreign shares	1
Shareholders of H shares	27

Legal Status of Unlisted Foreign Shares

Set out below is the summary of legal opinions given by Grandall Law Firm (Shanghai) on the rights attached to unlisted foreign shares (the "Unlisted Foreign Shares"). Although the Prerequisite Clauses for Articles of Association of Companies to be Listed Overseas (the "Prerequisite Clauses") provides the definitions of "domestic shares", "foreign shares" and "overseas listed foreign shares" (these definitions have been adopted in the Articles of Association of the Company (the "Articles of Association")), the rights attached to the Unlisted Foreign Shares, which are subject to certain restrictions on transfer as referred to the Prospectus and may become H shares of the Company (the "H Shares") upon obtaining the requisite approvals from, among others, the China Securities Regulatory Commission (the "CSRC") and the Stock Exchange, are not expressly provided under the existing PRC laws or regulations. However, the Company's creation of Unlisted Foreign Shares and the subsistence of the Unlisted Foreign Shares does not contravene any PRC laws or regulations.

At present, there are no express laws and regulations in the PRC governing the rights attached to the Unlisted Foreign Shares. Grandall Law Firm (Shanghai) advised that until new laws or regulations are introduced in this aspect, holders of the Unlisted Foreign Shares shall be treated the same as holders of domestic shares (the "Domestic Shares") of the Company (in particular, in respect of the rights to attend and vote at general meetings and class meetings and to receive notice of such meetings in the same manner as holders of Domestic Shares), except that the holders of the Unlisted Foreign Shares enjoy the following rights to which the holders of Domestic Shares are not entitled:

(a) to receive dividends declared by the Company in foreign currencies; and

(b) in the event of winding up of the Company, to remit their respective shares of the remaining assets (if any) of the Company out of the PRC in accordance with the applicable foreign exchange control laws and regulations of the PRC.

No provision is made for the settlement of disputes between holders of Unlisted Foreign Shares and holders of Domestic Shares in the Prerequisite Clauses or the Articles of Association. According to the PRC laws, in case of disputes between holders of Unlisted Foreign Shares and holders of Domestic Shares and the parties failed to reach any settlement after negotiation or mediation, either party may choose to resort to an arbitration commission in the PRC or any other arbitration commission to conduct arbitration for dispute resolution pursuant to a written arbitration agreement. If there is no prior arbitration agreement and the parties are not able to reach an agreement in respect of their dispute, either party may initiate legal proceedings in a competent PRC court.

According to the requirements under Clause 163 of the Prerequisite Clauses and the Articles of Association, in general, disputes between holders of H Shares and holders of Domestic Shares are required to be settled through arbitration. Such dispute resolution requirements are also applicable to disputes between holders of H Shares and holders of Unlisted Foreign Shares.

As advised by Grandall Law Firm (Shanghai), the Unlisted Foreign Shares can be converted into new H Shares subject to satisfaction of the following conditions:

(a) the expiry of a period of one year from the date on which the Company was converted from a limited company into a joint stock limited company and listed on the Stock Exchange;

(b) approvals from the original approval authority or authorities in the PRC for the establishment of the Company obtained by holders of Unlisted Foreign Shares for the conversion of Unlisted Foreign Shares into H shares;

(c) approval from the CSRC obtained by the Company for the conversion of Unlisted Foreign Shares into new H Shares;

(d) approval granted by the Stock Exchange for the listing and trading of the new H Shares converted from the Unlisted Foreign Shares;

(e) approval granted by the Shareholders of the Company at a general meeting and the holders of H Shares, Domestic Shares and Unlisted Foreign Shares at their respective class meetings to authorize the conversion of Unlisted Foreign Shares into new H Shares in accordance with the Articles of Association; and

(f) full compliance with relevant PRC laws, rules, regulations and policies governing companies incorporated in the PRC and seeking permission for listing of shares outside the PRC and with the Articles of Association and any agreement among the Shareholders.

Upon satisfaction of all the conditions mentioned above and other conditions as may be imposed from time to time by the Stock Exchange, Unlisted Foreign Shares may be converted into new H Shares.

Disclosure of Interests

Directors, chief executive officer and Supervisors of the Company

As at 31 December 2022, none of the Directors, Supervisors or chief executive officer of the Company had any interest and short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are regarded or deemed to have under such provisions of the SFO), or interests and short positions which were required, pursuant to section 352 of the SFO, to be entered in the Company's register referred to therein, or interests and short positions which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules.

Substantial Shareholders

So far as the Directors are aware, as at 31 December 2022, the following persons (not being a Director, chief executive officer or Supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholders	Class of shares	No. of domestic shares/unlisted foreign shares/ H shares	Approximate percentage of total voting rights of the Company	Approximate percentage of voting rights of domestic shares and unlisted foreign shares	Approximate percentage of voting rights of H shares	Capacity of Interest
Shanghai Bailian Group Co., Limited (Note 1)	domestic shares	224,208,000	20.03%	30.01%	–	Beneficial owner
Alibaba Group Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Taobao Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Taobao China Holding Limited (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Taobao (China) Software Co., Ltd. (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Interest of corporation controlled
Alibaba (China) Technology Co., Ltd. (Note 2)	domestic shares	201,528,000	18.00%	26.98%	–	Beneficial owner
Bailian Group Co., Ltd. (Note 1)	domestic shares	513,869,400	45.90%	68.79%	–	Beneficial owner/Interest of corporation controlled
China Galaxy International Asset Management (Hong Kong) Co., Limited (Note 3)	H shares	54,588,000(L)	4.88%	–	14.65%(L)	Investment manager
China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP) (Note 3)	H shares	54,588,000(L)	4.88%	–	14.65%(L)	Interest of corporation controlled
Xu Zi-zuo	H shares	53,357,000(L)	4.77%	–	14.32%(L)	Beneficial owner
Coronation Global Fund Managers (Ireland) Ltd.	H shares	37,130,454(L)	3.32%	–	9.97%(L)	Investment manager
Julius Baer International Equity Fund	H shares	12,191,558(L)	1.09%	–	5.89%(L)	Beneficial owner

(L) = Long position
(S) = Short position
(P) = Lending pool

Notes:

1. As at 31 December 2022, Bailian Group Co., Ltd. ("Bailian Group") directly and indirectly holds approximately 53.16% of the shares in Shanghai Bailian Group Co., Limited ("Shanghai Bailian"). As at 31 December 2022, Shanghai Bailian held 224,208,000 shares of the Company. Thus, Bailian Group directly and indirectly holds 513,869,400 shares of the Company, or 45.90% in proportion.

   As at 31 December 2022, (i) Mr. Pu Shao-hua, the Chairman and a non-executive Director, was the president and deputy secretary of the Party Committee of Bailian Group; (ii) Mr. Shi Xiao-long, the Vice Chairman and a non-executive director of the Company, was the executive director of the economic operation department of Bailian Group; (iii) Ms. Zhang Shen-yu, a non-executive Director, was a director and the general manager of Shanghai Bailian; (iv) Mr. Dong Xiao-chun, a non-executive Director, was a director, the chief financial officer and the secretary of the board of Shanghai Bailian; (v) Mr. Li Feng, a supervisor and the chairman of the supervisory committee of the Company, was the senior director of the auditing centre of Bailian Group, a supervisor of Shanghai Bailian and the chairman of the supervisory committee of First Pharmaceutical; and (vi) Ms. Tian Ying-jie, a supervisor of the Company, was the deputy general manager of Shanghai Bailian.

2. Alibaba Group Holding Limited holds 100% of the shares in Taobao Holding Limited, Taobao Holding Limited holds 100% of the shares in Taobao China Holding Limited, Taobao China Holding Limited holds 100% of the shares in Taobao (China) Software Co., Ltd., Taobao (China) Software Co., Ltd. holds 57.59% of the shares in Alibaba (China) Technology Co., Ltd., Alibaba (China) Technology Co., Ltd. holds 201,528,000 shares of the Company, representing 18% share capital of the Company. Thus, Alibaba Group Holdings Limited, Taobao Holding Limited, Taobao China Holding Limited and Taobao (China) Software Co., Ltd. are all deemed to be interested in the shares held by or deemed to be interested by Alibaba (China) Technology Co., Ltd.

3. China Galaxy International Asset Management (Hong Kong) Co., Limited holds 100% of the shares in China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP). China Galaxy International SPC (acting for and on behalf of China Galaxy Value Fund I SP) held 54,588,000 shares of the Company. Thus, China Galaxy International Asset Management (Hong Kong) Co., Limited directly and indirectly holds approximately 54,588,000 shares of the Company, or approximately 4.88% in proportion.

4. As the Company issued 8 additional shares to the Shareholders whose names appeared on the register of member of the Company on the record date, i.e. 28 June 2011, for every 10 shares held by them by way of capitalization of the capital reserve fund on 8 September 2011, the number of H shares of the Company held as at 31 December 2019 by holders of H shares has been adjusted accordingly, if necessary.

Save as disclosed above, the Directors are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2022.

Competing Interests

As at 31 December 2022, according to the Listing Rules, other than the Directors disclosed below, none of the Directors had any interest in any businesses which are considered to compete or are likely to compete, either directly or indirectly, with the business of the Group (except for those businesses in which Directors are appointed as Directors to represent the interests of the Company and/or the Group under the Listing Rules).

Name of Director	Name of entity whose business are considered to complete or likely to compete with the business of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the business of the Group	Nature of interest of the Director in the entity
Xu Pan-hua	Sanjiang Shopping Club Co., Ltd.	Supermarket	Director

Note:

Mr. Xu Pan-hua, a non-executive director of the Company, also serves as a director of New Hua Du Technology Co., Ltd. (formerly known as "New Hua Du Supercenter Co., Ltd."), Wuhan Wushang Group Co., Ltd., and Zhejiang Quzhou Oriental Group Co., Ltd. Among them, New Hua Du Technology Co., Ltd. has divested all its retail business in 2022 and changed its main business to internet marketing. Therefore, in terms of business nature, it no longer directly or indirectly competes with the group's business; Wuhan Wushang Group Co., Ltd. and Zhejiang Quzhou Oriental Group Co., Ltd. are both regional retail enterprises, mainly operating in Hubei Province and Quzhou, respectively. There are differences between the Group's main business areas in Jiangsu, Zhejiang, and Shanghai, and there is no significant direct or indirect competition with the Group's business in terms of regional layout.

Ultimate Holding Company

As at the date of this report, Bailian Group, a company incorporated in the PRC with limited liability, is the ultimate holding company of Shanghai Bailian. Accordingly, Bailian Group is the ultimate holding company of the Company.

Pre-emptive Rights

There are no provisions under the Articles of Association of the Company or any applicable laws and regulations requiring the Company to offer pre-emptive rights of new shares to its existing Shareholders in accordance with the proportion of their respective shareholdings.

Management Contracts

No contracts for the management and administration of the whole or any substantial part of any business of the Company existed or was entered into during the year ended 31 December 2022.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company for the year ended 31 December 2022.

Material Acquisition and Disposals of Subsidiaries and Affiliated Companies

Save as disclosed in note 50 and note 51 to the consolidated financial statements in the annual report, the Group had no material acquisitions and disposals of subsidiaries and associated companies during the financial year.

Directors and Supervisors

The Directors and Supervisors during the period under review and up to the date of this report were as follows:

Executive Director

Mr. Chong Xiao-bing

Non-executive Directors

Mr. Pu Shao-hua *(Chairman)*
Mr. Shi Xiao-long *(Vice Chairman)*
Mr. Xu Hong (Note 1)
Mr. Xu Pan-hua (Note 2)
Ms. Zhang Shen-yu
Mr. Dong Xiao-chun
Mr. Wong Tak Hung

Independent Non-executive Directors

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

Supervisors

Mr. Li Feng *(Chairman)*
Ms. Tang Hao
Ms. Tian Ying-jie

Notes:

1. Mr. Xu Hong resigned as a non-executive Director on 28 March 2022.

2. Mr. Xu Pan-hua was appointed as a non-executive Director on 28 March 2022.

Details of the profiles of the Directors, Supervisors and senior management of the Company are set out on pages 42 to 49 of the annual report.

Directors' and Supervisors' Service Contracts

The Company has entered into service contract with each of the executive Director and independent non-executive Directors with a term ending on the date of conclusion of the annual general meeting of the Company for the year 2022, and such term is renewable subject to applicable laws. Neither the Directors, nor the Supervisors have a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' and Supervisors' Interests in Contracts

No transaction, arrangement or contract of significance (as defined in the Listing Rules, and which remained effective during the year or at the end of the year) to the business of the Company to which the Company or its fellow subsidiaries was a party and in which a Director or Supervisor or a person connected to a Director or Supervisor had material interests, either directly or indirectly, subsisted as at balance sheet date or at any time during the period under review.

Interest in Shares or Debentures Acquired by the Directors and Supervisors

During the period under review, no arrangement was entered into by the Company or its fellow subsidiaries which enabled the Directors or Supervisors to acquire the shares or bonds of the Company.

Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and senior management.

Directors' Remuneration

The Company's policy on remuneration is to maintain fair and competitive packages based on business needs and industry practice. For determining the remuneration packages of each Director, market rates and factors such as each Director's workload, working time and responsibility will be taken into account. In addition, factors comprising economic and market situations, individual contributions to the Group's results and development as well as individual's potential are considered when determining the remuneration packages of executive Directors. Please refer to note 13 to the consolidated financial statements of the Company for details of the Director's remuneration.

Independence of the Independent Directors

The Company has received written confirmation from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules concerning their independence. The Company considers that all existing independent non-executive Directors comply with the provisions of Rule 3.13 of the Listing Rules and are independent.

Highest Paid Individuals

All the five highest paid individuals of the Company during the period under review included one of the senior management of the Company. Details of their remuneration are set out in note 14 to the consolidated financial statements in this annual report.

Retirement Pension Schemes

In accordance with applicable laws and regulations in the PRC, full-time employees of the Group participate in various defined contribution retirement benefit schemes established by the relevant municipal and provincial governments of the PRC, under which the Group and the employees were required to make monthly contributions to these schemes at a particular percentage of the employees' salaries during the relevant periods. Forfeited contributions may not be used by the Company to reduce the existing level of contributions.

Please refer to note 43 to the consolidated financial statements of the Company for details of the retirement pension schemes.

Change of Auditors

During the past three years, there was no change of the auditor of the Company.

Significant Litigation

During the period under review, the Company was not engaged in any significant litigation.

Connected and Related Party Transactions

During the period under review, the Group had significant transactions with related parties (as detailed in note 50 to the consolidated financial statements), certain of which fall into connected or continuing connected transactions within the meaning of Chapter 14A of the Listing Rules, the details of which are set out below.

(a) Connected and related party transactions

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Sales to fellow subsidiaries	568,994	736,057
Purchases from an ultimate holding company and fellow subsidiaries	211,834	354,337
Purchases from other related parties	–	145
Rental income from fellow subsidiaries	46,319	44,709
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	5,242	5,532
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	7,119	8,144
Service and platform usage fee charged by other related parties	30,243	28,295
Property management fee charged by fellow subsidiaries	13,820	15,096
Interest expenses on lease liabilities charged by fellow subsidiaries	5,550	6,950
Interest income earned from a fellow subsidiary	12,470	18,037
Interest expenses charged by a fellow subsidiary	10,522	9,311
Platform usage fee charged by fellow subsidiaries	45,523	33,366
Logistics resources leasing fee charged by fellow subsidiaries	2,373	2,228
Logistics and delivery service fee charged by fellow subsidiaries	176	3,208
Logistics and delivery service income from fellow subsidiaries	4,585	4,999
Logistics and delivery service fee charged by the other related parties	1,303	4,910
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account	19,361	19,235
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account upon redemption of membership points by the customers	11,196	13,019
Cash and cash equivalents in a fellow subsidiary	713,666	539,008
Loan from a fellow subsidiary	–	600,000
Investment and wealth management cooperation with a fellow subsidiary	865,170	794,640

Fellow subsidiaries referred above are other subsidiaries of Bailian Group.

The Company confirms that it has complied with the applicable disclosure requirements, in respect of the above transactions, in accordance with Chapter 14A of the Listing Rules. Please refer to the subsequent section headed "Connected transactions" for details of the above transactions.

(b) Related party transactions not falling into connected transactions

	2022 RMB'000	2021 RMB'000
Purchases from associates – Shanghai Gude Business Cooperation Company and Shanghai Sanming Taige Information Technology Co., Ltd.	3,991	4,424

Connected Transactions

The following transactions of the Group constitute connected transactions and continuing connected transactions under Chapter 14A of the Listing Rules, mainly concerning:

Continuing Connected Transactions – Shanghai Qingpu Leasing Agreement

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

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

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

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

The estimated annual rents payable under the Shanghai Qingpu Leasing Agreement for each year during the leasing period will be subject to an annual cap of RMB7,000,000, including annual rents and property management fees of RMB5,200,000 per year, utilities, energy subsidies and other related expenses of RMB1,800,000 per year.

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

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

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

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

For the year ended 31 December 2022, the actual transaction amount of annual rent payable under the Shanghai Qingpu Lease Agreement is approximately RMB1,608 thousand.

Please refer to the announcement of the Company dated 3 December 2021 for relevant details of the transaction.

Continuing Connected Transactions – Goods Supply Framework Agreement

On 17 June 2021, the Company entered into the Goods Supply Framework Agreement (the "Goods Supply Framework Agreement") with Zhejiang Tmall Network Technology Co., Ltd. ("Tmall Network"), pursuant to which, the Company and its subsidiaries agreed to supply various kinds of goods, including but not limited to fresh produce and foods, to Tmall Network and its subsidiaries, for a term commencing from 17 June 2021 to 31 December 2023 (both days inclusive).

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

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

The respective maximum annual transaction amounts payable by Tmall Network to the Company for the financial years ending 31 December 2021, 31 December 2022 and 31 December 2023 under the Goods Supply Framework Agreement are RMB30,000,000, RMB40,000,000 and RMB40,000,000.

Tmall Network is an indirect wholly-owned subsidiary of Alibaba Holding, which is the holding company of Alibaba China. Alibaba China is a substantial Shareholder and therefore is a connected person of the Company. As such, Tmall Network is an associate of Alibaba China and a connected person of the Company. Accordingly, the transactions contemplated under the Goods Supply Framework Agreement constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio (as defined in the Listing Rules) for the transactions contemplated under the Goods Supply Framework Agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the Goods Supply Framework Agreement are subject to the reporting, annual review and announcement requirements, but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

For the year ended 31 December 2022, the actual transaction amount under the Goods Supply Framework Agreement is approximately RMB0.

Please refer to the announcement of the Company dated 17 June 2021 for relevant details of the transaction.

Major Transaction and Continuing Connected Transactions – Investment and Wealth Management Cooperation Framework Agreement

On 23 April 2021, the Company entered into the Investment and Wealth Management Cooperation Framework Agreement (the "Investment and Wealth Management Cooperation Framework Agreement") with Shanghai Securities Co., Ltd. ("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 Investment and Wealth Management Cooperation Framework Agreement, the Company and Shanghai Securities agreed on the investment and wealth management cooperation, including but not limited to investment products, entrusted investment services and other investment cooperation.

(1) Investment Products: Shanghai Securities may from time to time recommend and provide its investment products (including but not limited to trust products, monetary funds and asset management plans) to the Group. Assuming the commercial terms offered by Shanghai Securities are comparable to those offered by other independent third parties in the PRC, the Group shall consider the investment products offered by Shanghai Securities on a preferred basis. The Group will purchase the investment products with its legally owned funds pursuant to the specific purchase agreements to be entered into between the Group and Shanghai Securities.

Taking into account the reputation, the asset scale and the investment management experience of Shanghai Securities, the Company is of the view that with equivalent terms and conditions provided by Shanghai Securities, it will be fair and reasonable and in the interests of the Company and its Shareholders as a whole to consider the investment products provided by Shanghai Securities on a preferred basis.

(2) Entrusted Investment Services: The Group will entrust its legally owned funds to Shanghai Securities and Shanghai Securities will provide entrusted investment services (including but not limited to asset-backed securitization service) to the Group pursuant to the specific entrusted investment agreements to be entered into between the Group and Shanghai Securities.

(3) Other Investment Cooperation: The Group and Shanghai Securities may initiate other investment cooperation through negotiation in compliance with relevant laws and regulations.

The pricing of the investment products and entrusted investment services under the Investment and Wealth Management Cooperation Framework Agreement shall be jointly determined by the Group and Shanghai Securities through negotiation on the basis of the market price of the same industry and the principle of fairness and reasonableness, and with reference to the prevailing market terms of similar investment products or entrusted investment services offered by other independent financial institutions in the PRC at the time of entering into the specific agreements under the Investment and Wealth Management Cooperation Framework Agreement. Shanghai Securities has agreed that, in principle, the terms and conditions of the investment products and entrusted investment services offered by Shanghai Securities to the Group shall be no less favourable than those offered by Shanghai Securities to other independent third parties in respect of similar investment products or entrusted investment services.

The payment shall be made by bank transfer and shall be settled according to the specific situation of each transaction, which shall be in line with the market practice of each specific transaction. Details of the payment terms (including the amount and expenses, payment method and payment time) shall be specified in the individual agreements to be entered into between both parties.

Pursuant to the Investment and Wealth Management Cooperation Framework Agreement, the maximum daily investment balance (including expected accrued investment returns) of the Group with Shanghai Securities under the Investment and Wealth Management Cooperation Framework Agreement for each of the three years ending 31 December 2023 are RMB1,000 million.

Bailian Group is a substantial Shareholder of the Company, and Shanghai Securities is a subsidiary of Bailian Group. As such, Shanghai Securities is a connected person of the Company. Accordingly, the transactions contemplated under the Investment and Wealth Management Cooperation Framework Agreement constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio (as defined in the Listing Rules) of the proposed annual caps for the transactions contemplated under the Investment and Wealth Management Cooperation Framework Agreement is more than 25% but less than 100%, the investment and wealth management cooperation contemplated under the Investment and Wealth Management Cooperation Framework 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 in the Listing Rules) of the proposed annual caps for the transactions contemplated under the Investment and Wealth Management Cooperation Framework Agreement is more than 5%, the investment and wealth management cooperation contemplated under the Investment and Wealth Management Cooperation Framework Agreement and the proposed annual caps thereof is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent shareholders of the Company have approved the Investment and Wealth Management Cooperation Framework Agreement and its proposed annual caps at the 2020 Annual General Meeting held on 17 June 2021.

For the year ended 31 December 2022, the maximum daily investment balance (including any investment income) of the Group under the Investment and Wealth Management Cooperation Framework Agreement in Shanghai Securities is approximately RMB865.17 million.

Please refer to the announcement of the Company dated 23 April 2021 and the Circular of the Company dated 27 May 2021 for relevant details of the transaction.

Continuing Connected Transactions – Marketing Services Agreement

On 29 December 2020, the Company entered into the Marketing Services Agreement (the "Marketing Services Agreement") with Hangzhou Taoxianda Network Technology Co., Ltd.* (杭州淘鮮達網絡科技有限公司, "Hangzhou Taoxianda"), pursuant to which, the Company and Hangzhou Taoxianda agreed to cooperate on marketing, operation assistance, management consultation and technology support, for a term commencing from 29 December 2020 to 31 December 2022 (both days inclusive).

Pursuant to the Marketing Services Agreement, Hangzhou Taoxianda will distribute different kinds of coupons of the Company as a marketing method on its electronic platform for use at the supermarkets and hypermarkets of the Company during a specific promotion period as agreed between the two parties. Therefore, the electronic platform of Hangzhou Taoxianda as well as the supermarkets and hypermarkets of the Company both get promoted through such marketing activities. In order to realise such cooperation on marketing, the Company will update the electronic payment system in the supermarkets and hypermarkets in accordance with Hangzhou Taoxianda's requirements and with its assistance to ensure smooth redemption of such coupons.

Since the Company provides actual discount to the customers who use such coupons, Hangzhou Taoxianda will bear the discounted payment and settle such discounted payment with the Company after the end of the promotion period. The payment to be made by Hangzhou Taoxianda to the Company are calculated as follows: total amount of the payment = the discount reflected on the coupons × the number of coupons actually used in the supermarkets and hypermarkets of the Company.

The discounts to be provided by the Company under the Marketing Services Agreement are determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between both parties on the basis of the prevailing market conditions for promotional activities. Since Hangzhou Taoxianda will settle the discounted payment with the Company and will not charge the Company any service fee for such cooperation, Hangzhou Taoxianda will in fact provide marketing services to the Company for free.

In addition, Hangzhou Taoxianda will provide the details of the discounts provided by the Company within one business day after the end of the promotion period. The payment is to be made by Hangzhou Taoxianda to the Company within ten business days after the amount of the discounts is confirmed by both parties. Therefore, the settlement period of such discounted payment by Hangzhou Taoxianda to the Company is relatively short.

Based on the currently available information, the Company considers that the cooperation method contemplated under the Marketing Services Agreement is a brand new one in the retail market and there is no available market price or practise for such cooperation. Taking into account the fact that Hangzhou Taoxianda will in fact provide the relevant service for free and the relatively short settlement period for the discounted payment, the Company is of the view that the terms under the Marketing Services Agreement will not be less favourable than those available from independent third parties in similar transactions (if any).

Hangzhou Taoxianda is an indirect wholly-owned subsidiary of Alibaba Group Holding Limited* (阿里巴巴集團控股有限公司, "Alibaba Group"), which is the holding company of Alibaba (China) Technology Co., Ltd (阿里巴巴(中國)網絡技術有限公司, "Alibaba China"). Alibaba China is a substantial Shareholder and therefore is a connected person of the Company. As such, Hangzhou Taoxianda is an associate of Alibaba China and a connected person of the Company. Accordingly, the transactions contemplated under the Marketing Services Agreement constitute continuing connected transactions of the Company.

The respective maximum annual transaction amounts payable by Hangzhou Taoxianda for the financial years ending 31 December 2021 and 31 December 2022 under the Marketing Services Agreement are RMB40,000,000 and RMB50,000,000 respectively.

As the highest applicable percentage ratio (as defined in the Listing Rules) for the transactions contemplated under the Marketing Services Agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the Marketing Services Agreement are subject to the reporting, annual review and announcement requirements, but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The actual transaction amount under the Marketing Services Agreement for the year ended 31 December 2022 is approximately RMB2,091 thousand.

Please refer to the announcement of the Company dated 29 December 2020 for relevant details of the transaction.

Continuing Connected Transactions – Alipay Services Agreements and Software Services Framework Agreement

The Company's subsidiaries entered into various Alipay Services Agreements (the "Alipay Services Agreements") with Alipay.com Co., Ltd. (支付寶(中國)網絡技術有限公司, "Alipay") during the period from January 2016 to March 2019.

Pursuant to the Alipay Services Agreements, Alipay agreed to act as the payment channel between the end customers and the Company's subsidiaries. The Company's subsidiaries can use the equipment that supports the system of Alipay to identify the bar code or QR code on end customers' smart phones or other wireless equipment to complete the settlement process with the end customers.

Alipay will charge the Company's subsidiaries service fees for providing payment services, and deduct such service fees upon the completion of the transactions between the end customers and the Company's subsidiaries in real time.

The service fees chargeable by Alipay under the Alipay Services Agreements shall be calculated based on a rate of the transaction amounts between the Company's subsidiaries and the end customers. Such rate has been determined upon arm's length negotiations by the relevant parties and would be on normal commercial terms based on the standard rate provided by Alipay to its other customers.

The controlling shareholder of Alipay is Ant Group Co., Ltd. (螞蟻科技集團股份有限公司, "Ant Group"), and Alibaba Group owns approximately 33% of shares in Ant Group. Alibaba China is a substantial shareholder of the Company and Alibaba Group is the holding company of Alibaba China. Accordingly, Ant Group and Alipay are associates of Alibaba China and connected persons of the Company under Chapter 14A of the Listing Rules. So far as the Company was aware, the Company's subsidiaries had entered into various Alipay Services Agreements before Alipay became a connected person of the Company. The continuing transactions under such agreements have subsequently become continuing connected transactions of the Company after Alipay became a connected person of the Company under Chapter 14A of the Listing Rules.

The highest applicable percentage ratio (as defined in the Listing Rules) of the total historical amounts paid by the Company's subsidiaries to Alipay for the year of 2019 and the period ended 25 November 2020 exceeds 0.1% but is less than 5%. As such, the Company is required to comply with the disclosure and annual review requirements pursuant to Rule 14A.60 of the Listing Rules with respect to such existing Alipay Services Agreements.

Since the terms of the existing Alipay Services Agreements has expired or will expire in or after December 2020 in succession, the Company entered into the Software Services Framework Agreement (the "Software Services Framework Agreement") with Alipay on 24 December 2020, pursuant to which, Alipay and its subsidiaries agreed to provide payment services and related software services to the Company and its subsidiaries for a term commencing from 1 January 2021 to 31 December 2023 (both days inclusive).

Alipay and its subsidiaries agreed to provide payment services and related software services to the Company and its subsidiaries. Alipay agreed to act as the payment channel between the end customers and the Group. The Company and its subsidiaries can use the equipment that supports the system of Alipay to identify the bar code, QR code or sonic wave on end customers' smart phones or other wireless equipment supported by Alipay and its subsidiaries to complete the settlement process with the end customers. Alipay or its subsidiaries will provide the Company or its subsidiaries with related software services, including but not limited to encryption and online enquiry services.

The subsidiaries of both parties may enter into individual software services contracts setting out specific terms of providing software services, including the price determination method, settlement and payment arrangement. If there is any discrepancy between the terms of an individual software services contract and the Software Services Framework Agreement, the latter shall prevail.

Alipay will charge the Group service fees for providing software services, and deduct such service fees upon the completion of the transactions between the end customers and the Group in real time.

The service fees chargeable by Alipay under the Software Services Framework Agreement shall be calculated based on a rate of the transaction amounts between the Group and the end customers. Such rate has been determined upon arm's length negotiations by the relevant parties and is on normal commercial terms based on the standard rate provided by Alipay to its other customers.

The respective maximum amount of service fees payable by the Group to Alipay for each of the three financial years ending 31 December 2021, 2022 and 2023 under the Software Services Framework Agreement is RMB50 million.

As the highest applicable percentage ratio (as defined in the Listing Rules) for the transactions contemplated under the Software Services Framework Agreement exceeds 0.1% but is less than 5%, the transactions contemplated under such agreement are subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The actual transaction amount under the Software Services Framework Agreement for the year ended 31 December 2022 is approximately RMB28,152 thousand.

Please refer to the announcement of the Company dated 24 December 2020 for relevant details of the transaction.

Continuing Connected Transactions – Goods Supply Framework Agreement

On 5 December 2019, the Company entered into the Goods Supply Framework Agreement (the "Goods Supply Framework Agreement") with Bailian Group, pursuant to which, the Company agreed to supply various kinds of goods to Bailian Group, including but not limited to foods and fresh produce, for a term commencing from 1 January 2020 to 31 December 2022 (both days inclusive).

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

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

Bailian Group is a substantial Shareholder and therefore is a connected person of the Company. As such, the transactions contemplated under the Goods Supply Framework Agreement constitute continuing connected transactions of the Company.

The respective maximum annual transaction amounts payable by Bailian Group to the Company for the financial years ending 31 December 2020, 2021 and 2022 under the Goods Supply Framework Agreement are RMB50,000,000, RMB60,000,000 and RMB60,000,000.

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

The actual transaction amount under the Goods Supply Framework Agreement for the year ended 31 December 2022 is approximately RMB36,863.0 thousand.

On 30 September 2022, the Company renewed the Goods Supply Framework Agreement with Bailian Group, pursuant to which, the Group agreed to supply various kinds of goods to Bailian Group and/or its subsidiaries, including but not limited to foods and fresh produce, for a term commencing from 1 January 2023 to 31 December 2025 (both days inclusive).

The respective maximum annual transaction amounts payable by Bailian Group to the Company for the financial years ending 31 December 2023, 31 December 2024 and 31 December 2025 under the Goods Supply Framework Agreement are RMB50,000 thousand, RMB60,000 thousand and RMB70,000 thousand.

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

The Goods Supply Framework Agreement and its proposed annual caps were approved by the independent Shareholders at the extraordinary general meeting on 1 December 2022.

Please refer to the announcements of the Company dated 5 December 2019 and dated 30 September 2022 and the circular of the Company dated 16 November 2022 for relevant details of the transaction.

Continuing Connected Transactions – Logistics and Delivery Services Framework Agreement

On 24 September 2021, the Company entered into the Logistics and Delivery Services Framework Agreement (the "Logistics and Delivery Services Framework Agreement") with Bailian Group, pursuant to which, the Company agreed to provide logistics and delivery services as well as entrusted management services to Bailian Group for a term of three years commencing from 1 January 2022 to 31 December 2024 (both days inclusive).

The Company and its subsidiaries agreed to provide logistics and delivery services as well as entrusted management services to Bailian Group and its subsidiaries. The logistics and delivery services include but not limited to delivery, allocation, and return of goods within Shanghai and delivery and storage management service (i.e. delivery of goods into the warehouse, storage, sorting and retrieval of goods from the warehouse) outside Shanghai. The entrusted management services refers to entrusting the Company to manage the delivery services department and personnel of Bailian Group and payment of management fees to the Company.

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

The prices for the services to be provided under the Logistics and Delivery Services Framework Agreement are determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties on the basis of the prevailing market prices of such services. The payment under the individual logistics and delivery services contract is to be made according to the terms of the individual logistics and delivery services contract. The prices for the services provided by the Company will not be less favourable to the Company than those available to independent third parties in similar transactions.

Bailian Group is a substantial Shareholder and therefore is a connected person of the Company. As such, the transactions contemplated under the Logistics and Delivery Services Framework Agreement constitute continuing connected transactions of the Company.

The respective maximum annual transaction amounts payable by Bailian Group to the Company for each of the three years ending 31 December 2024 under the Logistics and Delivery Services Framework Agreement are RMB20,000,000.

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

The actual transaction amount under the Logistics and Delivery Services Framework Agreement for the year ended 31 December 2022 is approximately RMB4,585 thousand.

Please refer to the announcement of the Company dated 24 September 2021 for relevant details of the transaction.

Continuing Connected Transactions – Rajax Logistics and Delivery Services Framework Agreement

On 24 September 2021, the Company entered into the Rajax Logistics and Delivery Services Framework Agreement (the "Rajax Logistics and Delivery Services Framework Agreement") with Hangzhou Rajax Information Technology Co., Ltd.* (杭州拉扎斯信息科技有限公司)("Hangzhou Rajax"), pursuant to which, Hangzhou Rajax agreed to provide logistics and delivery services to the Group, including but not limited to the provision of delivery information, resources connection and delivery, allocation, and return of goods within Shanghai and delivery and storage management services outside Shanghai for a term commencing from 1 January 2022 to 31 December 2024.

Hangzhou Rajax and its subsidiaries agreed to provide logistics and delivery services to the Group, including but not limited to the provision of delivery information, resources connection and delivery, allocation, and return of goods within Shanghai and delivery and storage management services outside Shanghai. The operating units of both parties may enter into individual logistics and delivery services contracts setting out specific terms of logistics and delivery services, including the services to be provided, price determination method and payment. Such terms shall be consistent with the principles and the terms of Rajax Logistics and Delivery Services Framework Agreement. If there is any discrepancy between the terms of an individual logistics and delivery services contract and the Rajax Logistics and Delivery Services Framework Agreement, the latter shall prevail.

The prices for the services to be provided under the Rajax Logistics and Delivery Services Framework Agreement are determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties on the basis of the market prices of such services. The payment under the individual logistics and delivery services contract is to be made according to the terms of the individual logistics and delivery services contract. However, the payment shall be made by bank transfer. The prices for the services provided by Hongzhou Rajax will not be less favourable than those available from independent third parties in similar transactions.

Hangzhou Rajax is an indirect subsidiaries of Alibaba Group, which is the holding company of Alibaba China. Alibaba China is a substantial Shareholder and therefore is a connected person of the Company. As such, Hangzhou Rajax is an associate of Alibaba China and a connected person of the Company. Accordingly, the transactions contemplated under the Rajax Logistics and Delivery Services Framework Agreement constitute continuing connected transactions of the Company.

The respective maximum annual transaction amounts payable by the Company for each of the three years ending 31 December 2024 under the Rajax Logistics and Delivery Services Framework Agreement are RMB7 million, RMB15 million and RMB28 million.

As the highest applicable percentage ratio for the transactions under the Rajax Logistics and Delivery Services Framework Agreement is more than 0.1% but less than 5%, the transactions contemplated under the Rajax Logistics and Delivery Services Framework Agreement 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.

The actual transaction amount under the Rajax Logistics and Delivery Services Framework Agreement for the year ended 31 December 2022 is approximately RMB1,303 thousand.

Please refer to the announcement of the Company dated 24 September 2021 for relevant details of the transaction.

Continuing Connected Transactions – Logistics and Delivery Services Framework Agreement

On 24 December 2020, the Company entered into the Logistics and Delivery Services Framework Agreement (the "Logistics and Delivery Services Framework Agreement") with Bailian Group, pursuant to which, Bailian Group agreed to provide logistics and delivery services to the Group, for a term commencing from 1 January 2021 to 31 December 2023 (both days inclusive).

Bailian Group and/or its subsidiaries agreed to provide logistics and delivery services to the Group. The logistics and delivery services provided by Bailian Group include but not limited to providing delivery services, allocation services and returning services within the city of Shanghai, and providing delivery services and warehousing services outside the city of Shanghai, to the Group on a non-exclusive basis. The provision of delivery services by Bailian Group refers to the delivery of goods by Bailian Group to the Group at the various outlets of the Group and the provision of warehousing services refers to the delivery of goods into the warehouse, storage, sorting and retrieval of goods from the warehouse.

The operating units of both parties may enter into individual logistics and delivery services contracts setting out specific terms of such services including price, settlement method and payment arrangement. Such terms shall be consistent with the principles and the terms of the Logistics and Delivery Services Framework Agreement. If there is any discrepancy between the terms of an individual logistics and delivery services contract and the Logistics and Delivery Services Framework Agreement, the latter shall prevail.

The price for the logistics and delivery services under the Logistics and Delivery Services Framework Agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties on the basis of the market price of such services. The payment under the individual logistics and delivery services contract is to be made according to the terms of the individual logistics and delivery services contracts. The prices for the services provided by Bailian Group to the Company will not be less favourable than those available from independent third parties in similar transactions.

The respective maximum annual transaction amounts payable by the Group for the financial years ending 31 December 2021, 31 December 2022 and 31 December 2023 under the Logistics and Delivery Services Framework Agreement are RMB16,000,000, RMB25,000,000 and RMB35,000,000.

As Bailian Group is a substantial Shareholder, Bailian Group is a connected person of the Company. Therefore, the transactions contemplated under the Logistics and Delivery Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio for the transactions under the Logistics and Delivery Services Framework Agreement is more than 0.1% but less than 5%, the transactions contemplated under the Logistics and Delivery Services Framework Agreement 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.

The actual transaction amount under the Logistics and Delivery Services Framework Agreement for the year ended 31 December 2022 is approximately RMB176 thousand.

Please refer to the announcement of the Company dated 24 December 2020 for relevant details of the transaction.

Continuing Connected Transactions – Logistics Resources Leasing Framework Agreement

On 24 September 2021, the Company entered into the logistics resources leasing framework agreement (the "Logistics Resources Leasing Framework Agreement") with Bailian Group, pursuant to which, Bailian Group and its subsidiaries agreed to lease to the Group logistics resources, including but not limited to trays and other logistics resources, for the Group's daily logistics needs for a term commencing from 1 January 2022 to 31 December 2024 (both days inclusive).

The operating units of both parties may enter into individual logistics resources leasing contracts setting out specific terms of such services including price, settlement method, payment method and time of payment. Such terms shall be consistent with the principles and the terms of the Logistics Resources Leasing Framework Agreement. If there is any discrepancy between the terms of an individual logistics resources leasing contract and the Logistics and Delivery Services Framework Agreement, the latter shall prevail.

The price for the logistics resources leased under the Logistics Resources Leasing Framework Agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties on the basis of the market price of such services. The prices for the logistics resources provided by Bailian Group to the Company will not be less favourable than those available from independent third parties in similar transactions.

The payment under the individual logistics resources leasing contract is to be made according to the terms of the individual logistics resources leasing contract. The payment under the individual logistics resources leasing contract are to be made by bank transfer on a monthly or agreed period basis and shall be consistent with the market payment terms of leasing such kind of logistics resources.

The respective maximum annual rental amounts payable by the Company for each of the three years ending 31 December 2024 under the Logistics Resources Leasing Framework Agreement are RMB4,000 thousand.

The subject of this transaction is trays and other logistics resources. According to the individual contract entered into by the parties, the rental is settled pursuant to the quantity of trays and other logistics resources leased on a monthly basis. Since the unit rental price of the trays and other logistics resources is quite low and the rental is settled pursuant to the monthly leased quantity, the rental fluctuates greatly. Since the trays and other logistics resources are not specifically designated and are replaceable, and the value of the subject assets has no significant impact on the financial statements of the Group, the transaction contemplated under the existing logistics resources leasing framework agreement has been accounted with reference to low-value leases and included in the rental expenses without recognising the right-of use assets after the implementation of Hong Kong Financial Reporting Standards (HKFRS) 16 by the Company in 2019. Therefore, this transaction only set the annual caps for the rental, and did not set annual caps for the value of the right-of-use assets.

Bailian Group is a substantial Shareholder and is a connected person of the Company. Therefore, the transactions contemplated under the Logistics Resources Leasing Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio for the transactions under the Logistics Resources Leasing Framework Agreement is more than 0.1% but less than 5%, the transactions contemplated under the Logistics Resources Leasing Framework Agreement 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.

The actual transaction amount under the Logistics Resources Leasing Framework Agreement for the year ended 31 December 2022 is approximately RMB2,373 thousand.

Please refer to the announcement of the Company dated 24 September 2021 for relevant details of the transaction.

Continuing Connected Transactions – Modified Leasing Agreement

On 29 April 2005, Shanghai Century Lianhua Supermarket Jinshan Co., Ltd.* (上海世紀聯華超市金山有限公司)("Century Lianhua Jinshan"), a wholly-owned subsidiary of the Company, and Shanghai Tianle Real Estate Development Co., Ltd.* (上海天樂房產開發有限公司)("Shanghai Tianle"), an independent third party, entered into a leasing agreement in relation to the leasing of the first floor and the second floor of the premise located at No. 388 Jinlongxin Street, Zhujing Town, Jinshan District, Shanghai, the PRC ("Jinshan Premise") by Shanghai Tianle to Century Lianhua Jinshan for a term of 15 years from 1 June 2007 to 31 May 2022 (the "leasing agreement").

On 12 November 2007, Century Lianhua Jinshan and Shanghai Tianle entered into a supplemental leasing agreement (the "supplemental leasing agreement", and collectively with the leasing agreement, the "original leasing agreements") to amend the total leasing area and the annual rents under the leasing agreement.

Jinshan Premise was sealed up by court in 2012. Shanghai Yibai Group Real Estate Co., Ltd.* (上海一百集團房地產有限公司)("Shanghai Yibai") then purchased Jinshan Premise and obtained the ownership of Jinshan Premise by enforcement decision of the court on 7 September 2015 through judicial auction. On 26 May 2018, Shanghai Yibai obtained the relevant ownership certificate of Jinshan Premise.

On 14 December 2018, Century Lianhua Jinshan entered into the Modified Leasing Agreement (the "Modified Leasing Agreement") with Shanghai Yibai to modify the lessor of the original leasing agreements. Pursuant to such agreement, the lessor of the original leasing agreements was modified from Shanghai Tianle to Shanghai Yibai, while the other terms of the original leasing agreements remained unchanged. Upon the entering into of the Modified Leasing Agreement, all the rights and obligations under the original leasing agreements would be transferred to and performed by Century Lianhua Jinshan and Shanghai Yibai since 7 September 2015.

The term of the Modified Leasing Agreement is the same as the original leasing agreements, namely a term of 15 years commencing from 1 June 2007 to 31 May 2022 (both days inclusive).

As the term of the Modified Leasing Agreement exceeds three years, pursuant to Rule 14A.44 of the Listing Rules, the Company has engaged an independent financial adviser to review the Modified Leasing Agreement and the independent financial adviser has confirmed that it is in the normal business practice for contracts of this type to be of such duration.

The rents payable by Century Lianhua Jinshan under the Modified Leasing Agreement comprised the property management fee and rents for equipment, which will be paid semi-annually by Century Lianhua Jinshan to Shanghai Yibai.

The annual rents are calculated as follows: annual rents = the unit price (i.e. RMB0.94 per square meter per day) × total leasing area (i.e. 12,589.65 square meters) × 365 days. The annual rents will increase by 5% for every three years starting from the first year of the original leasing agreements.

As mentioned above, Shanghai Yibai has not obtained the ownership certificate of Jinshan Premise until May 2018 and thus Century Lianhua Jinshan was not obliged to pay the relevant rents prior to May 2018. The total outstanding rents for Jinshan Premise for the term from 7 September 2015 (namely the date when Shanghai Yibai obtained the ownership of Jinshan Premise by enforcement decision of the court through judicial auction) to 30 November 2018 amounted to approximately RMB15.99 million. Century Lianhua Jinshan planned to pay such rents in lump sum to Shanghai Yibai before 31 December 2018.

The maximum annual rents payable by Century Lianhua Jinshan for the periods from 1 December 2018 to 31 May 2022 under the Modified Leasing Agreement are RMB5.5 million each year.

As the Hong Kong Financial Reporting Standards 16 "Lease" took effect from 1 January 2019 and is applicable to financial year stating on or after 1 January 2019, the annual caps for the continuing connected transactions of property leasing with the Group as the lessee for the periods from 1 January 2019 to 31 May 2022 under the Modified Leasing Agreement are RMB18.1 million each year. The annual caps are set based on the total value of rights of use assets relating to Jinshan Premise under the Modified Leasing Agreement.

Shanghai Yibai is a wholly-owned subsidiary of Bailian Group, a substantial Shareholder. Accordingly, the transactions contemplated under the Modified Leasing Agreement constitute continuing connected transactions of the Company.

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

The actual rental paid by Century Lianhua Jinshan under the Modified Leasing Agreement for the year ended 31 December 2022 is approximately RMB2,067 thousand.

Please refer to the announcement of the Company dated 14 December 2018 for relevant details of the transaction.

Continuing Connected Transactions – Financial Services Agreement

On 24 September 2021, the Company, Bailian Group and Bailian Group Finance Co., Ltd. (百聯集團財務有限責任公司) ("Bailian Finance") entered into the financial services agreement (the "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 2022 to 31 December 2024.

The major terms of the agreement are set out as follows:

1. Deposit cap: the maximum daily balance of the Group's deposits with Bailian Finance for each of the three years ending 31 December 2024 is RMB1.2 billion (including any interest accrued therefrom).

2. Bailian Finance has undertaken to adhere to the principles below in relation to the provision of the financial services to the Group:

   (i) the interest rate payable by Bailian Finance to the Group for any deposits shall not be lower than the benchmark interest rate for comparable deposits as announced by the PBOC and shall not be lower than the interest rate paid by other major commercial banks in the PRC for comparable deposits;

(ii) the interest rate 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;

(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 year; 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.

3. The Company 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.

Bailian Group is a substantial Shareholder and Bailian Finance is a subsidiary of Bailian Group. Accordingly, Bailian Finance and Bailian Group are connected persons of the Company. Therefore, 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 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 for the highest proposed annual cap for the provision of deposit services under the Financial Services Agreement is more than 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.

As the highest applicable percentage ratio for other services provided by Bailian Finance to the Company is more than 0.1% but less than 5%, other services provided by Bailian Finance to the Company 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.

The loan services to be provided by Bailian Finance to the Group under the Financial Services Agreement constitute financial assistance to be provided by a connected person for the benefit of the Group. As such services are on normal commercial terms which are similar to or even more favourable than those offered by other commercial banks for comparable services in the PRC, and no security over the assets of the Group will be granted in respect of the loan services, the loan services are fully exempt from all reporting, annual review, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Listing Rules.

The provision of deposit services under the Financial Services Agreement and its proposed annual caps were approved by the independent Shareholders at the extraordinary general meeting on 2 December 2021.

The maximum daily deposit balance placed by the Group in Bailian Finance under the Financial Service Agreement for the year ended 31 December 2022 is approximately RMB1,174,048 thousand (including any interest occurred).

The actual total service fees to be charged by Bailian Finance for the provision of other financial services to the Group under the Financial Service Agreement for the year ended 31 December 2022 is RMB0.

Please refer to the announcement of the Company dated 24 September 2021, and the circular of the Company dated 26 October 2021 for relevant details of the transactions.

Continuing Connected Transactions – Supply of Goods Framework Agreement and Procurement of Goods Framework Agreement

On 8 October 2018, the Company entered into the Supply of Goods Framework Agreement (the "Supply of Goods Framework Agreement") with Bailian Group, pursuant to which, Bailian Group agreed to supply various kinds of goods, including but not limited to fresh produce, food and industrial products, for sales in the outlets of the Group for a term of three years commencing from 1 January 2019 to 31 December 2021 (both days inclusive).

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

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

Depending on the specific goods to be procured and the practices of Bailian Group and/or its associates, the actual payments for the sale of the goods under the Supply of Goods Framework Agreement are to be made on a monthly or agreed period basis (which shall be determined by the market practice of the payment period of such particular type of goods purchased and shall not be less favourable than those available from independent third parties). Details of payment terms shall be set out in the individual supply of goods contracts to be entered into between both parties with reference to the normal commercial terms of Bailian Group and/or its associates and on terms not less favourable than those available from independent third parties. In the event that such payment is made on an agreed period basis, the actual payment day shall be at least 15 days after the date of delivery of goods.

Bailian Group is a substantial Shareholder and is a connected person of the Company. Therefore, the transactions contemplated under the Supply of Goods Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

It is expected that the maximum aggregate annual transaction amounts under the Supply of Goods Framework Agreement for each of the three years ending 31 December 2021 are RMB150 million, RMB170 million and RMB200 million, respectively.

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

The Supply of Goods Framework Agreement and the continuing connected transactions and the annual caps contemplated thereunder were approved by the independent Shareholders at the extraordinary general meeting on 26 November 2018.

As it is expected that the existing annual caps under the Supply of Goods Framework Agreement for the two years ending 31 December 2021 will not be sufficient for the Company's current requirements based on internal estimation and that the Company will continue to procure goods supplied by Bailian Group in its ordinary and usual course of business, the Company entered into the Procurement of Goods Framework Agreement (the "Procurement of Goods Framework Agreement") with Bailian Group on 16 April 2020 to revise the existing annual caps for the two years ending 31 December 2021 and to set the annual cap for the year ending 31 December 2022.

The Procurement of Goods Framework Agreement proposes to revise the existing annual caps for the two years ending 31 December 2021 under the Supply of Goods Framework Agreement from RMB170 million and RMB200 million, respectively, to RMB500 million and RMB600 million, respectively. The proposed annual cap for the year ending 31 December 2022 is RMB700 million.

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

The Procurement of Goods Framework Agreement and its proposed annual caps were approved by the independent Shareholders at the annual general meeting on 22 June 2020.

The actual transaction amount under the Procurement of Goods Framework Agreement for the year ended 31 December 2022 is approximately RMB211,725 thousand.

On 30 September 2022, the Company renewed the Procurement of Goods Framework Agreement with Bailian Group, pursuant to which, the Group agreed to procure and Bailian Group and/or its associates agreed to supply various kind of goods, including but not limited to fresh produce, food and industrial products, for sales in the outlets of the Group for a term commencing from 1 January 2023 to 31 December 2025 (both days inclusive).

The respective maximum annual transaction amounts payable by the Group to Bailian Group for the financial years ending 31 December 2023, 31 December 2024 and 31 December 2025 under the Procurement of Goods Framework Agreement are RMB500,000 thousand, RMB600,000 thousand and RMB700,000 thousand.

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

The Procurement of Goods Framework Agreement and its proposed annual caps were approved by the independent Shareholders at the extraordinary general meeting on 1 December 2022.

Please refer to the announcements of the Company dated 8 October 2018, dated 16 April 2020 and dated 30 September 2022, and the circulars of the Company dated 26 October 2018, dated 8 May 2020 and dated 16 November 2022 for relevant details of the transaction.

Continuing Connected Transactions – Framework Agreement between the Company and Bailian Group from 2022 to 2024

On 24 September 2021, the Company entered into various framework agreements with Bailian Group in respect of various transactions from 2022 to 2024, including transactions of smart cards arrangement, leasing and property management respectively.

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
Smart cards arrangement agreement	Each of the Company and Bailian Group has its own smart cards system which enables its customers to make purchases by using smart cards with prepaid values. Pursuant to the Smart Cards Arrangement Agreement, the parties agreed to accept all payments of purchases from the customers by using the smart cards issued by the other party within their respective sales networks.	Each party shall charge the other party a management service fee of not more than 0.5% of such transaction amounts which are attributable to the other party. Such percentage shall be determined by arm's length commercial negotiations between the relevant parties with reference to the gross margin level of companies in the market using smart cards system for settlement of customers' purchases, size of transaction, application conditions and business operation conditions and set out in the individual smart cards arrangement contracts. The fee payable under the Smart Cards Arrangement Agreement is to be made by bank transfer on a monthly basis.	The maximum fee payable by Bailian Group to the Company for each of the three years ending 31 December 2024 is RMB20 million, whereas the maximum fee payable by the Company to Bailian Group for each of the three years ending 31 December 2024 is RMB20 million.	The actual fees paid by Bailian Group to the Company for the year ended 31 December 2022 is RMB5,242 thousand, whereas the actual fees paid by the Company to Bailian Group for the year ended 31 December 2022 is RMB7,119 thousand.

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
	The relevant subsidiaries of the parties will enter into individual smart cards arrangement contracts setting out specific terms for the arrangement, including the technologies required, operation details, settlement arrangements and the fees and charges. Such terms will be consistent with the principles and the terms of the Smart Cards Arrangement Agreement. If there is any discrepancy between the terms of an individual smart cards arrangement contract and the Smart Cards Arrangement Agreement, the latter shall prevail.			

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
Leasing framework agreement	Pursuant to the Leasing Framework Agreement, Bailian Group agreed to lease certain premises to the Company for the Company's establishment of various operations, including but not limited to supermarkets, convenience stores, warehouses and offices, but excluding hypermarkets. The parties and/or its subsidiaries will enter into individual leasing contracts setting out specific terms of leasing including the details of relevant premises, the principles of rent determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the Leasing Framework Agreement. If there is any discrepancy between the terms of an individual leasing contract and the Leasing Framework Agreement, the latter shall prevail.	The rent for leasing certain premises under the Leasing Framework Agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market prices of similar properties in same locations from time to time. Depending on the specific conditions of transactions contemplated under the individual leasing contracts, the fee payable under the individual leasing contracts is to be made by bank transfer on a monthly, quarterly, half-yearly or annual basis. Transactions contemplated under the Leasing Framework Agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable from independent third parties.	The maximum aggregate annual transaction amounts in respect of leasing services provided by Bailian Group and/or its subsidiaries under the Leasing Framework Agreement for each of the three years ending 31 December 2024 are RMB9 million. The annual caps for the value of right-of-use assets under the Leasing Framework Agreement for each of the three years ending 31 December 2024 is RMB38 million.	The actual transaction amount of the transactions under the leasing framework agreement for the year ended 31 December 2022 is RMB5,282 thousand.

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
Property management framework agreement	Pursuant to the Property Management Framework Agreement, Bailian Group agreed to provide property management services, including but not limited to cleaning and sanitary services, maintenance and repair services, security and safety services and environmental greening and planting services to certain premises of the Group including offices and retail stores for a term of three years commencing from 1 January 2022 to 31 December 2024.	The fee for the provision of property management services under the Property Management Framework Agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the property management fees of similar properties in the market from time to time. Depending on the different sizes of the properties managed, the different amounts of the annual property management fee and the business scale of the counterparties, the fee payable under the Property Management Framework Agreement is to be made by bank transfer on a monthly or quarterly basis. Transactions contemplated under the Property Management Framework Agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable than those available from independent third parties.	The maximum aggregate annual transaction amounts under the Property Management Framework Agreement for each of the three years ending 31 December 2024 are RMB18 million.	The actual transaction amount of the transactions under the property management framework agreement for the year ended 31 December 2022 is RMB13,820 thousand.

Agreement	Transaction Particulars	Principal Terms	Annual Cap	Actual Transaction Amount
	The parties and/or its subsidiaries will enter into individual property management contracts setting out specific terms of the provision of property management services including the principles of property management fee determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the Property Management Framework Agreement. If there is any discrepancy between the terms of an individual property management contract and the Property Management Framework Agreement, the latter shall prevail.			

The parties will enter into individual contracts in respect of the transactions of smart cards arrangement, leasing and property management. Such terms will be consistent with the principles and the terms of each of the smart cards arrangement agreement, the leasing framework agreement and the property management framework agreement.

Bailian Group is a substantial Shareholder. Accordingly, Bailian Group is a connected person of the Company and the abovementioned framework agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios for the smart cards arrangement agreement, the leasing framework agreement and the property management framework agreement are more than 0.1% but less than 5%, the transactions contemplated thereunder 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.

Please refer to the announcement of the Company dated 24 September 2021 for relevant details.

Continuing Connected Transactions – Sales Agency Framework Agreement

On 24 September 2021, the Company entered into the Sales Agency Framework Agreement (the "Sales Agency Framework Agreement") with Bailian Omni-channel E-commerce Co., Ltd. ("Bailian Omni-channel"), pursuant to which, Bailian Omni-channel agreed to sell the goods on behalf of the Group through its e-commerce platform for a term of one year commencing from 1 January 2022 to 31 December 2022.

Pursuant to the Sales Agency Framework Agreement, Bailian Omni-channel agreed to sell the goods (namely, food, washing detergent, fresh produce, home textiles, home appliances and miscellaneous items) (the "Goods") on behalf of the Group through its e-commerce platform.

Bailian Omni-channel will settle the Selling Prices (as defined below) with the Company on a monthly basis. The fees payable by the Company are as follows:

In respect of Goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group through the main site of their ecommerce platforms, the Company will pay Bailian Omni-channel the platform usage fee which is equivalent to 4% of the total transaction amount of Goods sold and shall not exceed 4% of the sales budget of the Goods. The sales budget is formulated by Lianhua E-business Co., Ltd.* (聯華電子商務有限公司), a subsidiary of the Company which is responsible for handling the online sales business of the Group, and reviewed and approved by the management and the Board of the Company. Besides, the Company shall also pay Bailian Omni-channel the payment handling fees which shall be charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold. As such, for Goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group through the main site of their e-commerce platforms, the aggregate amount of fees payable by the Company to Bailian Omni-channel shall be the platform usage fee which is equivalent to 4% of the total transaction amount of Goods sold or 4% of the sales budget of the Goods (whichever is lower) plus the payment handling fee which is charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold.

In respect of Goods sold by the Group through the third-party platforms, the Company will pay Bailian Omni-channel the platform usage fee which is equivalent to 1% of the total transaction amount of Goods sold. Besides, the Company shall pay the third-party platforms the platform usage fees as agreed by both parties.

The parties and/or its subsidiaries will enter into individual sales agency contracts setting out specific terms including the transaction price determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the Sales Agency Framework Agreement. If there is any discrepancy between the terms of an individual sales agency contract and the Sales Agency Framework Agreement, the latter shall prevail.

The Company or its subsidiaries has the sole discretion to set the selling prices of the Goods (the "Selling Prices") to be sold on the e-commerce platforms of Bailian Omni-channel and/or its subsidiaries. The prices at which the Company or its subsidiaries charges Bailian Omni-channel and/or its subsidiaries for the supply of the Goods is the same as the Selling Prices.

The Selling Prices are set solely by the Company or its subsidiaries with reference to the prevailing prices of the comparable Goods sold at the outlets of the Group during the same period and as such, the Selling Prices are subject to the same pricing policies as that of the Group with respect to its outlets. This would ensure that the Selling Prices would not be less favourable than those available from independent third parties in real-time.

In respect of Goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group through the main site of their ecommerce platforms, the Company agrees to pay Bailian Omnichannel (i) the platform usage fee which is equivalent to 4% of the total transaction amount of Goods sold or 4% of the sales budget of the Goods (whichever is lower); and (ii) the payment handling fee which is charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold.

In respect of Goods sold by the Group through the third-party platforms, the Company agrees to (i) pay Bailian Omni-channel the platform usage fee which is equivalent to 1% of the total transaction amount of Goods sold; and (ii) pay the third party platforms the platform usage fees as agreed by both parties.

Depending on the specific conditions of transactions contemplated under the individual sales agency contracts, the platform usage fee payable by the Company or its subsidiaries to Bailian Omni-channel and/or its subsidiaries and the Selling Prices payable by Bailian Omni-channel and/or its subsidiaries to the Company or its subsidiaries under the individual sales agency contracts are to be made by bank transfer on a monthly or agreed period basis and shall be consistent with the market payment terms of purchasing such particular type of Goods.

The transactions contemplated under the Sales Agency Framework Agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Omni-channel on normal commercial terms and on terms not be less favourable than those available from independent third parties.

The shopping procedures and payment method for the transactions under the Sales Agency Framework Agreement are set out as follows:

(1) The end customer will place an order for the purchase of Goods and pay the Selling Prices to Bailian Omni-channel on its e-commerce platform. After Bailian Omni-channel and/or its subsidiaries receives an order from the end customer on its e-commerce platform, it will notify the Company or its subsidiaries of the order. Upon receiving such notification, the Company or its subsidiaries will deliver the Goods through a third party logistic company directly to the end customer. Bailian Omni-channel will settle the Selling Prices with the Company which is equivalent to the total transaction amount of Goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group through its e-commerce platform on a monthly basis. After the Selling Prices are settled by Bailian Omni-channel, the Company will pay Bailian Omni-channel (i) the platform usage fee which is equivalent to 4% of the total transaction amount of Goods sold or 4% of the sales budget of the Goods (whichever is lower); and (ii) the payment handling fee which is charged on a cost-incurred basis and shall not exceed 0.5% of the total transaction amount of Goods sold.

(2) The end customer will place an order for the purchase of Goods of the Group and pay the Selling Prices to the third-party platforms on their e-commerce platforms. The third-party platforms will transmit the order information to Bailian Omni-channel, and Bailian Omni-channel will notify the Company or its subsidiaries of such order information. Upon receiving such notification, the Company or its subsidiaries will deliver the Goods to the end customer. The settlement period between Bailian Omni-channel and the third-party platforms is subject to the individual contracts entered into by them. Bailian Omni-channel will settle the Selling Prices with the Company which is equivalent to the total transaction amount of Goods sold through the third-party platforms on a monthly basis. After the Selling Prices are settled by Bailian Omni-channel, the Company will (i) pay Bailian Omni-channel the platform usage fee which is equivalent to 1% of the total transaction amount of Goods sold by the Group through the third-party platforms; and (ii) pay the third party platforms the platform usage fees as agreed by both parties.

Bailian Group is a substantial Shareholder of the Company, Bailian Omni-channel is a wholly-owned subsidiary of Bailian Group. Accordingly, Bailian Omni-channel is a connected person of the Company. Therefore, the transactions under the Sales Agency Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The maximum aggregate annual transaction amount in respect of the Goods to be sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group under the Sales Agency Framework Agreement for the year ending 31 December 2022 is RMB1.6 billion. The maximum platform usage fee payable by the Group under the Sales Agency Framework Agreement for the year ending 31 December 2022 is RMB50 million.

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

The Sales Agency Framework Agreement and its annual caps were approved by the independent Shareholders at the extraordinary general meeting on 2 December 2021.

The actual transaction amount in respect of the goods sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group under the Sales Agency Framework Agreement for the year ended 31 December 2022 is approximately RMB532,131.0 thousand. The actual platform usage fee paid by the Group under the Sales Agency Framework Agreement for the year ended 31 December 2022 is approximately RMB45,523 thousand.

On 30 September 2022, the Company renewed the Sales Agency Framework Agreement with Bailian Omni-channel, pursuant to which, Bailian Omni-channel agreed to sell the Goods on behalf of the Group through its e-commerce platform for a term of one year commencing from 1 January 2023 to 31 December 2023.

The maximum annual transaction amount in respect of the Goods to be sold by Bailian Omni-channel and/or its subsidiaries on behalf of the Group for the financial year ending 31 December 2023 under the Sales Agency Framework Agreement is RMB1,800,000 thousand. The maximum platform usage fee payable by the Group for the financial year ending 31 December 2023 under the Sales Agency Framework Agreement is RMB110,000 thousand.

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

The Sales Agency Framework Agreement and its annual caps were approved by the independent Shareholders at the extraordinary general meeting on 1 December 2022.

Please refer to the announcements of the Company dated 24 September 2021 and 30 September 2022, and the circulars of the Company dated 26 October 2021 and 16 November 2022, respectively for relevant details of the transaction.

Continuing Connected Transactions – Membership Points Agency and Settlement Service Agreement

On 24 September 2021, the Company entered into the Membership Points Agency and Settlement Service Agreement (the "Membership Points Agency and Settlement Service Agreement") with Bailian Finance, pursuant to which, Bailian Finance agreed to provide the Group with deposit, withdrawal and settlement services for the membership points of the Company for a term of three years commencing from 1 January 2022 to 31 December 2024.

According to the Membership Points Agency and Settlement Service Agreement, Bailian Finance will (i) in accordance with the instructions of the Company, withdraw corresponding fees from the Company's relevant account in Bailian Finance and transfer the same to Bailian Finance's settlement account based on the membership points granted by the Company; and (ii) in accordance with the instructions of the Company, transfer corresponding fees to the Company's relevant account in Bailian Finance from Bailian Finance's settlement account based on the membership points received by the Company. The membership points granted by the Company and Bailian Group and their respective subsidiaries can be used by customers in purchasing goods or services from the Company and Bailian Group and their respective subsidiaries.

The parties and/or its subsidiaries will enter into individual membership points agency and settlement service contracts setting out specific terms of the provision of deposit, withdrawal and settlement services for membership points including the principles of service fee determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the Membership Points Agency and Settlement Service Agreement. If there is any discrepancy between the terms of an individual membership points agency and settlement service contract and the Membership Points Agency and Settlement Service Agreement, the latter shall prevail.

The maximum aggregate annual transaction amounts to be withdrawn from the Company's relevant account in Bailian Finance to Bailian Finance's settlement account under the Membership Points Agency and Settlement Service Agreement for each of the three years ending 31 December 2024 are RMB30 million.

The maximum aggregate annual amounts to be transferred from Bailian Finance's settlement account to the Company's relevant account in Bailian Finance under the Membership Points Agency and Settlement Service Agreement (including the interests to be paid by Bailian Finance) for each of the three years ending 31 December 2024 are RMB30 million.

Bailian Group is a substantial shareholder of the Company and Bailian Finance is a subsidiary of Bailian Group. Accordingly, Bailian Finance is a connected person of the Company. Therefore, the transactions under the Membership Points Agency and Settlement Service Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio for the transactions under the Membership Points Agency and Settlement Service Agreement is more than 0.1% but less than 5%, the transactions contemplated under the Membership Points Agency and Settlement Service Agreement 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.

The actual amount withdrawn from the Company's relevant account in Bailian Finance to Bailian Finance's settlement account under the Membership Points Agency and Settlement Service Agreement for the year ended 31 December 2022 is approximately RMB11,196 thousand. The actual amount (including interests paid by Bailian Finance) transferred from Bailian Finance's settlement account to the Company's relevant account in Bailian Finance under the Membership Points Agency and Settlement Service Agreement for the year ended 31 December 2022 is approximately RMB19,361 thousand.

Please refer to the announcement of the Company dated 24 September 2021 for relevant details of the transactions.

Continuing Connected Transactions – Property Leasing Framework Agreement

On 24 September 2021, the Company entered into the Property Leasing Framework Agreement (the "Property Leasing Framework Agreement") with Bailian Group, pursuant to which, the Company agreed to lease properties to Bailian Group and/or its subsidiaries (including but not limited to Bailian Financial Services Co., Ltd. and Shanghai Bailian) for use as shopping mall, offices or other purposes for a term commencing from 1 January 2022 to 31 December 2024.

The parties will enter into individual property leasing agreements setting out specific terms including the transaction price determination, settlement method, payment terms and timing of payment. Such terms will be consistent with the principles and the terms of the Property Leasing Framework Agreement. If there is any discrepancy between the terms of an individual property leasing agreements and the Property Leasing Framework Agreement, the latter shall prevail.

The rental of the properties leased by the Company to Bailian Group under the Property Leasing Framework Agreement is determined principally by arm's length commercial negotiations according to the principles of fairness and reasonableness between the relevant parties with reference to the market prices of comparable properties in same locations from time to time.

Depending on the specific usages of different properties, their specific locations, amount of the annual rent and the business scale of the counterparties, the rentals payable by Bailian Group under the Property Leasing Framework Agreement are to be made by bank transfer on a monthly, quarterly, half-yearly or yearly basis and shall be consistent with the market payment terms of leasing the comparable properties.

The transactions contemplated under the Property Leasing Framework Agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable than those available from independent third parties.

Bailian Group is a substantial Shareholder of the Company. Accordingly, Bailian Group is a connected person of the Company. Therefore, the transactions under the Property Leasing Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The maximum aggregate annual transaction amounts in respect of the lease of the properties to Bailian Group by the Company under the Property Leasing Framework Agreement for each of the three years ending 31 December 2024 are RMB38 million.

As the highest applicable percentage ratio for the transactions under the Property Leasing Framework Agreement is more than 0.1% but less than 5%, the transactions contemplated under the Property Leasing Framework Agreement 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.

The actual transaction amount of the transactions under the Property Leasing Framework Agreement for the year ended 31 December 2022 is approximately RMB7,399.3 thousand.

Please refer to the announcement of the Company dated 24 September 2021 for relevant details of the transaction.

Continuing Connected Transactions – Warehouse Leasing Framework Agreement

On 5 December 2019, the Company entered into the Warehouse Leasing Framework Agreement (the "Warehouse Leasing Framework Agreement") with Bailian Group, pursuant to which, the Company agreed to lease warehouses to Bailian Group for use as warehouses, offices or other purposes, for a term commencing from 1 January 2020 to 31 December 2022 (both days inclusive).

Both parties are entitled to conduct specific negotiations regarding the warehouse leasing business cooperation and are allowed to enter into individual lease agreements regarding the warehouse leasing business cooperation. The Company and Bailian Group will be allowed to authorise their subordinate operating units to perform the individual warehouse leasing business cooperation and to assume the relevant obligations. These authorised subordinate operating units are entitled to enter into, and execute, individual lease agreements regarding the warehouse leasing business cooperation. Individual lease agreements regarding the warehouse leasing business cooperation shall be subject to the principles and the terms of the Warehouse Leasing Framework Agreement. If there is any conflict between the terms of any such individual lease agreements and the Warehouse Leasing Framework Agreement, the latter shall prevail.

The rental of warehouses leased by the Company to Bailian Group under the Warehouse Leasing Framework Agreement is determined principally on arm's length commercial negotiations according to the principles of fairness and reasonableness with reference to the market rental of comparable properties.

Individual lease agreements to be entered into during the term of the Warehouse Leasing Framework Agreement regarding the warehouse leasing business cooperation should set out clearly the specific terms including the price determination method, settlement method, payment terms and timing of payment. Depending on the specific conditions of the transactions contemplated under the individual lease agreements, the rental payment under the specific lease agreements should be made by bank transfer on a monthly or agreed basis.

The transactions contemplated under the Warehouse Leasing Framework Agreement will be conducted in the ordinary and usual course of business of the Company and Bailian Group on normal commercial terms and on terms not less favourable to the Company than those available to independent third parties.

Bailian Group is a substantial Shareholder of the Company and therefore is a connected person of the Company. As such, the transactions contemplated under the Warehouse Leasing Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The respective maximum annual rental payable by Bailian Group to the Company for the three financial years ending 31 December 2022 under the Warehouse Leasing Framework Agreement are RMB60,000,000.

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

The actual transaction amount paid by Bailian Group under the Warehouse Leasing Framework Agreement for the year ended 31 December 2022 is approximately RMB13,907.5 thousand.

On 30 September 2022, the Company renewed the Warehouse Leasing Framework Agreement with Bailian Group, pursuant to which, the Group agreed to lease warehouses to Bailian Group and/or its subsidiaries for use as warehouses, offices or other purposes, for a term commencing from 1 January 2023 to 31 December 2025 (both days inclusive).

The respective maximum annual rental payable by Bailian Group to the Company for the financial years ending 31 December 2023, 31 December 2024 and 31 December 2025 under the Warehouse Leasing Framework Agreement is RMB20,000 thousand.

As the highest applicable percentage ratio for the highest proposed annual cap for the transactions contemplated under the Warehouse Leasing Framework Agreement exceeds 0.1% but is less than 5%, the transactions contemplated under such agreement are subject to the reporting, annual review and announcement requirements, but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Please refer to the announcements of the Company dated 5 December 2019 and 30 September 2022 for relevant details of the transaction.

Continuing Connected Transactions – Leasing Agreements

The lease agreement dated 30 September 2003 was entered into between Century Lianhua as the lessee and Shanghai Bailian Xijiao Shopping Centre Co., Ltd. ("Bailian Xijiao", 上海百聯西郊購物中心有限公司), formerly known as Shanghai Friendship Shopping Centre Development Co., Ltd. (上海友誼購物中心發展有限公司), as the lessor in respect of the leasing of No. 88, Xian Xia West Road, Chang Ning District, Shanghai, the PRC. The annual rent under this lease agreement for each of the three years ended 31 December 2011 is subject to an annual cap of RMB16,700,000, details of which are set out in the announcement of the Company dated 28 November 2008. The annual rent (including the basic rent, the turnover rent and management fees) under the lease agreement for each of the three years ended 31 December 2014 is subject to an annual cap of RMB20,000,000, details of which are set out in the announcement of the Company dated 28 November 2011.

Century Lianhua is a subsidiary of the Company and Bailian Xijiao is a subsidiary of Shanghai Bailian, a substantial shareholder of the Company and thus such transactions constitute continuing connected transactions of the Company.

On 23 December 2014, the Board announced that the estimate annual rental payable (including the basic rent, the turnover rent and management fees) by Century Lianhua under the lease agreement for each of the three years ended 31 December 2017 will be subject to an annual cap of RMB16,000,000, after taking into account the following factors: (i) the 5% increment of the basic rent; (ii) the management fees of RMB2,400,000 per year; and (iii) the expected turnover rent payable by Century Lianhua for the three years ended 31 December 2017 in view of the consumption power of the residents in the neighbourhood of the premise, the customer attraction capability of the business district where the premise locates in as well as the anticipated rises in prices of consumer goods in the PRC for the three years ending 31 December 2017.

On 28 November 2017, the Board announced that the estimate annual rental payable (including the basic rent, the turnover rent and management fees) by Century Lianhua under the lease agreement for each of the three years ending 31 December 2020 will be subject to an annual cap of RMB16,000,000, after taking into account the following factors: (i) the 5% increment of the basic rent; (ii) the management fees of RMB2,400,000 per year; and (iii) the expected turnover rent payable by Century Lianhua for the three years ended 31 December 2020 in view of the consumption power of the residents in the neighbourhood of the premise, the customer attraction capability of the business district where the premise locates in as well as the anticipated rises in prices of consumer goods in the PRC for the three years ending 31 December 2020.

The actual rental paid by Century Lianhua under the lease agreement for the year ended 31 December 2022 are approximately RMB4,568 thousand.

On 24 December 2020, after taking into account the following factors: (i) the 5% increment of the basic rent; (ii) the management fees of RMB2,400,000 per year; and (iii) the expected Turnover Rent payable by Century Lianhua for the four years ending 31 December 2024 in view of the consumption power of the residents in the neighbourhoods of the Premises, the customer traffic of the business circle in which the Premises are located as well as the anticipated rises in prices of consumer goods in the PRC for the four years ending 31 December 2024, the Board would like to announce that the estimated annual rental payable (including the Basic Rent, Turnover Rent and management fees) under the Shanghai Xianxia Leasing Agreement for each of the four years ending 31 December 2024 will be subject to an annual cap of RMB16,000,000.

As the Hong Kong Financial Reporting Standard 16 Leases has become effective on 1 January 2019 and applied to financial years beginning on or after 1 January 2019, with respect to the continuing connected transactions under the Shanghai Xianxia Leasing Agreement, the Company is required to set an annual cap on the value of right-of-use assets in accordance with the requirements of The Stock Exchange of Hong Kong Limited. The right-of-use assets should be initially measured at estimated cost and be depreciated on a straight line basis over the lease term. The annual cap for the value of right-of-use assets under the Shanghai Xianxia Leasing Agreement for each of the four years ending 31 December 2024 is RMB23,700,000.

Please refer to the announcements of the Company dated 28 November 2017 and 24 December 2020 for relevant details.

The lease agreement dated 3 December 2002 and the supplemental lease agreement dated 31 December 2008 were entered into between Century Lianhua as the lessee and Homemart Decoration and Materials Co., Ltd. (好美家裝潢建材有限公司)("Homemart") as the lessor in respect of the leasing of No. 645, Xie Tu Road, Lu Wan District, Shanghai, the PRC (the "Lease Transaction"). The annual rent (inclusive of management fee of RMB1,125,000 per year payable to Homemart) of the premises for the periods from 1 January 2009 to 25 July 2012, from 26 July 2012 to 25 July 2017 and from 26 July 2017 to 25 July 2022 are RMB3,150,000 per year, RMB3,308,000 per year and RMB3,473,000 per year, respectively, details of which are set out in the announcement of the Company dated 31 December 2008. On 16 April 2012, Century Lianhua, Homemart and Shanghai Century Lianhua Supermarket Luwan Co., Ltd. (上海世紀聯華超市盧灣有限公司)("Century Lianhua Luwan Company"), a wholly-owned subsidiary of Century Lianhua, entered into a supplementary agreement to agree that Century Lianhua Luwan Company was to replace Century Lianhua to undertake all the related rights and obligations of Century Lianhua under the Lease Transaction with effect from the date of registration with the business registration office. Since Homemart is a subsidiary of Shanghai Friendship (currently known as "Shanghai Bailian"), a substantial shareholder of the Company and thus such transactions constitute continuing connected transactions of the Company.

The actual rent (inclusive of management fee) under the lease agreement and supplemental lease agreement with Homemart for the year ended 31 December 2022 is approximately RMB3,184 thousand.

The lease agreement dated 13 February 2004 and the supplemental lease agreement dated 26 June 2009 were entered into between Century Lianhua as the lessee and Homemart as the lessor in respect of the leasing of No. 1875, Ji Yang Lu, Pudong New District, Shanghai, the PRC. Pursuant to the supplemental lease agreement, the annual rent and management fees of the premises will be reduced from RMB6,300,000 to RMB6,090,000 from 1 July 2009, with the same increment percentage as agreed in the lease agreement dated 13 February 2004. The rent will be payable by Century Lianhua directly to Shanghai Di Lin Trading Company Limited ("Shanghai Di Lin", 上海荻林工貿有限公司), the landlord of the premises, instead of Homemart and the management fees will continue to be paid by Century Lianhua to Homemart. The annual caps under the supplemental lease agreement is set out as follows:

Period	Annual caps under the supplemental lease agreement (RMB)
For the year ended 31 December 2009	6,195,000.00
For the year ended 31 December 2010	6,166,125.00
For each of the two years ended 31 December 2012	6,394,500.00
For the year ended 31 December 2013	6,474,431.30
For each of the two years ending 31 December 2015	6,714,225.20
For the year ended 31 December 2016	6,798,153.00
For each of the two years ended 31 December 2018	7,049,936.40
For the year ended 31 December 2019	7,138,060.60
For each of the two years ending 31 December 2021	7,402,433.20
For the year ending 31 December 2022	5,551,824.90

Details of the above supplemental lease agreement are set out in the announcement of the Company dated 26 June 2009.

Given that each of the percentage ratios of the aggregate rent payable by Century Lianhua to Bailian Xijiao and Homemart under the aforementioned lease agreements is less than 5%, the above lease agreements are only subject to the reporting, annual review and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The actual rent paid by Century Lianhua to Shanghai Di Lin and the management fees paid by Century Lianhua to Homemart under the lease agreement and the supplemental lease agreement for the year ended 31 December 2022 are approximately RMB0.

The lease agreement dated 15 September 2006 was entered into between Century Lianhua as the lessee and Shanghai Bailian Central Shopping Plaza Co., Ltd. ("Bailian Central", 上海百聯中環購物廣場有限公司), formerly known as Shanghai Bailian De Hong Shopping Mall Co., Ltd. (上海百聯德泓購物中心有限公司), as the lessor in respect of the leasing of portion of area located within Bailian Central Shopping Plaza at No.1288 Zhenguang Road, Shanghai, the PRC for a term from 21 December 2006 to 20 December 2026. The annual rent of the premises is RMB11,988,750 per year from the first year to the third year, and starting from the fourth year onwards, a 5% increment is calculated based on the previous three-year period for every three-year period thereafter, and the management fee of the premises is RMB3,011,000 per year, details of which are set out in the announcement of the Company dated 2 March 2009. Since Bailian Central is a subsidiary of Bailian Group, which is a substantial shareholder of the Company's, and thus such transaction constitutes continuing connected transactions of the Company.

The actual rent fee under the lease agreement paid by Century Lianhua to Bailian Central for the year ended 31 December 2022 is approximately RMB14,559 thousand.

The lease agreement dated 1 July 2010 was entered into between Century Lianhua as the lessee and Shanghai Bailian Nanqiao Shopping Centre Co., Ltd. (上海百聯南橋購物中心有限公司) ("Bailian Nanqiao") as the lessor in respect of the property located at room G41-B01-1-001 at B1 floor and a portion of area at first and second floors of Shanghai Bailian Nanqiao Shopping Centre, No. 228-288 Bai Qi Lu, Shanghai, the PRC. The maximum annual amount of the transaction payable by Century Lianhua under this lease agreement are set out as follows:

Period	Maximum amount of the transaction (RMB)
From 1 January 2010 to 31 December 2010 (Note 1)	1,410,000
From 1 January 2011 to 31 December 2011	4,220,000
From 1 January 2012 to 31 December 2012	4,220,000
From 1 January 2013 to 31 December 2013	4,400,000
From 1 January 2014 to 31 December 2014	4,400,000
From 1 January 2015 to 31 December 2015	4,400,000
From 1 January 2016 to 31 December 2016	4,580,000
From 1 January 2017 to 31 December 2017	4,580,000
From 1 January 2018 to 31 December 2018	4,580,000
From 1 January 2019 to 31 December 2019	4,770,000
From 1 January 2020 to 31 December 2020	4,770,000
From 1 January 2021 to 31 December 2021	4,770,000
From 1 January 2022 to 31 December 2022	4,970,000
From 1 January 2023 to 31 December 2023	4,970,000
From 1 January 2024 to 31 December 2024	4,970,000
From 1 January 2025 to 31 December 2025 (Note 2)	2,490,000

Note 1: The maximum amount of the transaction represents the amount of the transaction for the period after the end of the rent-free period, i.e., from 28 September 2010 to 31 December 2010.

Note 2: The maximum amount of the transaction represents the amount of the transaction from 1 January 2025 to the expiration of the term, i.e., 27 May 2025.

The relevant details are set out in the announcement of the Company dated 1 July 2010. Century Lianhua is a subsidiary of the Company, and Bailian Nanqiao is accounted and consolidated as a subsidiary of Bailian Group. As Bailian Group is a substantial shareholder of the Company, such transactions constitute continuing connected transactions of the Company.

The actual rent fee under the lease agreement paid by Century Lianhua to Bailian Nanqiao for the year ended 31 December 2022 is approximately RMB3,752 thousand.

The lease agreement dated 1 July 2010 was entered into between Century Lianhua as the lessee and Shanghai Bailian Jinshan Shopping Centre Co., Ltd. (“Bailian Jinshan”, 上海百聯金山購物中心有限公司), formerly known as Shanghai Jinshan Baibei Shopping Centre Co., Ltd. (上海金山百倍購物中心有限公司), as the lessor in respect of the property located at room 1-101 at B1 floor and rooms 1-102 & 1-103 at the first floor of Shanghai Jinshan Baibei Shopping Centre, No.18 West Wei Qing Lu, Shanghai, the PRC. The maximum annual amount of the transaction payable by Century Lianhua under this lease agreement are set out as follows:

Period	Maximum amount of the transaction (RMB)
From 1 January 2010 to 31 December 2010 (Note 1)	2,410,000
From 1 January 2011 to 31 December 2011	7,230,000
From 1 January 2012 to 31 December 2012	7,230,000
From 1 January 2013 to 31 December 2013	7,540,000
From 1 January 2014 to 31 December 2014	7,540,000
From 1 January 2015 to 31 December 2015	7,540,000
From 1 January 2016 to 31 December 2016	7,870,000
From 1 January 2017 to 31 December 2017	7,870,000
From 1 January 2018 to 31 December 2018	7,870,000
From 1 January 2019 to 31 December 2019	8,220,000
From 1 January 2020 to 31 December 2020	8,220,000
From 1 January 2021 to 31 December 2021	8,220,000
From 1 January 2022 to 31 December 2022	8,580,000
From 1 January 2023 to 31 December 2023	8,580,000
From 1 January 2024 to 31 December 2024	8,580,000
From 1 January 2025 to 31 December 2025 (Note 2)	3,580,000

Note 1: The maximum amount of the transaction represent the amount of the transaction for the period after the end of the rent-free period, i.e., from 28 September 2010 to 31 December 2010.

Note 2: The maximum amount of the transaction represent the amount of the transaction from 1 January 2025 to the expiration of the term, i.e., 27 April 2025.

The relevant details are set out in the announcement of the Company dated 1 July 2010. Century Lianhua is a subsidiary of the Company, and Bailian Jinshan is accounted and consolidated as a subsidiary of Bailian Group. As Bailian Group is the controlling shareholder of Shanghai Friendship (a substantial shareholder of the Company), such transactions constitute continuing connected transactions of the Company.

Given that each of the applicable percentage ratios in respect of the aggregated annual rent payable by Century Lianhua to Bailian Group and its subsidiaries under the aforementioned lease agreements is below 5%, the above lease agreements are only subject to the reporting, annual review and announcement requirements but is exempt from the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The actual rent fee under the lease agreement paid by Century Lianhua to Bailian Jinshan for the year ended 31 December 2022 is approximately RMB6,740 thousand.

Continuing Connected Transactions – Leasing Agreements

On 15 July 2011, Shanghai Century Lianhua Yuqiao Shopping Centre Ltd. ("Lianhua Yuqiao", 上海世紀聯華御橋購物廣場有限公司) as the lessor and Shanghai Bailian, as the lessee entered into a lease agreement in respect of the property located at the first to third floors of Century Lianhua Yuqiao Shopping Centre, No. 2420 Hu Nan Road, Pudong New District, Shanghai, the PRC. The maximum annual amount of the transactions payable by Shanghai Bailian under this lease agreement are set out as follows:

Period	Maximum Amount (RMB)
For each of the three years from 1 January 2012 to 31 December 2014	13,000,000
For each of the three years from 1 January 2015 to 31 December 2017	20,000,000
For each of the three years from 1 January 2018 to 31 December 2020	27,000,000
For each of the three years from 1 January 2021 to 31 December 2023	33,000,000
For each of the three years from 1 January 2024 to 31 December 2026	46,000,000

The relevant details are set out in the announcement of the Company dated 15 July 2011.

Lianhua Yuqiao is a subsidiary of the Company, and Shanghai Bailian is a subsidiary of Bailian Group. As Bailian Group is the controlling shareholder of Shanghai Friendship (a substantial shareholder of the Company), such transactions constitute continuing connected transactions of the Company. Given that each of the applicable percentage ratios in respect of the aggregated annual rent and management fees under the aforementioned lease agreement is below 5%, the lease agreement is only subject to the reporting, annual review and announcement requirements but is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The actual transaction amount of the transactions under the lease agreement between Lianhua Yuqiao and Shanghai Bailian for the year ended 31 December 2022 is approximately RMB25,012 thousand.

The independent non-executive Directors have reviewed the above transactions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms (to the extent that there are comparable transactions) or if there are no comparable transaction to determine whether they are on normal commercial terms, on terms not less favourable to the Group than terms provided by or to (if applicable) independent third parties and conducted during the year under review; and

(3) in accordance with the respective agreements and on fair and reasonable terms and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the above transactions and given written notice to the Board to confirm that the above transactions:

(1) nothing has come to the auditor's attention that causes the auditor of the Company to believe that the disclosed continuing connected transactions have not been approved by the Board;

(2) nothing has come to the auditor's attention that causes the auditor of the Company to believe that the transactions were not, in all material respects, conducted in accordance with the relevant agreements of the transactions;

(3) nothing has come to the auditor's attention that causes the auditor of the Company to believe that the transactions were not entered into, in all material respects, in accordance with the pricing policies of the Company; and

(4) nothing has come to the auditor's attention that causes the auditor of the Company to believe that the disclosed continuing connected transactions have exceeded the respective cap for each transaction.

By order of the Board

Pu Shao-hua
Chairman

28 March 2023
Shanghai, the PRC

The Group fully acknowledges its obligations to its shareholders and investors. Since its listing in 2003, the Company has been in strict compliance with the relevant requirements of the applicable laws, regulations and rules of domestic or overseas securities regulatory authorities and has been committed to improving the transparency of its corporate governance and the quality of information disclosure. The Group also attaches great importance on communication with its shareholders and investors and strives to ensure the timeliness, completeness and accuracy of its information disclosure to its shareholders and investors and to the protection of the interests of investors. The Board has strictly complied with the principles of corporate governance and is dedicated to improving the management quality of the Company and the standard of corporate governance continually in order to protect and enhance value for shareholders. Therefore, the Company has adopted the principles in the Code on Corporate Governance set out in Appendix 14 to the Listing Rules since 1 January 2005 with an aim to enhance the quality of corporate governance of the Group. Such adoption was reflected in the Articles of Association, internal rules and regulations and the corporate governance implementation practices.

The Board is pleased to confirm that save for the matters as set out below, the Company has complied with all the code provisions in the "Corporate Governance Code" (the "Code") under Appendix 14 of the Listing Rules during the period under review. Apart from the following deviations, none of the Directors is aware of any information that would reasonably indicate that the Company is not or was not for any time of the period under review in compliance with the Code. Details of the deviations are set out as follows:

Provision B.2.2 of the Code requires that every director (including those appointed for a specific term) of a listed issuer shall be subject to retirement by rotation at least once every three years. The Articles of Association provides that each Director shall be appointed at the general meeting of the Company and for a term of not more than 3 years, and eligible for re-election. Having taken into account the continuity of the implementation of the Company's operation and management policies, the Articles of Association contains no express provision for the mechanism of Directors' retirement by rotation, thus deviating from the aforementioned provision of the Code.

The code provision C.1.6 of the Code is regarding the non-executive directors' regular attendance and active participation in board meetings and general meetings.

Mr. Xu Hong, a then non-executive Director, and Mr. Wong Tak Hung, a non-executive Director, were unable to attend the eighth meeting of the seventh session of the Board convened on 28 March 2022 by the Company due to their other business commitments.

Mr. Wong Tak Hung, a non-executive Director, was unable to attend the ninth meeting of the seventh session of the Board convened on 28 March 2022 by the Company due to his other business commitments.

Ms. Zhang Shen-yu, a non-executive Director, was unable to attend the tenth meeting of the seventh session of the Board convened on 16 June 2022 by the Company due to her other business commitments.

Ms. Zhang Shen-yu, a non-executive Director, was unable to attend the eleventh meeting of the seventh session of the Board convened on 30 August 2022 by the Company due to her other business commitments.

Ms. Zhang Shen-yu, a non-executive Director, Mr. Dong Xiao-chun, a non-executive Director and Mr. Wong Tak Hung, a non-executive Director, were unable to attend the twelfth meeting of the seventh session of the Board convened on 1 December 2022 by the Company due to their other business commitments.

Ms. Zhang Shen-yu, a non-executive Director, was unable to attend the 2021 annual general meeting of the Company convened on 16 June 2022 (the "2021 AGM") due to her other business commitments.

Ms. Zhang Shen-yu, a non-executive Director, Mr. Dong Xiao-chun, a non-executive Director, and Mr. Wong Tak Hung, a non-executive Director, were unable to attend the 2022 extraordinary general meeting of the Company convened on 1 December 2022 (the "2022 EGM") due to their other business commitments.

Ms. Zhang Shen-yu, a non-executive Director and Mr. Xia Da-wei, an independent non-executive Director, were unable to attend the thirteenth meeting of the seventh session of the Board convened on 28 March 2023 by the Company due to their other business commitments.

After receiving the relevant materials for the Board meetings, the above-mentioned Directors have authorized other Directors to attend the meetings and vote on their behalf. The matters considered at the Board meetings were ordinary matters and all resolutions were passed smoothly. The Company sent the related minutes of the relevant meeting subsequently to all members of the Board to enable the Directors who were unable to attend the meeting to understand the resolutions passed at the meeting.

Moreover, the Company has provided the relevant materials and all necessary information relating to the 2021 AGM and 2022 EGM (collectively referred to as the "2022 General Meeting") to all members of the Board before the 2021 General Meeting. All ordinary resolutions considered at the 2022 General Meeting were passed smoothly. The Company sent the related minutes of the 2022 General Meeting to all members of the Board after the 2022 General Meeting so that the Directors who were unable to attend the meeting were able to understand the resolutions passed at the meeting.

The Board

During the period under review, the Board of the Company consists of 11 Directors, one of whom is an executive Director and six of whom are non-executive Directors including the Chairman of the Board and four of whom are independent non-executive Directors. The number of independent non-executive Directors accounts for at least one third of the number of Directors. At least one of the independent non-executive Directors holds appropriate professional qualifications or accounting or related financial management expertise. Profiles and particulars of the chairman of the Company and other Directors are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" in this report.

As approved at the 2019 AGM on 22 June 2020, the seventh session of the Board was established and the term of office of each Director (including non-executive Directors) is three years, which will expire on the date of conclusion of the annual general meeting of the Company for the year 2022. Corresponding to the term of office, all the executive Directors have entered into service contracts, which are valid for a term ending on the date of conclusion of the annual general meeting of the Company for the year 2022, and such term is renewable subject to the laws and regulations. The names of the Directors referred herein are members of the seventh session of the Board as at the date of this report.

The principal responsibilities of the Board include:

– formulating overall strategies, monitoring operating and financial performance and determining proper policies to manage risks exposures arising in the course of achieving the Group's strategic goals;

– being responsible for the internal control system of the Company and reviewing its efficiency;

– being ultimately responsible for the preparation of accounts of the Company and assessing the Company's performance, financial position and prospects in a balanced, clear and comprehensible manner. Such responsibility is applicable during the preparation of the quarterly, interim and annual reports of the Company, other price-sensitive announcements issued and the financial information disclosed under the Listing Rules, reports submitted to the regulatory authorities and information disclosed under legal requirements;

– the executive Directors/officers in charge of various aspects of the operations of the Company are responsible for the day-to-day management of business of the Company. The Board is responsible for the policies, financial and shareholders' affairs affecting the overall strategy of the Company, including financial statements, dividends policies, material changes in accounting policies, annual operating budget, material contracts, major financing arrangements, major investments and risk management policies;

– the management has received clear directions and instructions in respect of their authorities, particularly in relation to the matters such as the circumstances under which they should report to the Board and seeking the Board's approval prior to making any decision or entering into any undertaking on behalf of the Company; and

– reviewing its responsibilities and functions and authorities delegated to the executive Directors/officers on a regular basis to ensure such arrangements are appropriate.

Board Meetings and General Meeting

The Company held five Board meetings, one 2021 AGM and one 2022 EGM during the year. Attendance record of the Directors is as follows:

Directors	Meetings Attended/Held Board Meetings	2021 AGM	2022 EGM
Executive Director			
Mr. Chong Xiao-bing	5/5	1/1	1/1
Non-executive Directors			
Mr. Pu Shao-hua *(chairman)*	5/5	1/1	1/1
Mr. Shi Xiao-long *(vice chairman)*	5/5	1/1	1/1
Mr. Xu Hong (Note 1)	0/1	–	–
Mr. Xu Pan-hua (Note 2)	4/4	1/1	1/1
Ms. Zhang Shen-yu	2/5	0/1	0/1
Mr. Dong Xiao-chun	4/5	1/1	0/1
Mr. Wong Tak Hung	2/5	1/1	0/1
Independent Non-executive Directors			
Mr. Xia Da-wei	5/5	1/1	1/1
Mr. Lee Kwok Ming, Don	5/5	1/1	1/1
Mr. Chen Wei	5/5	1/1	1/1
Mr. Zhao Xin-sheng	5/5	1/1	1/1

Notes:

1. Mr. Xu Hong resigned from the office of non-executive Director on 28 March 2022.

2. Mr. Pan-hua was appointed as non-executive Director on 28 March 2022.

The attendance of the Directors by proxies (other Directors) has not been counted.

In addition to the abovementioned regular Board meetings during the year, the Board would also hold meetings whenever Board's decision on any specific matter was required. All Directors will receive the notice of meeting, detailed agenda of the meeting and the relevant information at least 14 days prior to the meeting.

In addition to regular board meetings, the Chairman also held meetings with independent non-executive directors without other directors attending.

The members of the Board fully acknowledge their own duties and obligations in treating all shareholders on an equal basis and protecting the interests of all investors. The Company ensures that documents and information relating to the businesses of the Group are provided to Board members on a timely basis. The independent non-executive Directors perform their duties in compliance with relevant laws and regulations and safeguard the interests of the Company and its shareholders as a whole. The Company has received confirmation letters from each of the independent non-executive Directors in respect of their independence pursuant to Rule 3.13 of the Listing Rules.

To the best knowledge of the Board, no relationship (including financial, business, family or other material relevant relationship(s)) exists between members of the Board and senior management.

Trainings of Directors

All Directors shall participate in continuous professional development to develop and update their knowledge and skills to ensure that they are equipped with all the information and can continue to contribute to the Board when required.

During the period under review, the Company arranged trainings on the Listing Rules for its Directors. Relevant training materials were also sent to the Directors who were unable to attend the trainings for their reference.

Directors	Perusing the Training Materials on the Listing Rules	Participating in the Trainings on the Listing Rules Organised by the Company	Participating in the Trainings on the Listing Rules Organised by Other Organisations
Executive Director			
Mr. Chong Xiao-bing	✓	✓	
Non-executive Directors			
Mr. Pu Shao-hua	✓	✓	
Mr. Shi Xiao-long	✓	✓	
Mr. Xu Pan-hua	✓	✓	
Ms. Zhang Shen-yu	✓		✓
Mr. Dong Xiao-chun	✓		✓
Mr. Wong Tak Hung	✓		
Independent Non-executive Directors			
Mr. Xia Da-wei	✓	✓	✓
Mr. Lee Kwok Ming, Don	✓	✓	✓
Mr. Chen Wei	✓	✓	
Mr. Zhao Xin-sheng	✓	✓	✓

Board Diversity Policy

During the period under review, the Board adopted a board diversity policy (which was embodied in the terms of reference of the Nomination Committee) setting out the approach to achieve diversity on the Board. The Company considered diversity of Board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All appointments by the Board will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee has set measurable objectives based on four focus areas: gender, age, ethnicity and professional experience to implement the board diversity policy. The Nomination Committee will review the board diversity policy, as appropriate; the measurable objectives that the Board has set for implementing the board diversity policy; and the progress on achieving the objectives, to ensure its continued effectiveness from time to time. The Nomination Committee is of the view that the Board has realized a diversified and balanced combination and is suitable for the business of the Group. The proportion of female members on the Board of the Company is currently 9% and the proportion of female employees on the Company's entire workforce is 68%.

Duties of the Board and the Management of the Company

During the period under review, the position of Chairman is assumed by Mr. Pu Shao-hua while the position of Manager (equivalent to "chief executive officer" under the Listing Rules) of the Company was assumed by Mr. Chong Xiao-bing, which complies with the requirement of Provision C.2.1 of the Code requiring that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Chairman leads the Board and is responsible for approving and supervising the policies and strategies of the Group, approving annual budget and business plan, assessing the performance of the Company and supervising the work of the management of the Company. The Manager is responsible for the day-to-day operations of the Group and leads the management of the Company to exercise the powers conferred by the Articles of Association and delegated by the Board.

The Manager of the Company reports to the Board and performs the following duties:

(a) take charge of the production, operation and management affairs and implementation of the resolutions of the Board;

(b) implement the annual business plans and investment plans of the Company;

(c) formulate the internal organizational structure plan of the Company;

(d) formulate the basic management system of the Company;

(e) formulate the basic rules of the Company;

(f) make recommendations in respect of the appointment or removal of deputy manager and financial officer;

(g) appoint or remove management personnel except for those required to be appointed or removed by the Board;

(h) personally (or appoints a deputy manager to) convene and chair the management meetings to be attended by the manager, deputy managers and other members of senior management;

(i) determine matters of the Company relating to the reward or punishment, promotion or demotion, pay-rise or pay-cut, recruitment, employment, removal and dismissal of staff; and

(j) exercise other powers conferred by the Articles of Association or delegated by the Board.

Board Committees

The Company established the first session of Board Committees in 2003, including (1) the Remuneration and Appraisal Committee which establishes and determines the Company's reward and appraisal system; (2) the Strategic Committee which conducts consultation, survey, research and assessment on the Company's future investment strategies, and to enhances the Company's core competitiveness; (3) the Nomination Committee which optimizes the composition of the Board and the management of the Company; and (4) the Audit Committee which reviews the financial reporting procedures, internal control system and the completeness of financial reports of the Company.

As approved by ordinary resolutions at the annual general meeting on 22 June 2020, the seventh session of the Board was established. On the same day, the Board established the seventh session of the Board Committees in accordance with the requirements of the Code. A meeting of the Board of Directors was held on 17 June 2021 at which the seventh session of Environmental, Social and Governance (ESG) Committee was elected and established to guide and review the formulation of the Company's ESG policies and strategies to ensure that they are up-to-date, relevant and meet applicable legal and regulatory requirements. As at the end of the period under review, members of each of the seventh session of the Board Committees are as follows:

Board Committees	Members				
Audit Committee	Mr. Lee Kwok Ming, Don *(Chairman)*	Mr. Xia Da-wei	Mr. Zhao Xin-sheng	Mr. Dong Xiao-chun	–
Remuneration and Appraisal Committee	Mr. Xia Da-wei *(Chairman)*	Mr. Shi Xiao-long	Mr. Chen Wei	Mr. Zhao Xin-sheng	–
Strategic Committee	Mr. Pu Shao-hua *(Chairman)*	Mr. Shi Xiao-long	Mr. Chong Xiao-bing	Mr. Xu Pan-hua	Ms. Zhang shen-yu
Nomination Committee	Mr. Pu Shao-hua *(Chairman)*	Mr. Chen Wei	Mr. Xia Da-wei	Mr. Zhao Xin-sheng	–
Environmental, Social and Governance (ESG) Committee	Mr. Chong Xiao-bing *(Chairman)*	Ms. Zhang shen-yu	Mr. Lee Kwok Ming, Don	Mr. Chen Wei	–

Note:

(1) The term of those current Directors above will end on the date of the 2022 annual general meeting of the Company.

(2) Mr. Xu Hong resigned from the office of a non-executive Director and a member of the Strategic Committee of the Company on 28 March 2022. Mr. Xu Pan-hua was appointed as a non-executive Director and a member of the Strategic Committee of the Company on 28 March 2022.

To further enhance the independence of the Board Committees, written terms of reference of each of the committees had been formulated by such Board Committees under the authorisation of the Board.

Audit Committee

The Board passed a resolution on 22 June 2020 to establish the seventh session of the Audit Committee. The Audit Committee currently comprises four members, including three independent non-executive Directors (including the chairman) and one non-executive Director. The Board confirms that each member of the Audit Committee has extensive business experience and the Audit Committee has a desirable mix of operational, accounting and financial expertise. The primary duties, roles and functions of the Audit Committee are:

(a) responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, as well as settling any questions raised by the resignation or dismissal of such auditor;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process. The committee should discuss with the auditor on the scope of the audit including the engagement letter. The committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences. The external audit fees are to be negotiated by management, and presented to the committee for review and approval annually;

(c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm, or any entity as to a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identify and make recommendations on any matters where action or improvement is needed;

(d) to monitor the integrity of the Company's financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and to review financial statements and significant financial reporting judgements contained in above mentioned reports. Before submitting the relevant accounts and reports to the Board, the Audit Committee should review particularly: (1) any changes in accounting policies and practices; (2) major judgmental areas; (3) significant adjustments resulting from the audit; (4) the on-going concern assumptions and any qualifications; (5) compliance with accounting and auditing standards; and (6) compliance with the Listing Rules and legal requirements;

(e) with regard to (d) above: (1) members of the committee should liaise with the Board and senior management, and the committee must meet, at least twice a year, with the external auditor; and (2) the committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts and should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

(f) to review with the Group's management, external auditors and internal auditors, the adequacy of the Group's policies and procedures regarding internal controls (including financial, operational and compliance controls), risk management system and any statement by the Directors to be included in the annual accounts prior to endorsement by the Board;

(g) to discuss the scope and quality of internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience of accounting and financial reporting, training programmes and budget of the Company's accounting and financial reporting function;

(h) to review the findings of internal investigations and management's response into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations and to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(i) to review and monitor the scope, effectiveness and results of internal audit function, ensure co-ordination between the internal and external auditor and ensure that the internal audit function has adequate resource and has appropriate standing within the Group;

(j) to review the Group's financial and accounting policies and practices and be familiar with the financial reporting principles and practices applied by the Group in preparing its financial statements;

(k) to discuss with external auditors about any recommendations arising from the audit (if necessary in the absence of management); and review the draft suggestions to the management by the auditor regarding the auditing ("Management Letter"), any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control including management's response to the queries raised;

(l) to ensure that the Board will provide a timely response to issues raised in the external auditor's Management Letter;

(m) to report to the Board on any matters in relation to the code provision relating to the Audit Committee set out in the Corporate Governance Code of the Listing Rules;

(n) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and ensure proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

(o) to act as the key representative for overseeing the Company's relations with the external auditor;

(p) to review the draft representation letter prior to submission to the Board for approval;

(q) to evaluate the cooperation received by the external auditors from the management, including the external auditors' access to all requested records, data and information; obtain the comments from management regarding the responsiveness of the external auditor to the Group's needs; inquiry into whether there have been any disagreements between external auditors and management which, if not satisfactorily resolved, would result in the issuance of a report with qualification on the Group's financial statements;

(r) to seek from external auditors, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff;

(s) the engagement of the external auditor to perform non-audit services is generally prohibited except for tax-related services. If a compelling reason exists to engage the external auditor due to their unique expertise in a particular area, prior approval from the Audit Committee is required;

(t) to apprise the Board of significant progresses in the course of performing the above duties;

(u) to recommend to the Board any appropriate extensions to, or changes in, the duties of the Audit Committee;

(v) to reach agreement with the Board on the Company's policy relating to the hiring of employees or former employees of the external auditor and monitor the applications of such policy. The Audit Committee will consider whether such hiring will bring any impairment to the auditor's judgment or independence in respect of its auditing;

(w) to make available the terms of reference of the Audit Committee, explain its role and the authority delegated to it by the Board by including them on the website of the Stock Exchange and the Company; and

(x) to consider and be responsible for other topics, as requested or delegated by the Board.

During the year ended 31 December 2022, the Audit Committee held two meetings and performed major work including review of annual and interim financial reports, internal control, continuing connected transactions and maintaining proper relationship between the Group and external and internal auditors etc.

The Audit Committee held a meeting on 17 March 2022 to review and discuss matters including the internal control of the Group, annual financial reports, remuneration and re-appointment of domestic and international auditors and continuing connected transactions for 2021, including the review of the Company's annual financial report prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS"). The Audit Committee was of the view that the annual financial report of the Group for the year 2021 had complied with the applicable accounting standards and requirements of the Stock Exchange and the relevant laws and had made adequate disclosures. The Audit Committee also conducted a review on the risk management and internal control system of the Company and its subsidiaries and was of the view that the Group had an effective risk management and internal control system. The Audit Committee was of the view that domestic and international auditors of the Company had carried out their work with professionalism and independence, and agreed to make recommendations to the Board in respect of their remuneration for 2021 and suggested to re-appoint the domestic and international auditors for 2022. The Audit Committee confirmed that the continuing connected transactions of the Company in 2021 did not exceed their respective caps.

The Group's chief financial officer, auditors and internal auditors also attended the meeting to address queries raised by the Audit Committee.

The Audit Committee held a meeting on 18 August 2022 to review and discuss with the management the matters including internal controls and interim financial report, including the review of the Company's condensed interim financial report prepared in accordance with the HKFRSs. The Audit Committee was of the view that the Group's interim financial report for the six months ended 30 June 2022 had complied with the applicable accounting standards, requirements of the Stock Exchange and relevant laws, and had made adequate disclosures. In relation to its review of the Group's internal audit function, risk management and internal control, the Audit Committee concluded that the Group's internal audit function, risk management and internal control system were effective.

The Group's chief financial officer, auditors and internal auditors also attended the meeting to address queries raised by the Audit Committee.

Set out below is the attendance records of the members of the Audit Committee in 2022:

Name	17 March 2022	18 August 2022
Independent Non-executive Directors		
Mr. Lee Kwok Ming, Don *(Chairman)*	Present	Present
Mr. Xia Da-wei	Present	Present
Mr. Zhao Xin-sheng	Present	Present
Non-executive Director		
Mr. Dong Xiao-chun	Present	Present

Remuneration and Appraisal Committee

On 22 June 2020, the Board passed a resolution to establish the seventh session of the Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee currently comprises four members, including three independent non-executive Directors (including the chairman) and one non-executive Director. The primary duties, roles and functions of the Remuneration and Appraisal Committee are:

(a) to formulate and determine the remuneration plans or schemes of individual executive Directors and senior management based on their job scope, responsibilities, significance and remuneration levels of similar position in other similar companies;

(b) to plan remuneration plans or schemes including but not limited to performance appraisal criteria, procedures, assessment system, and plan and system for awards and punishments;

(c) to review the fulfilment of duties of Directors (excluding independent Directors) and senior management and appraise their annual performance;

(d) to monitor the implementation of remuneration system of the Company;

(e) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior managements' remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(f) to review and approve the management's remuneration proposals with reference to the Board's corporate policies and goals;

(g) to determine with the delegated responsibility by the Board the remuneration packages of individual executive Directors and senior management, which should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(h) to make recommendations to the Board on the remuneration packages of non-executive Directors;

(i) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions of other positions in the Group;

(j) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive for the Company;

(k) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

(l) to approve the terms of executive Directors' service contracts;

(m) to ensure that no Director or any of his associates is involved in deciding his own remuneration;

(n) to have access to independent professional advice if necessary; and

(o) other responsibilities authorized by the Board.

During the year ended 31 December 2022, the Remuneration and Appraisal Committee held a meeting and performed major work including determining the policy for the remuneration of Directors, assessing the performance of the executive Director and senior management of the Company, approving the terms of executive Directors' service contracts and making recommendations to the Board on their remuneration packages.

The Remuneration and Appraisal Committee held a meeting on 28 March 2022. Having taken into account the factors including, but not limited to, the remuneration paid by comparable companies, time commitment of the Director and the Director's duties, hiring standards of other positions within the Group and performance-based remuneration, the committee made recommendations to the Board on the remuneration packages of the executive Director and approved the remunerations to an executive Director, a Supervisor, the senior management formed by general managers and deputy general managers for 2021.

Set out below is the attendance records of the members of the Remuneration and Appraisal Committee in 2022:

Name	28 March 2022
Independent Non-executive Directors	
Mr. Xia Da-wei *(Chairman)*	Present
Mr. Chen Wei	Present
Mr. Zhao Xin-sheng	Present
Non-Executive Director	
Mr. Shi Xiao-long	Present

Strategic Committee

On 22 June 2020, the Board passed a resolution to establish the seventh session of the Strategic Committee. The Strategic Committee currently comprises five members, including an executive Director and four non-executive Director (including the chairman). The primary duties, roles and functions of the Strategic Committee are:

(a) to research and make suggestions on the Company's long-term development strategic plan;

(b) to research and approve the revision and adjustment of the Company's long-term development strategic plan;

(c) to ensure that the Company's long-term development strategic plan is formulated based on objectively and comprehensively analyzing and predicting future business opportunities and risks;

(d) to ensure that the Company's long-term development strategy plan conforms to the national industry development plan and industrial policy, conforms to the strategic adjustment direction of the national economic structure, highlights the main business and helps to enhance the Company's core competitiveness;

(e) to ensure that the Company's long-term development strategic plan is operable;

(f) to review the Company's strategy implementation review report every year;

(g) to research and make suggestions on other major issues that affect the Company's development;

(h) to inspect the implementation of the above matters;

(i) to deal with other responsibilities authorized by the Board.

During the year ended 31 December 2022, the Strategy Committee held a meeting. The main tasks performed include a review of the implementation of the Company's strategy in 2021 and the election of the chairman of the Strategy Committee.

Set out below is the attendance record of the members of the Strategy Committee in 2022:

Name	28 March 2022
Executive Director	
Mr. Chong Xiao-bing	Present
Non-executive Directors	
Mr. Pu Shao-hua *(chairman)*	Present
Mr. Shi Xiao-long	Present
Mr. Xu Hong (Note)	–
Mr. Xu Pan-hua (Note)	Present
Ms. Zhang Shen-yu	Present

Note: Mr. Xu Hong resigned from the office of a member of the Strategic Committee on 28 March 2022, Mr. Xu Pan-hua was appointed as a member of the Strategic Committee on 28 March 2022.

Nomination Committee

On 22 June 2020, the Board passed a resolution to establish the seventh session of the Nomination Committee. The Nomination Committee currently comprises four members, including three independent non-executive Directors and one non-executive Director (the chairman). The primary duties, roles and functions of the Nomination Committee are:

(a) to review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to consider the skills mix needed in respect of the appointed directors with due regard for the benefits of diversity of the Board, and make recommendations to the Board;

(c) to study the criteria and procedures in selecting directors and managers and make appropriate suggestions to the Board;

(d) to broadly search for and identify qualified candidates for directors and managers;

(e) to review, comment and make recommendations to the Board on the candidates for directors and managers;

(f) to review and comment on the candidates for other senior management, whose employment are subject to the approval of the Board;

(g) to review regularly the time to be committed by each director in order to perform their duties;

(h) to assess the independence of independent non-executive directors;

(i) to review the board diversity policy, as appropriate; and review the measurable objectives that the Board has set for implementing the board diversity policy, and the progress on achieving the objectives;

(j) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman of the Board and the chief executive; and

(k) to deal with other responsibilities authorized by the Board.

During the year ended 31 December 2022, the Nomination Committee held four meetings. The meetings were in compliance with the provisions under the Detailed Implementation Rules for the Nomination Committee under the Board and performed major work including determining the policy for nomination of directors, reviewing, commenting and making recommendation to the Board on the candidates for Directors of the seventh session of the Board, adjustments of the member of Board Committees, and reviewing the time committed by each Director in order to perform their duties, and the structure, size and composition of the Board, making recommendation to the Board on the candidates for Directors of the seventh session of the Board and on the candidates for the members of the seventh session of the Board Committees etc., which were approved and passed by way of resolutions at these meetings.

Please refer to the paragraph headed "Board Diversity Policy" for details on the Board's policy on board diversity, measurable objectives that it has set for implementation the policy and progress on achieving those objectives.

Please refer to the Terms of Reference of the Nomination Committee of the Company published on the website of the Stock Exchange for details of the policy for the nomination of directors.

Set out below is the attendance record of the members of the Nomination Committee in 2022:

Name	28 March 2022	16 June 2022	8 July 2022	26 July 2022
Independent Non-executive Directors				
Mr. Chen Wei	Present	Present	Present	Present
Mr. Xia Da-wei	Present	Present	Present	Present
Mr. Zhao Xin-sheng	Present	Present	Present	Present
Non-Executive Director				
Mr. Pu Shao-hua *(chairman)*	Present	Present	Present	Present

Environmental, Social and Governance Committee

On 17 June 2021, the Board passed a resolution to establish the seventh session of the Environmental, Social and Governance (ESG) Committee. The Environmental, Social and Governance (ESG) Committee currently comprises four members, including an executive Director (the chairman), a non-executive Director and two independent non-executive Directors. The primary duties, roles and functions of the Environmental, Social and Governance (ESG) Committee are:

(a) to guide and review the formulation of Lianhua Supermarket's ESG policies and strategies to ensure that they are up-to-date, relevant and meet applicable legal and regulatory requirements;

(b) to monitor the formulation and implementation of Lianhua Supermarket's ESG goals, including: overseeing the formulation of Lianhua Supermarket's ESG management performance goals; reviewing progress towards the achievement of the goals and advising on the actions required for the achievement of such goals;

(c) to monitor the external ESG trends and report to the Board on important trends which may affect the formulation of Lianhua Supermarket's ESG policies and strategies as well as the goals;

(d) to guide and review the identification and sequencing of key ESG issues of Lianhua Supermarket;

(e) to review the Company's annual Environmental, Social and Governance Report and other ESG-related disclosures and report to the Board;

(f) to identify the ESG risks related to Lianhua Supermarket, assess the impact of such risks on the Company and give advice to the Board on risk response;

(g) to provide the ESG-related training materials to the Board;

(h) such other duties delegated by the Board.

During the year ended 31 December 2022, the Environmental, Social and Governance (ESG) Committee held a meeting. The meeting has reviewed and approved the 2021 ESG Report of the Company.

Set out below is the attendance record of the members of the Environmental, Social and Governance Committee in 2022:

Name	28 March 2022
Independent Non-executive Directors	
Mr. Lee Kwok Ming, Don	Present
Mr. Chen Wei	Present
Executive Director	
Mr. Chong Xiao-bing *(chairman)*	Present
Non-Executive Director	
Ms. Zhang Shen-yu	Present

Corporate Governance Functions

During the period under review, the Board and the Board Committees performed the below corporate governance duties:

(i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with all legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct applicable to the employees and Directors of the Company; and

(v) to review the Company's compliance with the Corporate Governance Code and disclosure requirements in the Corporate Governance Report.

Directors' and Auditors' Responsibilities for the Accounts

The Directors hereby confirm their responsibilities for the preparation of the accounts of the Company. The Directors confirm that the preparation of the financial statements of the Group for this year complied with the relevant laws and applicable accounting standards and that the Group will publish the financial statements of the Company on timely basis. The responsibilities of external auditors to the shareholders are set out on pages 131 to 132 of the annual report.

Compliance with Model Code

The Company has adopted the Model Code as the code of conduct for securities transactions by all Directors and relevant employees. After making specific enquiries with the Directors and relevant employees, the Board is pleased to confirm that all the Directors and relevant employees have fully complied with the provisions under the Model Code during the year ended 31 December 2022.

Remuneration of Auditors

The Audit Committee is responsible for considering the appointment of auditors and reviewing their remuneration. For the year under review, RMB3,985 thousand was payable by the Company to the external auditors (including the PRC and international auditors) as service charge for their audit and due diligence consultancy services. For the year under review, the external international auditors had not provided any non-auditing service to the Company.

Company Secretary

Ms. Xu Xiao-yi and Ms. Leung Shui Bing (a manager of the Listing Services Department of TMF Hong Kong Limited) have been appointed as the joint company secretaries of the Company with effect from 2 July 2020. Ms. Xu Xiao-yi is the joint company secretary, secretary of the Board of Directors and chief financial officer of the Company, and is the internal contact person between Ms. Leung Shui Bing and the Company.

In compliance with Rule 3.29 of the Listing Rules, during the year ended 31 December 2022, Ms. Xu Xiao-yi and Ms. Leung Shui Bing received not less than 15 hours of the relevant professional training.

Risk Management and Internal Supervision

The Board confirms its responsibility to oversee the Company's and its subsidiaries' risk management and internal control systems on an on-going basis and to review their effectiveness at least annually through the Audit Committee. The Audit Committee assists the Board in the performance of its regulatory and corporate governance role in the Group's finance, operation, compliance, risk management and internal controls, as well as financial and internal audit functions.

The Company has established an organizational structure featured with a clear level of accountability and reporting procedures. The Group's internal audit department assists the Board and/or the Audit Committee to continuously review the effectiveness of the Group's risk management and internal control systems. The Directors are regularly informed through such committees of significant risks which may affect the performance of the Group, hence, supplementing and improving risk control and management measures.

The structure also includes appropriate policy and monitoring systems being established and formulated to ensure that the secured assets will not be used or disposed of without authorization. The Group would comply with the relevant rules to maintain reliable financial and accounting records in accordance with the relevant accounting standards and regulatory requirements, as well as the proper identification and management of the major risks that may affect the performance of the Group. Relevant systems and internal controls can only provide reasonable but not absolute assurance against material misstatement or loss, and are designed to manage rather than eliminate the risk of failing to meet business objectives.

Internal Review

The Company's internal audit department coordinates corporate risk management and reviews the Group's significant risk management areas and is responsible for assessing the adequacy and effectiveness of the Group's risk management and risk monitoring systems and providing impartial advice on the system and reporting to the Audit Committee, the chairman and the relevant senior management to ensure that all issues have been satisfactorily resolved, depending on the nature of the business of the individual business unit and the risks involved. The scope of the internal audit department covers the review of all important aspects of internal control (including finance, operation, information, risk management, legal and compliance controls, etc.). The management of the Group regularly evaluates it and shall at least annually verify that the relevant matters are properly and effectively operated. The Company believes that this will strengthen its future corporate governance and business practices.

The internal audit department will meet at least once a year with the Audit Committee to review the risks identified by the internal audit department and other potential risks. According to the annual internal control and internal audit plan, the internal audit department will submit the Group's risk assessment and internal control report to the Audit Committee and the Board, which will be reviewed and approved at the end of the relevant year.

The Audit Committee is responsible for the management of connected transactions, including the review on the management system for connected transactions, the review and approval of material connected transactions and the annual review report, and consideration and approval of connected transactions. The Audit Committee has designated the internal audit department to be responsible for routine review of connected transactions. The relevant materials of routine review and management findings of the Audit Committee will be submitted to independent Directors for their review. Independent Directors conducted review on, among others, the fairness of material connected transactions and the execution of internal review and approval procedure in order to minimize relevant risks of connected transactions and safeguard the interest of the Company and the shareholders. The Company regularly collates and calculates the reported total transaction amount of connected transactions to ensure that the annual cap is not exceeded.

Review of the Effectiveness of Risk Management and Internal Monitoring System

The Group's internal audit department provides independent assurance to the Board, the Audit Committee and the senior management of the Group as to whether the Group's internal controls are adequate and effective. The senior management of the Group is responsible for the design, implementation and monitoring of risk management and internal control systems with the assistance of the internal audit department of the Group and submits periodic reports on the effectiveness of such systems to the Board and/or the Audit Committee.

In 2022, the internal audit department worked closely with the operating units, senior management and the Directors to strengthen the risk management system. The work includes but not limited to increasing the number of training sessions; further harmonizing the internal control and risk assessment methods; normalizing internal control and risk assessment; and making the internal monitoring and evaluation more closely aligned with their potential risks. Moreover, the internal audit department collects potential risk information from operating units and assesses the level of risk based on implementation of risk management measures that would be facilitated, all of which form part of the process used by the Company to identify, evaluate and manage potential material risk. The key risks identified, managed and monitored during the year included downward pressure on China's economy and action plans to effectively respond to the identified risks were formulated and implemented during the year accordingly. The internal audit department has submitted to the Board and the Audit Committee the latest report on the monitoring of risk management during the year and to assist the Directors in reviewing the effectiveness of the Group's risk management and internal control systems.

In 2022, the Group's internal audit department conducted a selective review on the effectiveness of the Group's risk management and internal control systems in terms of financial, operational and compliance monitoring, focusing on intangible asset management, information system maintenance, inventory management, and procurement expenses to review the effectiveness of risk management and internal control system. In addition, the responsible person of the main business and corporate functions need to self-assess their own major monitoring matters. The results were reviewed by the Group's internal audit department and reported to the Audit Committee. The Audit Committee then reviewed the information and reported to the Board. The Audit Committee and the Board did not find any matter or failure which requires special attention relating to the Group's financial condition or results of operations. In case any material internal control defects are identified by the internal audit department, the responsible unit and the Board will discuss and assess the cause of the defect and an action plan will be formulated to rectify the defects. The Board has conducted a review and considered that the risk management and internal control system as a whole is adequate and effective, including the areas of accounting, internal audit and the Group's procedure for financial reporting and compliance with the Listing Rules are effective. There are sufficient resources, staff qualifications and experience in the financial reporting function, as well as adequate staff training courses and budget.

Inside Information

The Board is the governing body of the Company's inside information. The Chairman of the Board takes the main responsibility of the Company's inside information management. The disclosure committee under the Board is comprised of the Chairman of the Board and the executive Director. It is responsible for managing the disclosure of the inside information. The company secretary is responsible for the Company's inside information monitoring, disclosure and insider registration, filing and other daily management work. The office of the Board is the only information disclosure department of the Company. It is responsible for the record management, the disclosure and the registration of insider of inside information and the daily custody of relevant information materials when inside information arises. Without the approval of the disclosure committee, review and consent of the company secretary, any department and individual of the Company shall not disclose, report or transmit the contents concerning the Company's inside information and information disclosure to any person prohibited by applicable laws and regulations.

Liability Insurance

The Company has insured directors and senior management responsibility insurance to protect the Directors and senior management of the Company from potential legal liability.

Organizational Structure

The Group has established an organizational structure, which sets out the relevant operating policies and procedures, duties and authorities.

Authorities And Controls

The executive Director and senior management have been authorized to deal with relevant matters in respect of corporate strategies, policies and contractual undertakings. Budget controls and the budgets for operation of the financial reporting systems are formulated by relevant departments and are subject to review by the Directors in charge before implementation. The Group has formulated relevant procedures to assess, review and approve significant capital and recurrent expenses, while operating results will be compared against the budgets and reported to the executive Director on a regular basis.

Training on Internal Control

Directors and senior management have participated in internal control training courses provided by the Group, which are designed to equip them with proper and full knowledge on internal control, and provide guidance to them to apply internal control systems on a consistent basis.

Accounting System Management

The Group has implemented a comprehensive accounting management system, so as to provide the management with indicators to evaluate the financial and operating performance and financial information for reporting and disclosure purposes. Any deviation from expected objectives will be analysed and explained, or the budget objectives will be amended correspondingly in line with the change in business.

The Group has established appropriate internal control procedures to ensure comprehensive, proper and timely recording of accounting and management information, which will be reviewed and inspected on a regular basis to ensure the financial statements are prepared in accordance with the generally accepted accounting principles, the accounting policies of the Group and applicable laws and regulations.

Internal Audit

In order to assess the effectiveness and efficiency of the internal control system in a more effective manner, the internal audit department of the Company inspected, supervised and evaluated the disclosure of financial information, operations and internal controls of the Group and its associated companies on a regular basis and whenever required based on the potential risks and significance of the internal control systems of different businesses and procedures of the Group, with the aims to ensure the transparency of the information disclosure of the Company, operating efficiency and the effectiveness of its corporate control mechanisms, as well as to provide an objective opinion and advice in the form of an audit report. Internal audit staff shall be entitled to full access of all information of the Group and to make enquiries with relevant staff. The manager of the audit department shall directly report to the Chairman of the Board on the results and advice of such work.

The Company has established the systems and procedures to identify, measure, manage and control risks, including legal, credit, market, centralisation, operation, environment, behaviour and other risks which may affect the development of the Company.

Continuing Operation

During the year, there were no material events or conditions that may affect the operation of the Group as an on-going concern.

Anti-Corruption and Whistle-Blowing Policy

The Company has formulated an anti-corruption and whistle-blowing policy to regulate conduct and ensure compliance with anti-corruption policies and regulations. Employees are encouraged to report corruption, bribery, fraud and unethical behavior. The Company will also include publicity on anti-corruption and whistle-blowing policies in daily employee training.

Investor Relations

The Company reports to the Shareholders on the corporate information of the Group on a timely and accurate basis. Printed copies of the 2021 annual report and 2022 interim report have been sent to all Shareholders.

The Company places great emphasis on communication with the Shareholders and investors of the Company and in enhancing the Company's transparency. As such, a dedicated department has been set up and designated officers are assigned to handle relations with investors and analysts. During the period under review, the Company received 21 batches of fund managers and analysts and patiently answered their relevant inquiries. Site visits to stores were arranged for them so as to enhance their understanding of the Company's operation and also its latest business developments. The Company made disclosures in a careful, true, accurate, complete and timely manner in strict accordance with applicable laws and regulations, the Articles of Association and the Listing Rules. At the same time, the Company places great emphasis on collecting and analysing various comments and recommendations from analysts and investors on the Company's operation, which will be compiled into reports regularly and adopted selectively in its operation. The Company has set up a website, allowing investors to have access to the Company's particulars, statutory announcements, management and recent operating affairs. All published annual reports, interim reports, circulars and announcements since its listing are included in the "Investors Relations" section of the website. The Company persistently adheres to its information disclosure principle of honesty and integrity and actively initiates communications with various parties. In particular, it has held seminars, press conferences and one-on-one investor meetings following the announcement of interim and annual results and decisions on major investments. The Company also participates in a series of investor activities and conducts one-on-one communication with investors on a regular basis.

Changes in Company's Constitutional Document

During the period under review, the Company did not make any change to the Articles of Association.

Shareholder's Rights

Convening extraordinary general meetings by shareholders

According to the provisions of Article 81 of the Articles of Association:

Shareholders demanding the convening of an extraordinary general meeting or a class meeting shall proceed in accordance with the following procedures:

(I) Two or more shareholders holding more than ten per cent (including ten per cent) of the voting rights at the proposed meeting may submit one or more written request(s) of identical form and substance requesting the Board to convene an extraordinary general meeting or a class meeting and stating the business to be transacted at the meeting. The Board shall, upon receiving the aforesaid written request(s), convene an extraordinary shareholders' general meeting or class meeting as soon as possible. The shareholding mentioned in the above shall be calculated as at the date on which the written request is made.

(II) If the Board fails to issue a notice of the convention of any meeting herein above mentioned within thirty days after having received the written request, the requesting shareholders may themselves convene such meetings within four months after the Board received the request. The procedures according to which they convene such meeting shall, to the extent possible, be identical to the procedures according to which shareholders' meetings are to be convened by the Board.

Where shareholders convene and hold a meeting because the Board failed to hold such meeting pursuant to a request as mentioned above, the reasonable expenses incurred by such shareholders shall be borne by the Company and shall be deducted from the sums owed by the Company to the negligent Directors.

Raising Proposals at General Meetings

According to the provisions of the Article 63 of the Articles of Association of the Company:

When the Company is to convene an annual general meeting of shareholders, shareholders holding more than five per cent (including five per cent) of the Company's total voting shares shall be entitled to propose new motions in writing to the Company. The Company shall include into the agenda of the meeting the matters in the motions that fall within the scope of duties of the shareholders' general meeting, provided that such motions shall be served to the Company within forty days after the date of notice of the meeting hereinabove mentioned.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, shareholders may send written enquiries (by post, fax or email) to the following address, fax number or email addresses of the Company:

13th Floor, No. 1258, Zhen Guang Road, Shanghai,
the PRC
Fax: 86 (21) 5279 7976
Email: wangjiaqi@chinalh.com, wuying@chinalh.com

Report of the Supervisory Committee

Dear Shareholders,

During the period under review, all members of the Supervisory Committee complied with the applicable requirements of the Company Law of the People's Republic of China and Articles of Association, adhered to the principle of integrity and performed their supervisory duties in good faith to protect the interests of the Shareholders and the Group.

During the period under review, as a company listed on the Stock Exchange, the Company faced with the higher standards on governance imposed continuously by the Listing Rules, the Corporate Governance Code and the internal control policy. As such, the Supervisory Committee focused on the following three aspects: (1) to further improve the corporate governance structure of the Group; (2) to urge the Company and its Board to provide an open, fair, impartial and transparent environment for its investors in strict compliance with the Listing Rules and other regulations; and (3) to monitor the major operating activities of the Group and remind the Board and the Group to avoid significant operational risks.

During the period under review, the Supervisory Committee held four meetings. On 28 March 2022, the Supervisory Committee held a meeting, at which the Supervisory Committee objectively evaluated the Group's business operation for the year of 2021, and was fully satisfied with the work done by the Group in 2021, including the Group's development plan, network expansion in the year, improvement of the internal control systems and conduct of connected transactions. The Supervisory Committee also received reports on the financial conditions of the Group for 2021 and discussed and adopted the report of the Supervisory Committee for 2021. The Supervisory Committee reviewed and approved the Company's 2021 audit reports issued by domestic auditors and overseas auditors in accordance with relevant standards. The Supervisory Committee reviewed and approved the Company's proposal on the Company's 2021 profit distribution. The Supervisory Committee reviewed and approved the proposal on the transformation and reconstruction project of Zhejiang Lianhua Yiwu Tianhua Century City. The Supervisory Committee reviewed and approved the proposal on provision for impairment of long-term assets; The Supervisory Committee reviewed and approved the proposal on the Company applying for credit line from the bank, and authorized the General Manager's Office of the Company to sign various legal documents related to the above credit line.

On 16 June 2022, the Supervisory Committee convened a meeting to review and approve the proposal on the Company entering into the connected transaction of the 2023-2025 warehouse leasing framework agreement with Bailian Group and the entering into the connected transaction of the 2023-2025 procurement of goods framework agreement with Bailian Group, and confirmed that the above transactions were conducted on normal commercial terms, and the terms of the transactions were fair and reasonable and in the interests of the Shareholders as a whole.

On 30 August 2022, the Supervisory Committee convened a meeting regarding the operating conditions of the first half of the year ended 30 June 2022 and received reports from the management of the Group relating to the financial condition of the first half of 2022. The Supervisory Committee reviewed and approved the proposal on the Company entering into the connected transaction of the 2023-2025 goods supply framework agreement with Bailian Group, and confirmed that the above transactions were conducted on normal commercial terms, and the terms of the transactions were fair and reasonable and in the interests of the Shareholders as a whole. The Supervisory Committee reviewed and approved the proposal on the Company applying for financing line and bank credit line.

On 30 September 2022, the Supervisory Committee convened a meeting to review and approve the proposal on the Company entering into the connected transaction of the 2023 sales agency framework agreement with Bailian Omni-channel, and confirmed that the above transactions were conducted on normal commercial terms, and the terms of the transactions were fair and reasonable and in the interests of the Shareholders as a whole.

During the period under review, the Supervisory Committee reviewed the financial system, annual financial report and internal auditing report of the Group, and is of the view that the information included in the Group's financial budget, final accounts, annual report and interim report is true and reliable, and the audit opinion issued by the auditors is objective and fair.

During the period under review, the Supervisory Committee conducted supervision on the operating activities of the Group with respect to the financial control, operation control, compliance control and risk management, and considered that the Group had established an improved internal control system, has achieved significant progress in formulating and implementing internal procedures, and effectively controlled various corporate operating risks. The Group has performed its duties in accordance with the laws and regulations of the State, the Articles of Association and the procedures.

The Supervisory Committee conducted supervision on the performance of the Directors and managers of the Company and the execution of resolutions of general meetings. The Supervisory Committee considered that the Directors and the management had duly performed their duties in accordance with the resolutions of general meetings. The Directors and the management of the Company actively protected the interest of the Group when performing their duties. None of the Directors and other management of the Company have been found to be in breach of the laws and regulations and the Articles of Association or involved in acts detrimental to the interests of the Group and Shareholders during the execution of their duties.

The Supervisory Committee conducted a review on the Group's operating activities such as mergers and acquisitions and disposal of assets. The Supervisory Committee considered that the considerations for the Group's merger and acquisition and assets disposal were fair and reasonable. It was not aware of any insider dealings or any event detrimental to the interests of Shareholders, in particular the interests of minority Shareholders.

The Supervisory Committee conducted a review on the Group's connected transactions for the period under review which were subject to conditional exemptions. It confirmed that such connected transactions had complied with legal and statutory procedures and the transactions were conducted on fair commercial terms and in line with the financial policies of the Group and the transaction amounts did not exceed their respective caps.

The Supervisory Committee considers that the seventh session of the Board have formulated and implemented the operating strategies for the development of the Group in accordance with the operation objectives as determined in the general meetings since its inauguration. Under the circumstances of the keen competition in the domestic retail market, the Board has made proper decisions according to the operating environment, sought proactive expansion and operated prudently. At the same time, the Supervisory Committee considered that each Director in the Board had performed their duties in a diligent and responsible manner. The Supervisory Committee also appreciated the Board and management for their persistent efforts in improving various internal control systems of the Group according to the requirements applicable to public companies.

As more and more retail chain companies are seeking listing in Hong Kong, international investors maintain their interests in the potential of retail businesses in the PRC. Good corporate governance and open and fair information disclosures will facilitate the Group in building up a good corporate image in the international capital market. As such, the Group will continue to improve its internal work and systems. In the coming year, the Supervisory Committee will diligently take its responsibilities to protect and ensure maximization of the interests of the Group and its Shareholders.

Deloitte.
德勤

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Hong Kong

TO THE SHAREHOLDERS OF LIANHUA SUPERMARKET HOLDINGS CO., LTD.
(a joint stock limited company incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Lianhua Supermarket Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 133 to 226, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTER

Key audit matter is the matter that, in our professional judgements, was of most significance in our audit of the consolidated financial statements of the current year. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

KEY AUDIT MATTER (Continued)

Key audit matter *Impairment assessment on certain identified property, plant and equipment and right-of-use assets*	How our audit addressed the key audit matter
We identified impairment assessment on certain identified property, plant and equipment and right-of-use assets with unsatisfactory performance as a key audit matter because the amounts of these property, plant and equipment and right-of-use assets were significant and impairment assessment involved significant estimations and assumptions. Notes 16 and 18 to the consolidated financial statements described the reasons of impairment loss made on these property, plant and equipment and right-of-use assets, respectively. Details of the value-in-use calculations for these cash-generating units were set out in note 20 to the consolidated financial statements. During the year ended 31 December 2022, no impairment losses recognised on these property, plant and equipment and right-of-use assets.	Our audit procedures in relation to the impairment assessment on property, plant and equipment and right-of-use assets include: • Understanding the management consideration and process for the identification of property, plant and equipment and right-of-use assets which have impairment indicators; • Understanding the methodology and the process management applied in preparing the cash flow forecast, including the key assumptions such as the growth rate, discount rate and budgeted gross margin; • Assessing whether the management estimates and judgements are appropriate and reasonable with regards to our understanding and the operating performance of the Group; and • Evaluating whether the model used by the management to calculate the value-in-use of the individual cash-generating unit is in compliance with the requirement under Hong Kong Accounting Standard 36 *Impairment of Assets*.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Kay Man Wo, Dick.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	notes	**Year ended 31/12/2022 RMB'000**	Year ended 31/12/2021 RMB'000
Revenue	5	**24,681,396**	24,759,659
Cost of sales		**(21,299,101)**	(21,697,930)
Gross profit		**3,382,295**	3,061,729
Other revenue	5	**2,058,711**	2,255,259
Other income and other gains and losses	7	**471,145**	476,108
Impairment recognised under expected credit loss ("ECL") model, net of reversal	9	**(1,132)**	(1,156)
Distribution and selling expenses		**(4,715,290)**	(4,841,767)
Administrative expenses		**(788,724)**	(873,960)
Other expenses	10	**(42,185)**	(108,171)
Share of results of associates		**(111,526)**	42,800
Finance costs	8	**(276,866)**	(285,003)
Loss before tax	11	**(23,572)**	(274,161)
Income tax expense	12	**(109,192)**	(97,195)
Loss and total comprehensive expense for the year		**(132,764)**	(371,356)
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(211,747)**	(422,779)
Non-controlling interests		**78,983**	51,423
		(132,764)	(371,356)
Loss per share – basic	15	**RMB0.19**	RMB0.38

Consolidated Statement of Financial Position

At 31 December 2022

	notes	31/12/2022 RMB'000	31/12/2021 RMB'000
Non-current assets			
Property, plant and equipment	16	**3,463,791**	3,341,988
Construction in progress	17	**4,330**	9,740
Right-of-use assets	18	**5,738,461**	6,386,548
Intangible assets	19	**123,005**	127,336
Goodwill	21	**148,017**	127,953
Interests in associates	22	**592,814**	703,205
Financial assets at fair value through profit or loss ("FVTPL")	23	**42,319**	52,229
Finance lease receivables-non-current	25	**188,758**	237,571
Term deposits	24	**2,605,420**	3,980,870
Deferred tax assets	27	**8,520**	8,045
Other non-current assets	28	**82,115**	286,186
		12,997,550	15,261,671
Current assets			
Inventories	29	**3,036,797**	2,839,495
Finance lease receivables-current	25	**47,895**	46,245
Prepaid rental	26	**4,727**	441
Trade receivables	30	**242,853**	145,386
Deposits, prepayments and other receivables	31	**696,646**	715,302
Financial assets at FVTPL	23	**867,164**	997,618
Amount due from an ultimate holding company	32	**8**	15,028
Amounts due from fellow subsidiaries	32	**48,633**	37,933
Amounts due from an associate	33	**363**	251
Term deposits	24	**1,786,265**	577,100
Cash and cash equivalents	34	**3,198,945**	2,193,456
		9,930,296	7,568,255
Total assets		**22,927,846**	22,829,926

(Continued)

At 31 December 2022

	notes	31/12/2022 RMB'000	31/12/2021 RMB'000
Capital and reserves			
Share capital	40	**1,119,600**	1,119,600
Reserves		**(301,459)**	(89,712)
Equity attributable to owners of the Company		**818,141**	1,029,888
Non-controlling interests	41	**367,270**	224,509
Total equity		**1,185,411**	1,254,397
Non-current liabilities			
Deferred tax liabilities	27	**148,272**	120,359
Lease liabilities	38	**5,108,859**	5,741,487
		5,257,131	5,861,846
Current liabilities			
Trade and bills payables	35	**4,525,669**	3,467,986
Tax payable		**149,412**	103,336
Other payables and accruals	36	**1,963,901**	2,060,971
Lease liabilities	38	**896,096**	911,399
Contract liabilities	37	**8,928,208**	8,540,256
Deferred income	39	**–**	1,475
Amount due to an ultimate holding company	32	**6,814**	–
Amounts due to fellow subsidiaries	32	**14,051**	626,409
Amounts due to associates	33	**1,153**	1,851
		16,485,304	15,713,683
Total liabilities		**21,742,435**	21,575,529
Net current liabilities		**(6,555,008)**	(8,145,428)
Total equity and liabilities		**22,927,846**	22,829,926
Total assets less current liabilities		**6,442,542**	7,116,243

The consolidated financial statements on pages 133 to 226 were approved and authorised for issue by the Board of Directors on 28 March 2023 and are signed on its behalf by:

Pu Shao-hua
DIRECTOR

Chong Xiao-bing
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Attributable to owners of the Company							
	Share capital RMB'000	Capital reserve RMB'000 (note a)	Other reserve RMB'000 (note b)	Statutory common reserve fund RMB'000 (note c)	Accumulated losses RMB'000	Total attributable to owners of the Company RMB'000	Non-controlling interests RMB'000 (note 41)	Total RMB'000
At 1 January 2021	1,119,600	258,353	(235,497)	559,800	(249,589)	1,452,667	302,427	1,755,094
(Loss) profit and total comprehensive (expense) income for the year	–	–	–	–	(422,779)	(422,779)	51,423	(371,356)
Dividends to non-controlling interests	–	–	–	–	–	–	(129,341)	(129,341)
At 31 December 2021	1,119,600	258,353	(235,497)	559,800	(672,368)	1,029,888	224,509	1,254,397
(Loss) profit and total comprehensive (expense) income for the year	–	–	–	–	**(211,747)**	**(211,747)**	**78,983**	**(132,764)**
Dividends to non-controlling interests	–	–	–	–	–	–	**(41,565)**	**(41,565)**
Acquisition of a new subsidiary (note 42)	–	–	–	–	–	–	**105,343**	**105,343**
At 31 December 2022	**1,119,600**	**258,353**	**(235,497)**	**559,800**	**(884,115)**	**818,141**	**367,270**	**1,185,411**

notes:

(a) Capital reserve of the Company represents share premium arising from issue of H shares net of share issuance expenses.

(b) Other reserve of the Group mainly represents:

i. the fair value difference of a subsidiary's net asset, arising from a business combination in 2005, and the Group's original equity interest in that subsidiary;

ii. the financial impact of adopting merger accounting to account for the acquisition of subsidiaries during the year ended in 2009 and 2011;

iii. acquisition of additional equity interests in subsidiaries; and

iv. share of the other comprehensive income of the associates.

(c) Pursuant to the relevant regulations of the People's Republic of China (the "PRC") and the Articles of Association of the subsidiaries registered in the PRC, the Group are required to transfer 10% of its profit, as determined under the PRC Company Law, to statutory common reserve fund until the fund aggregates to 50% of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders. No further transfer is required when the fund has reached 50% of the registered capital of the subsidiaries registered in the PRC.

The statutory common reserve fund shall only be used to offset previous years' losses, to expand its operations, or to increase its capital. The statutory common reserve fund may be converted into the capital, provided that the balance of the reserve fund after such conversion is not less than 25% of the registered capital.

For the year ended 31 December 2022

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
OPERATING ACTIVTIES		
Loss before tax	**(23,572)**	(274,161)
Adjustments for:		
Depreciation of property, plant and equipment	**343,049**	329,508
Depreciation of right-of-use assets	**1,034,319**	1,099,984
Amortisation of intangible assets	**22,474**	20,798
Gain on disposal of interests in associates	**(598)**	–
Loss on disposal of property, plant and equipment	**8,702**	–
Net gain on termination of right-of-use assets and lease liabilities	**(28,173)**	(22,281)
Impairment loss on right-of-use assets	**–**	96,273
Impairment loss on goodwill	**1,921**	–
Write-down (reversals of write-down) of inventories	**2,152**	(976)
Impairment recognised under ECL model, net of reversal	**1,132**	1,156
Loss (gain) on change in fair value of financial assets at FVTPL	**3,067**	(9,684)
Dividends from financial assets at FVTPL	**(1,471)**	(1,241)
Share of results of associates	**111,526**	(42,800)
Interest income on bank balances and term deposits	**(261,120)**	(272,140)
Finance lease income	**(9,543)**	(22,698)
Finance costs	**276,866**	285,003
Operating profit before movements in working capital	**1,480,731**	1,186,741
Increase in inventories	**(116,431)**	(160,860)
(Increase) decrease in trade receivables	**(94,253)**	38,828
Decrease (increase) in deposits, prepayments and other receivables	**158,861**	(5,935)
(Increase) decrease in prepaid rental	**(4,286)**	935
Decrease in restricted term deposits	**285**	78,830
Decrease in finance lease receivables	**56,706**	30,701
Increase in amounts due from an associate	**(112)**	(174)
Decrease (increase) due from fellow subsidiaries and an ultimate holding company	**4,320**	(9,344)
Increase (decrease) in amounts due to an ultimate holding company	**6,814**	(36,234)
Decrease in amounts due to fellow subsidiaries	**(12,358)**	(1,722)
(Decrease) increase in amounts due to associates	**(698)**	457
Decrease in amounts due to other related parties	**–**	(2)
Decrease in deferred income	**(1,475)**	(4,441)
Decrease in trade and bills payables	**(51,781)**	(421,811)
(Decrease) increase in other payables and accruals	**(9,738)**	131,565
Increase in contract liabilities	**382,366**	402,104
Cash generated from operations	**1,798,951**	1,229,638
Income taxes paid	**(74,145)**	(141,508)
Interest received	**268,711**	192,471
Interest paid	**(248,976)**	(285,003)
Net cash from operating activities	**1,744,541**	995,598

(Continued)

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
INVESTING ACTIVITIES		
Payments for purchase of property, plant and equipment and construction in progress	**(241,474)**	(420,628)
Proceeds from (payments for) disposal of property, plant and equipment and intangible assets	**53,307**	(22,966)
Payments for purchase of intangible assets	**(9,464)**	(14,761)
Payment for rental deposits	**(9,039)**	(7,319)
Refund of rental deposits	**10,302**	4,856
Dividends from financial assets at FVTPL	**1,471**	1,241
Purchase of financial assets at FVTPL	**(200,000)**	(992,000)
Proceeds from disposal of financial assets at FVTPL	**337,297**	69,479
Placement of unrestricted term deposits	**(2,765,000)**	(87,000)
Withdrawal of unrestricted term deposits	**2,931,000**	1,206,000
Payment for acquisition of a subsidiary	**(75,577)**	(91,800)
Proceeds from disposal of associates	**1,725**	–
Net cash from (used in) investing activities	**34,548**	(354,898)
FINANCING ACTIVITIES		
Interest of borrowings paid	**(10,522)**	–
New borrowing raised from fellow subsidiaries	**–**	600,000
Repayments of borrowings to fellow subsidiaries	**(600,000)**	–
New bank borrowing raised	**400,000**	–
Repayment of bank borrowing	**(400,000)**	(20,000)
Proceeds from discounting of bills receivables	**982,632**	–
Dividends paid to non-controlling shareholders	**(139,720)**	(32,366)
Repayments of leases liabilities	**(1,005,990)**	(1,005,154)
Net cash used in financial activities	**(773,600)**	(457,520)
Net increase in cash and cash equivalents	**1,005,489**	183,180
Cash and cash equivalents at 1 January	**2,193,456**	2,010,276
Cash and cash equivalents at 31 December	**3,198,945**	2,193,456
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**3,198,945**	2,193,456

1. GENERAL

Lianhua Supermarket Holdings Co., Ltd. (the "Company") is a joint stock limited company incorporated in the PRC with limited liability. The address of its registered office and principal place of business is Room 713, 7th Floors, No. 1258, Zhen Guang Road, Putuo District, Shanghai, the PRC. The Company is listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The directors of the Company consider that the Company's direct holding company is Bailian Group Co., Ltd ("Bailian Group"), a state-owned enterprise established in the PRC, and Shanghai Bailian Group Co., Ltd. ("Shanghai Bailian"), a company incorporated in the PRC and listed on the Shanghai Stock Exchange, and the Company's ultimate holding company is Bailian Group.

The principal activities of the Company and its subsidiaries (the "Group") are operation of chain stores including supermarkets, hypermarkets and convenience stores primarily in the eastern region of the PRC.

As of 31 December 2022, the Group had net current liabilities of RMB6,555,008,000 (2021: RMB8,145,428,000). Taking into account of the historical settlement and addition pattern of the coupon liabilities (disclosed under contract liabilities) and the Group's ability to withdraw the non-current unrestricted term deposits of RMB1,885,000,000 (2021: RMB2,160,300,000), the directors of the Company consider that the liquidity risk is significantly reduced and the Group is able to be continued as a going concern.

The consolidated financial statements are presented in Renminbi (the "RMB"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	*Reference to the Conceptual Framework*
Amendments to HKFRS 16	*Covid-19-Related Rent Concessions*
Amendments to HKAS 16	*Property, Plant and Equipment – Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2018-2020*

In addition, the Group applied the agenda decision of the Committee of the International Accounting Standards Board, including Lessor Forgiveness of Lease Payments (IFRS 9 Financial Instruments and IFRS 16 Leases), which is relevant to the Group.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Except as described below, the application of the amendments to HKFRSs and the Committee's agenda decision in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of the agenda decision of the Committee – Lessor Forgiveness of Lease Payments (IFRS 9 Financial Instruments and IFRS 16 Leases)

In October 2022, the Committee published the agenda decision related to the accounting for a rent concession where the lessor legally releases the lessee from its obligation to make specifically identified lease payments. Some of these lease payments are contractually due but not paid and some of them are not yet contractually due. The Committee concluded that, before the rent concession is granted, the lessor applies the impairment requirements in IFRS 9 to the operating lease receivable, the measurement of expected credit losses ("ECL") should include the lessor's expectations of forgiving the related lease payments. In addition, the lessor accounts for the rent concession on the date it is granted by applying: (a) the derecognition requirements in IFRS 9 to forgiven lease payments that the lessor has recognised as operating lease receivables; and (b) the lease modification requirements in IFRS 16 to forgiven lease payments that the lessor has not recognised as an operating lease receivable.

Prior to issuance of this agenda decision, the Group, as a lessor, granted rent concession to release certain of its tenants' obligation to make specific lease payments which included operating lease receivables that were contractually due as at the date of granting the rent concession. The Group accounted for all the forgiven lease payments, including operating lease receivables that were contractually due, as lease modification under IFRS 16, the related leases in which rent concessions were granted were considered as new leases from the effective date of modification, outstanding operating lease receivables that were forgiven were considered as lease incentives of the related new leases. Subsequent to the publication of this agenda decision, the Group changed its accounting policy retrospectively to reflect the explanatory material in the agenda decision.

The application of the Committee's agenda decision has had no material impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	*Insurance Contracts*[1]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKFRS 16	*Lease liability in a Sale and Leaseback*[3]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)*[3]
Amendments to HKAS 1	*Non-current Liabilities with Covenants*[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to HKAS 8	*Definition of Accounting Estimates*[1]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

[1] Effective for annual periods beginning on or after January 1, 2023.

[2] Effective for annual periods beginning on or after a date to be determined.

[3] Effective for annual periods beginning on or after January 1, 2024.

The directors of the Company anticipate that the application of all the new and amendments to HKFRSs mentioned above will have no material impact on the consolidated financial statements in the foreseeable future.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of the reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 *Leases* and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Business combinations or asset acquisitions

Business combinations

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

For business combinations in which the acquisition date is on or after 1 January 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the "Conceptual Framework") except for transactions and events within the scope of HKAS 37 or HK(IFRIC)-Int 21, in which the Group applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below);

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Business combinations or asset acquisitions (Continued)

Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, interests in associates is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised ultimately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Interests in associates (Continued)

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9 *Financial Instruments* ("HKFRS 9"), the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Changes in the Group's interests in associates

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Except for granting of a licence that is distinct from other promised goods or services, control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Revenue from contracts with customers (Continued)

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

For granting of a licence that is distinct from other promised goods or services, the nature of the Group's promise in granting a licence is a promise to provide a right to access the Group's intellectual property if all of the following criteria are met:

- the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the intellectual property to which the customer has rights;
- the rights granted by the licence directly expose the customer to any positive or negative effects of the Group's activities; and
- those activities do not result in the transfer of a good or a service to the customer as those activities occur.

If the criteria above are met, the Group accounts for the promise to grant a licence as a performance obligation satisfied over time. Otherwise, the Group considers the grant of licence as providing the customers the right to use the Group's intellectual property and the performance obligation is satisfied at a point in time at which the licence is granted.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Contracts with multiple performance obligations (including allocation of transaction price)

Sales of goods that result in rewarding credits for customers under the certain customer loyalty incentive program are identified by the Group as the contracts with multiple performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Revenue from contracts with customers (Continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, for example, service contracts in which the Group bills at the rate of each service item specified in the contract, the Group recognises revenue in the amount to which the Group has the right to invoice.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using the most likely amount, which better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Sale with a right of return/exchange

For a sale of products with a right of return/exchange for dissimilar products, the Group recognises all of the following:

(a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned/exchanged);

(b) a refund liability/contract liability; and

(c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers and are presented as right to returned goods asset.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Revenue from contracts with customers (Continued)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for specified goods or services to be provided by the other party.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application of HKFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases for convenience stores that have the lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group;

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as separate line items on the consolidated statement of financial position.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

Interest and rental income which are derived from the Group's ordinary course of business are presented as other revenue.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessor (Continued)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modifications

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

(i) Operating leases

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

(ii) Finance leases

The Group accounts for a change in the lease payments of a finance lease as a lease modification, that is not accounted for as a separate lease, in accordance with the requirements of HKFRS 9. If the change represents a substantial modification, the finance lease receivables of the original lease are derecognised and a derecognition gain or loss calculated using the revised lease payments discounted at the revised discount rate is recognised in profit or loss on the date of the modification. If the change does not represent a substantial modification, the Group continues to recognise the finance lease receivables in which such carrying amount will be calculated at the present value of the modified contractual cash flows discounted at the related receivables' original discount rate. Any adjustment to the carrying amount is recognised in profit or loss at the effective date of modification.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Government grants relating to compensation of expenses are deducted from the related expenses, other government grants are presented under "other income and other gains and losses".

Employee benefits

Retirement benefit costs

Payments to state-managed retirement benefit scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Termination benefits

A liability for a termination benefit is recognised at the earlier of when the group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "loss before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Taxation (Continued)

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, for qualifying assets. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Certain software in the course of construction for administrative purposes are carried at cost, less accumulated amortisation and any recognised impairment loss. Such assets are classified to the appropriate categories of intangible assets when completed and ready for intended use. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no further economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) (Continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, and form an integral part of the Group's cash management.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on the weighted average method. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Amortised cost and interest income (Continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income and other gains and losses" line item.

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (trade receivables, other receivables, amounts due from an ultimate holding company/fellow subsidiaries/ an associate, term deposits and bank balances and cash), and other items (finance lease receivables) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward-looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16.

Lifetime ECL for certain trade receivables and other receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward-looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, other receivables and finance lease receivables where the corresponding adjustment is recognised through a loss allowance account.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities (including trade and bills payables, other payables, amounts due to an ultimate holding company/fellow subsidiaries/associates) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Principal versus agent consideration (principal)

The Group engages in chain store operation including hypermarket, supermarket and convenience stores. The Group acts as the principal for daily sales of merchandise transactions as it controls the specified goods before it is transferred to the customer after taking into consideration of the key indicators such as the Group is primarily responsible for fulfilling the promise to provide the goods and the Group has inventory risk on the merchandises.

Allocation of the consideration between lease components and non-lease components

For a contract that contains multiple lease components and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies judgements to allocate the consideration between the lease components and non-lease components. The assessment of stand-alone price for the non-lease components significantly affects the amount of lease liabilities and right-of-use assets recognised.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use or fair value less cost of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit at a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which results in downward revision of future cash, a material impairment loss may arise.

As at 31 December 2022, the carrying amount of goodwill was RMB148,017,000 (2021: RMB127,953,000) (net of accumulated impairment loss of RMB25,909,000 (2021: RMB23,988,000)). Details of the impairment testing on goodwill are set out in note 21.

Estimated impairment of certain identified property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgements and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the carrying value of an asset (as detailed in note 20 for those identified property, plant and equipment and right-of-use assets); (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts growth rate, discount rate and budgeted gross margin. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts used in the impairment test.

As at 31 December 2022, the carrying amounts of those identified property, plant and equipment and right-of-use assets with impairment indicator are RMB98,419,000 (2021: RMB110,408,000) and RMB625,552,000 (2021: RMB822,273,000) respectively, after taking into account the impairment losses of nil (2021: nil) and RMB47,030,000 (2021: RMB98,770,000) in respect of those identified property, plant and equipment and right-of-use assets that have been recognised, respectively. Details of the impairment of property, plant and equipment and right-of-use assets are set out in note 20.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Deferred tax assets

As at 31 December 2022, no deferred tax asset has been recognised in respect of the tax losses of RMB3,219,278,000 (2021: RMB3,448,816,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future taxable profits generated are more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such recognition takes place.

Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. As at 31 December 2022, the carrying amount of property, plant and equipment was RMB3,463,791,000 (net of accumulated depreciation and impairment losses of RMB3,669,404,000 (2021: RMB3,341,988,000 (net of accumulated depreciation and impairment losses of RMB3,613,274,000)).

Estimated store closure provision

The Group follows HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to recognise store closure provision. Provisions are recognised when the Group has a constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Store closure provision comprises mainly lease termination cost and employee compensations with corresponding amounts included in other expenses. The determination of provision requires the use of estimates. As at 31 December 2022, the carrying amount of store closure provision was RMB147,676,000 (2021: RMB139,953,000).

Estimated amount of breakage

Determining the breakage amount requires an estimation of the ratio and proportion to the pattern of rights exercised by the customer. The Group recognises the amount at an expected redemption rate, which is formulated by reference to the ratio derived from historical information on proportion of coupons issued by the Group but not yet utilised by the customers for certain period of time. The breakage amounts are recognised as revenue from contract liabilities according to HKFRS 15. During the year ended 31 December 2022, the income from breakage amounted to RMB15,127,000 (2021: RMB11,252,000).

5. REVENUE AND OTHER REVENUE

The Group is principally engaged in operation of chain stores including supermarkets, hypermarkets and convenience stores. Analysis of the Group's revenue recognised during the year is as follows:

(i) Disaggregation of revenue from contracts with customers

Type of Revenue

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Revenue		
Sales of merchandise	**24,681,396**	24,759,659
Services		
Income from suppliers (service income)	**1,570,291**	1,632,148
Franchising income from franchised stores	**39,261**	41,638
Commission income on coupon redemption at other retail shops	**10,902**	2,137
	1,620,454	1,675,923
Total	**26,301,850**	26,435,582

Timing of revenue recognition

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
At a point in time	**24,692,298**	24,761,796
Over time	**1,609,552**	1,673,786
Total	**26,301,850**	26,435,582

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Revenue from contracts with customers – sales of merchandise	**24,681,396**	24,759,659
Other revenue from contracts with customers – services	**1,620,454**	1,675,923
Rental income from leasing of shop premises	**438,257**	579,336
	2,058,711	2,255,259
Total revenue and other revenue	**26,740,107**	27,014,918

5. REVENUE AND OTHER REVENUE (Continued)

(ii) Performance obligations for contracts with customers

Sales of merchandise

For merchandise sold in stores, revenue is recognised at the point of sales terminals. For online or wholesale of merchandise, revenue is recognised on collection by the customers.

Service income from suppliers

Service income from suppliers include information technology services, promotion services as well as logistic services. Such service income are recognised over time at the rate of each service item specified in the contract.

Franchising income from franchise stores

Franchising income is charged to the franchisee for the utilisation of the brand of the Group. Franchising income is recognised over time in accordance with the rate specified in the contract.

Commission income on coupon redemption at other retail shops

Commission income is charged to the retailers when customers redeem the Group's coupon at their retail shops. Commission fee is recognised at a point in time when customers redeemed the coupons.

(iii) Leases

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
For operating leases:		
Fixed lease payments	**428,714**	556,638
For finance leases:		
Finance income on the net investment in the lease	**9,543**	22,698
Total revenue arising from leases	**438,257**	579,336

6. SEGMENT INFORMATION

Information reported to the Group's general manager, who is the chief operating decision maker of the Group for the purposes of resource allocation and assessment of performance, is focused on three main operations of the Group identified in accordance with the business nature and the size of the operations.

Specifically, the reportable segments of the Group under HKFRS 8 *Operating Segments* are as follows:

- Hypermarket chain operation ("Hypermarket")
- Supermarket chain operation ("Supermarket")
- Convenience store chain operation ("Convenience store")
- Other operations

There are no significant sales or other transactions among the segments. Other operations of the Group principally comprise sales of merchandise to wholesalers, provision of logistic services for wholesale business, and online sales. Other operations of the Group are aggregated when the information is reported to the Group's general manager.

Segment revenues and results

The following is an analysis of the Group's revenue (including revenue and other revenue) and results from continuing operations by operating and reportable segment:

	Segment revenue		Segment results	
	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000	**Year ended 31/12/2022 RMB'000**	Year ended 31/12/2021 RMB'000
Hypermarket	**13,650,205**	15,065,315	**143,081**	(146,700)
Supermarket	**11,430,017**	10,115,635	**164,185**	51,325
Convenience store	**1,548,627**	1,558,080	**(25,349)**	(3,264)
Other operations	**111,258**	275,888	**(6,817)**	(15,184)
	26,740,107	27,014,918	**275,100**	(113,823)

The reconciliation of the total segment results to consolidated loss before tax is as follows:

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Segment results	**275,100**	(113,823)
Share of results of associates	**(111,526)**	42,800
Gain on disposal of interests in associates	**598**	–
Unallocated interest income	**38,046**	48,654
Unallocated expenses	**(217,064)**	(246,534)
Unallocated loss on change in fair value of financial assets at FVTPL	**(8,726)**	(5,258)
Consolidated loss before tax	**(23,572)**	(274,161)

6. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

All of the segment revenue reported above is from external customers.

All of the Group's revenue and segment results is attributable to customers in the PRC.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results did not include share of results of associates, gain on disposal of interests in associates, allocation of headquarter income and expenses (including certain interest income relating to funds centrally managed) and unallocated loss on change in fair value of financial assets at FVTPL. This is the measure reported to the Group's general manager for the purposes of resource allocation and assessment of segment performance.

Segment assets

The following is the analysis of the Group's assets by reportable and operating segment:

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
– Hypermarket	**12,746,305**	13,309,270
– Supermarket	**6,652,162**	5,920,975
– Convenience store	**495,596**	455,594
– Other operations	**320,422**	230,626
Total segment assets	**20,214,485**	19,916,465
Interests in associates	**592,814**	703,205
Deferred tax assets	**8,520**	8,045
Other unallocated assets	**2,112,027**	2,202,211
Total assets	**22,927,846**	22,829,926

For the purpose of monitoring segment performance and allocating resources among segments, all assets are allocated to operating segments other than interests in associates, deferred tax assets, certain financial assets, cash and cash equivalents centrally managed by headquarter.

6. SEGMENT INFORMATION (Continued)

Other segment information

Year ended 31/12/2022

	Hypermarket RMB'000	Supermarket RMB'000	Convenience store RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets (note)	**515,061**	**460,682**	**62,446**	**900**	**1,039,089**
Depreciation and amortisation	**736,722**	**594,457**	**58,969**	**9,694**	**1,399,842**
Impairment losses on goodwill in profit or loss	**–**	**1,921**	**–**	**–**	**1,921**
Loss (gain) on disposal of property, plant and equipment	**8,427**	**(288)**	**108**	**455**	**8,702**
Net gain on termination of right-of-use assets and lease liabilities	**(23,929)**	**(237)**	**(4,007)**	**–**	**(28,173)**
Interest income on bank balances and term deposits	**(163,108)**	**(58,851)**	**(498)**	**(617)**	**(223,074)**
Interest income on finance lease receivables (note 5)	**(9,543)**	**–**	**–**	**–**	**(9,543)**
Finance costs	**185,068**	**87,745**	**4,053**	**–**	**276,866**

Year ended 31/12/2021

	Hypermarket RMB'000	Supermarket RMB'000	Convenience store RMB'000	Other operations RMB'000	Total RMB'000
Amounts included in the measure of segment results or segment assets:					
Addition to non-current assets (note)	717,800	461,369	95,488	1,692	1,276,349
Depreciation and amortisation	857,562	529,379	50,356	12,993	1,450,290
Impairment losses (reversal) on property, plant and equipment and right-of-use assets in profit or loss	98,770	–	(2,497)	–	96,273
(Gain) loss on disposal of property, plant and equipment, right-of-use assets and intangible assets	(17,750)	1,219	(3,492)	(771)	(20,794)
Interest income on bank balances and term deposits	(166,695)	(55,788)	(488)	(515)	(223,486)
Interest income on finance lease receivables (note 5)	(22,698)	–	–	–	(22,698)
Finance costs	197,878	83,235	3,890	–	285,003

note: Addition to non-current assets include the additions of RMB234,476,000 to property, plant and equipment (2021: RMB272,431,000), RMB11,476,000 to construction in progress (2021: RMB6,206,000), RMB783,673,000 to right-of-use assets (2021: RMB982,951,000) and RMB9,464,000 to intangible assets (2021: RMB14,761,000).

6. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

Geographical information

The Group's operations and non-current assets are substantially located in the PRC. Revenues from external customers are substantially derived from customers located in the PRC. Therefore, no analysis of geographical information is presented.

Information about major customers

None of the revenue from any customers contributed over 10% of the total revenue of the Group for both reporting periods.

7. OTHER INCOME AND OTHER GAINS AND LOSSES

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Interest income on bank balances and term deposits	**261,120**	272,140
Government grants (note i)	**85,172**	58,259
(Loss) gain on change in fair value of financial assets at FVTPL	**(3,067)**	9,684
Dividends from financial assets at FVTPL	**1,471**	1,241
Net gain on termination of right-of-use assets and lease liabilities	**28,173**	22,281
Salvage sales	**24,295**	29,772
Income from breakage (note ii)	**15,127**	11,252
Coupon charges	**11,400**	14,385
Penalty income	**12,000**	14,252
Gain on disposal of interests in associates	**598**	–
Others	**34,856**	42,842
Total	**471,145**	476,108

notes:

i. The Group received unconditional government grants of RMB83,697,000 (2021: RMB53,818,000) from the PRC local government (the "Authorities") as an encouragement for the operation of subsidiaries in certain jurisdictions. In addition, an amount of RMB1,475,000 (2021: RMB4,441,000) has been released from deferred income regarding the asset related government grants during the current year. Details of deferred income are set out in note 39.

ii. The Group recognises the amount of breakage at expected redemption rate, which is formulated by reference to the ratio derived from historical information on proportion of coupons issued by the Group but not yet utilised by the customers for certain period of time. The breakage amounts are recognised as revenue from contract liabilities according to HKFRS 15.

8. FINANCE COSTS

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Interest expense on lease liabilities	248,976	275,590
Interest expense on a bank borrowing and loan from a fellow subsidiary	10,522	9,413
Interest expense on discounting of bill receivables	17,368	–
	276,866	285,003

9. IMPAIRMENT RECOGNISED UNDER ECL MODEL, NET OF REVERSAL

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Impairment loss (recognised) reversed on:		
– trade receivables	(2,315)	750
– deposits and other receivables	1,183	(1,906)
	(1,132)	(1,156)

Details of impairment assessment are set out in note 47b.

10. OTHER EXPENSES

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Store closure expenses	28,676	3,355
Loss on disposal of property, plant and equipment	8,702	1,487
Impairment losses on right-of-use assets (note 20)	–	96,273
Impairment losses on goodwill (note 21)	1,921	–
Others	2,886	7,056
	42,185	108,171

11. LOSS BEFORE TAX

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Loss before tax has been arrived at after charging (crediting):		
Amortisation and depreciation		
Depreciation of property, plant and equipment (note 16)	**343,049**	329,508
Depreciation of right-of-use assets (note 18)	**1,034,319**	1,099,984
Amortisation of intangible assets (note 19)	**22,474**	20,798
Total amortisation and depreciation	**1,399,842**	1,450,290
Share of results of associates		
Share of results before tax	**110,045**	(47,941)
Share of income tax expense	**1,481**	5,141
	111,526	(42,800)
Auditors' remuneration	**6,472**	6,096
Impairment loss on right-of-use assets recognised (included in other expenses)	**–**	96,273
Director's remuneration (note 13)	**2,642**	3,149
Salaries, wages and other employee benefits of other staff	**2,139,840**	2,216,210
Retirement benefits scheme contribution of other staff	**204,835**	202,106
Total staff costs	**2,347,317**	2,421,465
Impairment losses recognised under ECL model, net of reversal	**1,132**	1,156
Write-down (reversals of write-down) of inventories	**2,152**	(976)
Cost of inventories recognised as expenses	**21,299,101**	21,697,930

12. INCOME TAX EXPENSE

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Current tax on the PRC Enterprise Income Tax ("EIT")	**118,833**	77,915
(Over) under provision of PRC EIT in prior years	**(437)**	1,030
Deferred tax (credit) charge (note 27)	**(9,204)**	18,250
	109,192	97,195

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on EIT ("EIT Law") and Implementation Regulation of the EIT Law, the EIT tax rate of the PRC subsidiaries is 25%. Certain subsidiaries are entitled to EIT at preferential rate of 15% as those entities are located in the western China. Certain subsidiaries which are identified as small low-profit enterprises are entitled to enjoy preferential EIT rate ranging from 5% to 10%.

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Loss before tax	**(23,572)**	(274,161)
Tax at PRC EIT tax rate of 25% (2021: 25%)	**(5,893)**	(68,540)
Tax effect of share of results of associates	**27,882**	(10,700)
Tax effect of expenses not deductible for tax purpose	**331**	411
Tax effect of income not taxable for tax purpose	**(4,946)**	(4,762)
Tax effect of tax losses not recognised	**117,584**	181,639
Tax effect of deductible temporary differences not recognised	**1,098**	6,110
Utilisation of tax losses previously not recognised	**(25,917)**	(7,171)
(Over) under provision of PRC EIT in prior years	**(437)**	1,030
Effect of different tax rates of subsidiaries	**(510)**	(822)
Income tax expense for the year	**109,192**	97,195

13. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION

(1) Directors' emoluments

The remuneration of each director for the year ended 31 December 2022 and 2021 is set out below:

Name of director	Fees		Basic salaries, allowances and benefits in kind		Discretionary bonus (note a)		Retirement benefits costs		Medical benefits		Total	
RMB'000	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Executive/Non-executive Directors:												
Mr. Xu Tao (note b)	–	–	–	440	–	–	–	40	–	18	–	498
Mr. Chong Xiao-bing (note c)	–	–	1,533	1,495	370	421	104	101	35	34	2,042	2,051
Mr. Ye Yong-ming (note d)	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Xu Zi-ying (note e)	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Pu Shao-hua (note f)	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Shi Xiao-long (note g)	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Dong Xiao-chun	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Wong Tak-Hung	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Zhang Shen-yu	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Xu Hong (note h)	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Xu Pan-hua (note i)	–	–	–	–	–	–	–	–	–	–	–	–
Independent non-executive Directors:												
Mr. Xia Da Wei	150	150	–	–	–	–	–	–	–	–	150	150
Mr. Lee Kwok Ming, Don	150	150	–	–	–	–	–	–	–	–	150	150
Mr. Chen Wei	150	150	–	–	–	–	–	–	–	–	150	150
Mr. Zhao Xinsheng	150	150	–	–	–	–	–	–	–	–	150	150
Total	600	600	1,533	1,935	370	421	104	141	35	52	2,642	3,149

13. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(1) Directors' emoluments (Continued)

notes:

(a) The discretionary bonus is determined based on the Group's and personal performance.

(b) Mr. Xu Tao resigned from the executive director and general manager of the Company on 23 Apr 2021.

(c) Mr. Chong Xiao-bing was elected as the executive director and general manager of the Company on 23 Apr 2021.

(d) Mr. Ye Yong-ming resigned from the non-executive director of the Company on 12 Nov 2021.

(e) Ms. Xu Zi-ying resigned from the non-executive director of the Company on 12 Nov 2021.

(f) Mr. Pu Shao-hua was elected as the non-executive director of the Company on 12 Nov 2021.

(g) Mr. Shi Xiao-long was elected as the non-executive director of the Company on 12 Nov 2021.

(h) Mr. Xu Hong resigned from the non-executive director of the Company on 28 March 2022.

(i) Mr. Xu Pan-hua was elected as the the non-executive director of the Company on 28 March 2022.

The executive director's emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. For in-service executive directors, they received all their emoluments from Bailian Group.

The non-executive director's emoluments shown above were for their services as directors of the Company or its subsidiaries.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

There was no arrangement under which a director or the general manager waived or agreed to waive any emoluments during the years ended 31 December 2022 and 2021.

13. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(2) Supervisory committee members' emoluments

The remuneration of each supervisor for the year ended 31 December 2022 and 2021 is set out below:

Name of supervisor	Fees		Basic salaries, allowances and benefits in kind		Discretionary bonus (note a)		Retirement benefits costs		Medical benefits		Total	
RMB'000	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Mr. Yang A-guo (note b)	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Tian Ying-jie (note c)	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Tang Hao	–	–	619	592	269	298	93	84	41	37	1,022	1,011
Total	–	–	619	592	269	298	93	84	41	37	1,022	1,011

notes:

(a) The supervisors' emoluments shown above were for their services as supervisors of the Company. Certain supervisors did not receive emoluments from the Group and receive their emoluments from Bailian Group instead during the year. There was no arrangement under which a supervisor waived or agreed to waive any emoluments during both current and prior reporting period.

(b) Mr. Yang A-guo resigned from the supervisory of the Company on 2 Dec 2021.

(c) Ms. Tian Ying-jie was elected as the supervisory of the Company on 2 Dec 2021.

(3) Senior management's emoluments

The remuneration of each senior management for the year ended 31 December 2022 and 2021 is set out below:

Name	Fees		Basic salaries, allowances and benefits in kind		Discretionary bonus (note a)		Retirement benefits costs		Medical benefits		Total	
RMB'000	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Mr. Liang Bao-long (note b)	–	–	560	576	261	290	93	84	41	37	955	987
Ms. Zhang Hui-qin (note c)	–	–	294	294	3,915	4,450	90	81	27	24	4,326	4,849
Mr. Dong Gang	–	–	1,200	1,161	272	368	93	84	41	37	1,606	1,650
Mr. Wang Song (note e)	–	–	377	754	102	246	44	84	20	37	543	1,121
Ms. Xu Xiao-yi (note f)	–	–	682	683	210	223	93	84	41	37	1,026	1,027
Mr. Gu Feng-min (note d)	–	–	315	–	21	–	41	–	17	–	394	–
Total	–	–	3,428	3,468	4,781	5,577	454	417	187	172	8,850	9,634

13. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(3) Senior management's emoluments (Continued)

notes:

(a) The discretionary bonus is determined based on the Group's and personal performance.

(b) Mr. Liang Bao-long was elected as the deputy party secretary of the Company in June 2021.

(c) Ms. Zhang Hui-qin was appointed as the executive deputy general manager of the Company in June 2021.

(d) Mr. Gu Feng-min was elected as the deputy general manager of the Company in 26 July 2022.

(e) Mr. Wang Song resigned from the chief financial officer of the Company on 8 Jul 2022.

(f) Ms. Xu Xiao-yi was elected as the chief financial officer of the Company on 8 Jul 2022.

The senior managements' emoluments shown above were for their services as one of the key management teams rendered to the Company.

14. FIVE HIGHEST PAID EMPLOYEES

In both years, none of the five highest paid individuals was a director or supervisor of the Company. The aggregate emoluments of these five highest paid individuals are as follows:

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Salaries, allowances and benefits in kind	**1,183**	1,183
Discretionary bonuses	**15,661**	17,610
Retirement benefits	**450**	407
Medical benefits	**133**	118
	17,427	19,318

14. FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands:

	Number	
	Year ended 31/12/2022	Year ended 31/12/2021
HK$3,500,001—HK$4,000,000	**3**	–
HK$4,000,001—HK$4,500,000	**–**	3
HK$4,500,001—HK$5,000,000	**1**	–
HK$5,000,001—HK$5,500,000	**1**	1
HK$5,500,001—HK$6,000,000	**–**	1

No emolument was paid by the Group to any of the directors, supervisors or the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office for both years.

15. LOSS PER SHARE

The calculation of the basic loss per share attributable to owners of the Company is based on the following data:

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Loss for the year attributable to owners of the Company	**(211,747)**	(422,779)

	Year ended 31/12/2022	Year ended 31/12/2021
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,119,600,000**	1,119,600,000

No diluted loss per share is presented as there was no potential ordinary shares in issue for both years.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Transportation vehicles and equipment RMB'000	Operating and office equipment RMB'000	Total RMB'000
COST					
At 1 January 2021	3,186,305	2,007,210	282,186	1,453,049	6,928,750
Additions	1,791	155,711	2,563	112,366	272,431
Transfer from construction – in progress (note 17)	–	5,965	–	269	6,234
Disposals	–	(63,515)	(21,348)	(167,290)	(252,153)
At 31 December 2021	3,188,096	2,105,371	263,401	1,398,394	6,955,262
Additions	–	151,668	3,875	78,933	234,476
Acquired on acquisition of a subsidiary (note 42)	255,118	5,293	964	22,803	284,178
Transfer from construction– in progress (note 17)	–	8,207	–	–	8,207
Disposals	–	(162,987)	(13,598)	(172,343)	(348,928)
At 31 December 2022	**3,443,214**	**2,107,552**	**254,642**	**1,327,787**	**7,133,195**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2021	858,735	1,368,103	191,100	1,103,810	3,521,748
Provided for the year	86,727	120,529	19,239	103,013	329,508
Eliminated on disposals	–	(54,668)	(19,827)	(163,487)	(237,982)
At 31 December 2021	945,462	1,433,964	190,512	1,043,336	3,613,274
Provided for the year	102,211	122,661	17,648	100,529	343,049
Eliminated on disposals	–	(133,670)	(12,885)	(140,364)	(286,919)
At 31 December 2022	**1,047,673**	**1,422,955**	**195,275**	**1,003,501**	**3,669,404**
CARRYING VALUES					
At 31 December 2022	**2,395,541**	**684,597**	**59,367**	**324,286**	**3,463,791**
At 31 December 2021	2,242,634	671,407	72,889	355,058	3,341,988

Notes:

(a) The depreciation expense for the year amongst which RMB301,973,000 and RMB41,076,000 (2021: RMB284,728,000 and RMB44,780,000) were included in distribution and selling expenses and administrative expenses, respectively.

(b) As at 31 December 2022, the carrying amount of certain buildings without building ownership certificates is RMB966,000 (2021: RMB1,120,000).

The above items of property, plant and equipment are depreciated, taking into account their residual values, on a straight-line basis as follows:

Buildings	25-40 years
Leasehold improvements	Over the shorter of the term of the lease, or 5-8 years
Transportation vehicles and equipment	5-8 years
Operating and office equipment	3-8 years

Details of the impairment assessment are set out in note 20.

17. CONSTRUCTION IN PROGRESS

	Construction in progress RMB'000
At 1 January 2021	10,234
Additions	6,206
Transfer to property, plant and equipment (note 16)	(6,234)
Transfer to intangible assets (note 19)	(466)
At 31 December 2021	9,740
Additions	**11,476**
Transfer to property, plant and equipment (note 16)	**(8,207)**
Transfer to intangible assets (note 19)	**(8,679)**
At 31 December 2022	**4,330**

18. RIGHT-OF-USE ASSETS

	Land use rights RMB'000	Buildings RMB'000	Total RMB'000
At 31 December 2022			
Carrying amount	726,256	5,012,205	5,738,461
At 31 December 2021			
Carrying amount	751,045	5,635,503	6,386,548
For the year ended 31 December 2022			
Depreciation charge	(24,789)	(1,009,530)	(1,034,319)
New lease entered	–	783,673	783,673
Lease modification	–	(164,237)	(164,237)
Lease termination	–	(233,204)	(233,204)
For the year ended 31 December 2021			
Depreciation charge	(24,789)	(1,075,195)	(1,099,984)
Impairment (note)	–	(96,273)	(96,273)
New lease entered	–	982,951	982,951
Lease modification	–	(87,016)	(87,016)
Lease termination	–	(281,507)	(281,507)

Note:

Details of the impairment assessment are set out in note 20.

18. RIGHT-OF-USE ASSETS (Continued)

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Expense (reversal) relating to short-term leases	**8,424**	(55)
Variable lease payments not included in the measurement of lease liabilities	**9,299**	4,722
Total cash outflow for leases	**1,272,689**	1,285,411
Addition to right-of-use assets	**783,673**	982,951

For both years, the Group leases various chain stores for its operations. Lease contracts are entered into for fixed term of 1 to 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group has obtained all the land use right certificates for all leasehold lands.

18. RIGHT-OF-USE ASSETS (Continued)

The Group regularly enters into short-term leases for convenience stores. As at 31 December 2022 and 2021, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense is immaterial.

Variable lease payments

Leases of retail stores are either with only fixed lease payments or with variable lease payment that are based on 0.3% to 6% (2021:0.3% to 6%) of sales and minimum annual lease payments that are fixed over the lease term. No variable payment term includes cap clauses. Such payment terms are common in retail stores in the PRC where the Group operates. The amounts of fixed and variable lease payments paid/payable to relevant lessors for both years are presented as follows:

For the year ended 31 December 2022

	Number of stores	**Fixed payments RMB'000**	**Variable payments RMB'000**	**Total payments RMB'000**
Retail stores without variable lease payments	**1,201**	**1,234,727**	**–**	**1,234,727**
Retail stores with variable lease payments	**56**	**20,239**	**9,299**	**29,538**
	1,257	**1,254,966**	**9,299**	**1,264,265**

For the year ended 31 December 2021

	Number of stores	Fixed payments RMB'000	Variable payments RMB'000	Total payments RMB'000
Retail stores without variable lease payments	1,183	1,226,767	–	1,226,767
Retail stores with variable lease payments	30	53,977	4,722	58,699
	1,213	1,280,744	4,722	1,285,466

The overall financial effect of using variable payment terms is that higher rental costs are incurred by stores with higher sales. Variable lease payments are expected to continue to represent a similar proportion of store sales in future years.

Restrictions or covenants on leases

In addition, lease liabilities of RMB6,004,955,000 are recognised with related right-of-use assets of RMB5,012,205,000 as at 31 December 2022 (2021: lease liabilities of RMB6,652,886,000 are recognised with related right-of-use assets of RMB5,635,503,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes or be subleased under certain circumstances.

Details of impairment assessment of right-of-use assets are set out in note 20.

18. RIGHT-OF-USE ASSETS (Continued)

Rent concession

During the year ended 31 December 2022, lessors of the relevant retail stores provided rent concessions to the Group through monthly rent reductions ranging from 11% to 100% over one to twelve months (2021: 2% to 18%).

The Group opted not to apply the practical expedient under HKFRS 16.46A and concluded the changes in lease payments constitute lease modifications. The reduction of the Group's lease liabilities of RMB164,237,000 (2021: RMB87,016,000) and a corresponding adjustment of the same amount to the right-of-use assets were recognised.

19. INTANGIBLE ASSETS

	Software RMB'000
COST	
At 1 January 2021	315,495
Additions	14,761
Transfer from construction in progress (note 17)	466
Disposals	(4,711)
At 31 December 2021	326,011
Additions	9,464
Transfer from construction in progress (note 17)	8,679
Write-off	(10,579)
At 31 December 2022	**333,575**
AMORTISATION	
At 1 January 2021	181,852
Charge for the year	20,798
Eliminated on write-off	(3,975)
At 31 December 2021	198,675
Charge for the year	22,474
Eliminated on disposals	(10,579)
At 31 December 2022	**210,570**
CARRYING VALUES	
At 31 December 2022	**123,005**
At 31 December 2021	127,336

notes:

(a) The amortisation expense for the year amongst which RMB4,318,000 and RMB18,156,000 (2021: RMB4,588,000 and RMB16,210,000) were included in distribution and selling expenses and administrative expenses, respectively.

(b) Software has finite useful lives and is amortised on a straight-line basis over 5 to 10 years.

20. IMPAIRMENT ASSESSMENT ON PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS

Due to the unsatisfactory performance of certain retail stores, the management concluded that there was indication for impairment and conducted impairment assessment on recoverable amounts of certain property, plant and equipment and right-of-use assets with carrying amounts of RMB98,419,000 and RMB625,552,000, respectively (2021: RMB110,408,000 and RMB822,273,000). The Group estimates the recoverable amount of the cash-generating units ("CGUs") of retail stores to which the asset belongs are having impairment indicators.

The recoverable amount of respective CGU has been determined based on a value in use calculation. The Group uses cash flow projections based on financial budgets approved by the management covering the following 5 years with a pre-tax discount rate of 10.1% as at 31 December 2022 (2021: 9%). The annual growth rate used is ranging from 2.5% to 4.5% (2021: from 0% to 5%), which is based on the industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry. The cash flows beyond the five-year period are extrapolated within the lease term. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the CGUs' past performance and management judgements on expectations for the market development. The growth and discount rates have been reassessed as at 31 December 2022 taking into consideration of higher degree of estimation uncertainties in the current year including how the Covid-19 pandemic may evolve and potential disruptions of the Group's retail operation.

Based on the result of the assessment for the year ended 31 December 2021, management determined that the recoverable amounts of certain CGUs are lower than their corresponding carrying amounts. The impairment amount has been allocated to each category of those identified property, plant and equipment and right-of-use assets such that the carrying amount of each category of asset is not reduced below the highest of its fair value less cost of disposal, its value in use and zero. Based on the value in use calculation and the allocation, no impairment (2021:nil and RMB96,273,000) has been recognised against the carrying amount of those identified property, plant and equipment and right-of-use assets, respectively, within the relevant factions to which these assets related.

21. IMPAIRMENT TESTING ON GOODWILL

	RMB'000
COST At 31 December 2020 and 31 December 2021	151,941
Arising on acquisition of a subsidiary (note 42)	21,985
At 31 December 2022	**173,926**
IMPAIRMENT At 31 December 2020 and 31 December 2021	(23,988)
Impairment loss recognised in the year	(1,921)
At 31 December 2022	**(25,909)**
CARRYING VALUE At 31 December 2022	**148,017**
At 31 December 2021	127,953

For the purpose of impairment testing, goodwill has been allocated to each individual CGU identified according to the separate acquisition. The goodwill allocated to these CGUs is as follows:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Hangzhou Lianhua Huashang Supermarket Group Co., Ltd.* (杭州聯華華商集團有限公司)	**69,534**	69,534
Guangxi Lianhua Supermarket Joint Stock Co., Ltd.* (廣西聯華超市股份有限公司)	**47,638**	47,638
Zhejiang Bailian Supermarket Co., Ltd.* (浙江百聯超市有限公司)	**20,064**	–
Others	**10,781**	10,781
	148,017	127,953

* English name is for the identification purpose only.

21. IMPAIRMENT TESTING ON GOODWILL (Continued)

In addition to goodwill, property, plant and equipment, intangible assets and right-of-use assets that generate cash flows together with the related goodwill are also included in the respective CGU for the purpose of impairment assessment.

The recoverable amounts of the CGUs are determined based on a value-in-use calculations. Their recoverable amounts are based on certain similar key assumptions. The value-in-use calculations use cash flow projections based on financial budgets approved by the management covering a five-year period as extrapolated for perpetuity using a growth rate of 0% (2021: 0%). The annual growth rates are 2% and 6.5% (2021: 0.9% and 14.1%), which are Consumer Price Index and growth rate of online retail sales, as appropriate, and a discount rate at 10.1% (2021: 9%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate of the relevant industry. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted gross margin, such estimations are based on these relevant CGUs' past performance and the management's expectations for the market condition. The management believes that any reasonably possible change in any of these assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the relevant CGUs.

22. INTERESTS IN ASSOCIATES

	31/12/2022 RMB'000	31/12/2021 RMB'000
Unlisted equity investments	**470,118**	472,467
Share of post-acquisition profits and other comprehensive income net of dividends received	**122,696**	230,738
	592,814	703,205

22. INTERESTS IN ASSOCIATES (Continued)

Details of each of the Group's associates at the end of the reporting period are as follows:

Name of entity	Country of registration/ Principal place of business	Proportion of ownership interest held by the Group		Principal activity
		31/12/2022 %	31/12/2021 %	
Shanghai Carhua Supermarket Co., Ltd.("Carhua")* (上海聯家超市有限公司("聯家"))	The PRC	**45.00**	45.00	Hypermarket
Shanghai Sanming Taige information technology Co., Ltd.* (上海三明泰格資訊技術有限公司)	The PRC	**45.00**	45.00	Trading Company
Shanghai Gude commerce Company* (上海谷德商貿合作公司)	The PRC	**27.00**	27.00	Trading Company
Tianjin Yishang Friendship Holdings Co.,Ltd. ("Tianjin Yishang")* (天津一商友誼股份有限公司 ("天津一商"))	The PRC	**20.00**	20.00	Department Stores
Shanghai Aofa Trading Development Co., Ltd.* (上海澳發商貿發展有限公司)	The PRC	**30.00**	30.00	Trading Company
Hangzhou Longlian Selected Restaurant Co., Ltd.* (杭州龍聯精選餐飲有限公司)(note ii)	The PRC	**–**	40.00	Catering Service
Bailian Financial Services Co., Ltd. ("Bailian Financial Services")* (百聯金融服務有限公司 ("百聯金服"))(note i)	The PRC	**11.77**	11.77	E-commerce
Hangzhou Jiangtou Lianhua Supermarket Co., Ltd. ("Jiangtou")* (杭州江投聯華超市股份有限公司 ("江投"))	The PRC	**49.00**	49.00	Supermarket
Zhejiang Jiuciyuan Network Technology Co., Ltd. ("Jiuciyuan")* (浙江九次元網路科技有限公司"九次元")) (note ii)	The PRC	**–**	23.80	E-commerce

* English name is for the identification purpose only.

22. INTERESTS IN ASSOCIATES (Continued)

Notes:

i. The Group is able to exercise significant influence over Bailian Financial Services because it has appointed two out of the five directors of Bailian Financial Services.

ii. The interests in these associates has been fully disposed during 31 December 2022. Prior to the completion of disposal, there is no change in the Group's equity interest in each of these associates.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

Summarised financial information in respect of each of the Group's material associates are set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs:

Carhua

	31/12/2022 RMB'000	31/12/2021 RMB'000
Current assets	**1,840,914**	2,671,780
Non-current assets	**1,409,639**	1,736,427
Current liabilities	**1,406,080**	1,859,524
Non-current liabilities	**1,029,326**	1,484,791

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Revenue	**3,066,943**	3,703,283
(Loss) profit and total comprehensive (expense) income for the year	**(248,745)**	90,772

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Net assets of Carhua	**815,147**	1,063,892
Proportion of the Group's ownership interest in Carhua	**45%**	45%
Carrying amount of the Group's interest in Carhua	**366,816**	478,751

22. INTERESTS IN ASSOCIATES (Continued)

Tianjin Yishang

	31/12/2022 RMB'000	31/12/2021 RMB'000
Current assets	**501,456**	233,265
Non-current assets	**772,916**	855,858
Current liabilities	**2,127,493**	1,861,057
Non-current liabilities	**37,049**	92,143

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Revenue	**361,044**	769,581
Loss and total comprehensive expense for the year	**(26,093)**	(133,984)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Net liabilities of Tianjin Yishang	**890,170**	864,077
Proportion of the Group's ownership interest in Tianjin Yishang	**20%**	20%
The Group's interest in Tianjin Yishang	**(178,034)**	(172,815)
Goodwill	**6,787**	6,787
Carrying amount of the Group's interest in Tianjin Yishang (note)	**–**	–

The Group has unrecognised share of losses of the associate:

	Year end 31/12/2022 RMB'000	Year end 31/12/2021 RMB'000
The unrecognised share of loss of the associate for the year	**(5,219)**	(26,797)

	31/12/2022 RMB'000	31/12/2021 RMB'000
Cumulative unrecognised share of loss of the associate	**(171,247)**	(166,028)

Note:

The Group's interest in Tianjin Yishang has been reduced to zero. Additional losses are not provided because the Group has not incurred legal or constructive obligations or made payments on behalf of the associate.

22. INTERESTS IN ASSOCIATES (Continued)

Bailian Financial Services

	31/12/2022 RMB'000	31/12/2021 RMB'000
Current assets	9,000,604	8,631,358
Non-current assets	43,212	37,815
Current liabilities	7,165,803	6,832,879
Non-current liabilities	2,886	–

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Revenue	99,319	120,088
Profit and total comprehensive income for the year	38,833	49,144

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Net assets of Bailian Financial Services	1,875,127	1,836,294
Proportion of the Group's ownership interest in Bailian Financial Services	11.77%	11.77%
Carrying amount of the Group's interest in Bailian Financial Services	220,609	216,040

Aggregate information of associates that are not individually material:

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
The Group's share of loss	(4,160)	(3,829)

	31/12/2022 RMB'000	31/12/2021 RMB'000
Aggregate carrying amount of the Group's interests in these associates	5,389	8,414

In the prior year, the Group held 40% and 23.8% interest in two unlisted companies, respectively, and accounted for the investment as associates. During the year ended 31 December 2022, the Group fully disposed of interests in these two associates to independent third parties for proceeds of RMB436,000 and RMB1,289,000, respectively, which has been fully settled. The gain recognised in the current year totalling comprises a realised gain of RMB598,000 (being the proceeds of RMB1,725,000 less RMB1,127,000 carrying amount of the interest disposed of).

23. FINANCIAL ASSETS AT FVTPL

	31/12/2022 RMB'000	31/12/2021 RMB'000
Non-current		
Unlisted equity instruments	797	1,872
Equity securities listed in Shanghai Stock Exchange	41,522	50,357
Total	42,319	52,229
Current		
Equity securities listed in Shanghai Stock Exchange	1,994	2,518
Unlisted financial products (note)	865,170	995,100
Total	867,164	997,618

Note:

Unlisted financial products investments are managed by licensed financial institutions in the PRC to invest principally in certain financial assets including bonds, trusts, cash funds or unlisted equity investments in the PRC in accordance with the entrusted agreements entered into between the parties involved. The gain on change in fair value of RMB3,758,000 (2021: RMB15,235,000) is credited to "other income and other gains and losses" in the current year.

24. TERM DEPOSITS

	31/12/2022 RMB'000	31/12/2021 RMB'000
Non-current		
Restricted term deposits	720,420	1,820,570
Other non-current unrestricted term deposits	1,885,000	2,160,300
Total	2,605,420	3,980,870
Current		
Restricted term deposits	1,100,965	1,100
Other current unrestricted term deposits	685,300	576,000
Total	1,786,265	577,100

Term deposits are placed with banks in the PRC and denominated in RMB. Deposits with a maturity period over 3 months but within 1 year are presented as current assets whilst deposits with a maturity period over 1 year but not exceeding 5 years are presented as non-current assets.

Restricted term deposits are term deposits placed by the Group to certain banks as a security for coupons issued to customers and are not available for other use by the Group.

The remaining term deposits are held to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The effective interest rates on term deposits range from 1.50% to 4.99% (2021: 1.80% to 4.99%) per annum for the Group. The carrying amounts of the term deposits of the Group approximated their fair value.

25. FINANCE LEASE RECEIVABLES

As part of the chain store operations, the Group entered into finance lease arrangements as an intermediate lessor for subleases of buildings. The average terms of finance leases entered into usually range from 4 to 12 years (2021: 3 to 12 years). All interest rates inherent in the leases are fixed at the contract date over the lease terms.

There is no guaranteed residual values for the lease contracts.

	Minimum lease payment	Present value of minimum lease payment	Minimum lease payment	Present value of minimum lease payment
	31/12/2022 RMB'000	31/12/2022 RMB'000	31/12/2021 RMB'000	31/12/2021 RMB'000
Finance lease receivable comprise:				
Within one year	65,066	47,895	67,332	46,245
In the second year	63,438	50,102	67,442	50,274
In the third year	67,625	58,720	63,481	50,268
In the fourth year	58,415	53,977	65,978	57,163
In the fifth year	16,460	14,925	58,327	53,887
After five years	11,675	11,034	28,158	25,979
	282,679	236,653	350,718	283,816
Unguaranteed residual values	–	–	–	–
Gross investment in the lease	282,679	N/A	350,718	N/A
Less: unearned finance income	(46,026)	N/A	(66,902)	N/A
Present value of minimum lease payment receivables	236,653	N/A	283,816	N/A
Analysed as:				
Current	65,066	47,895	67,332	46,245
Non-current	217,613	188,758	283,386	237,571
	282,679	236,653	350,718	283,816

Weighted average interest rates implicit in the above finance leases is 8% (2021: 8%).

There is no accumulated impairment loss in the carrying amount of the above finance lease receivables as at 31 December 2022 and 2021.

The Group is not exposed to foreign currency risk as all the leases are denominated in RMB, same as the functional currency of the group entities.

Details of impairment assessment are set out in note 47b.

26. PREPAID RENTAL

Prepaid rental represents advance payment for the short-term lease of certain store premises and is amortised over the relevant lease periods.

27. DEFERRED TAX ASSETS/LIABILITIES

The following is the analysis of the deferred tax balances for financial reporting purposes:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Deferred tax assets	**8,520**	8,045
Deferred tax liabilities	**(148,272)**	(120,359)
	(139,752)	(112,314)

The following are the major deferred tax liabilities and assets recognised and movements thereon during the both years:

	Fair value adjustments RMB'000	**ECL provision and inventory allowances** RMB'000	**Accrued expenses** RMB'000	**Accrued income** RMB'000	**Total** RMB'000
At 1 January 2021	(34,529)	2,042	841	(62,418)	(94,064)
Credit (charge) to profit or loss	1,506	186	(24)	(19,918)	(18,250)
At 31 December 2021	(33,023)	2,228	817	(82,336)	(112,314)
Acquisition of a subsidiary (note 42)	(36,642)	–	–	–	(36,642)
Credit to profit or loss	6,831	166	310	1,897	9,204
At 31 December 2022	**(62,834)**	**2,394**	**1,127**	**(80,439)**	**(139,752)**

The unrecognised tax losses and deductible temporary differences are as follows:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Unrecognised unused tax losses	**3,219,278**	3,448,816
Unrecognised deductible temporary differences	**1,014,008**	1,009,614
	4,233,286	4,458,430

At the end of the reporting period, the Group had unused tax losses of RMB3,219,278,000 (2021: RMB3,448,816,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams.

27. DEFERRED TAX ASSETS/LIABILITIES (Continued)

The unrecognised unused tax losses will expire as follows:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Year of expiring		
2022	**–**	640,471
2023	**696,194**	701,631
2024	**679,033**	704,133
2025	**669,914**	676,024
2026	**703,801**	726,557
2027	**470,336**	–
	3,219,278	3,448,816

28. OTHER NON-CURRENT ASSETS

	31/12/2022 RMB'000	31/12/2021 RMB'000
Interest receivable on term deposits	**82,115**	194,386
Payment for acquisition of equity interests In a subsidiary (note)	**–**	91,800
	82,115	286,186

Note: On 26 September 2021, Hangzhou Lianhua Huashang Group Co., Ltd.("Lianhua Huashang"), a subsidiary of the Group, entered into the Equity Transfer Agreement with Zhuji Yibai Supermarket Co., Ltd.("Yibai Supermarket"), pursuant to which, Lianhua Huashang agreed to acquire, and Yibai Supermarket agreed to sell, 60% equity interests in Zhejiang Bailian Supermarket Co., Ltd. ("Zhejiang Bailian") at a consideration of RMB180,000,000. As at 31 December 2021, the acquisition was not closed and Lianhua Huashang paid RMB91,800,000 to Yibai Supermarket in respect of the first instalment, which is 51% of the total consideration for the acquisition.

29. INVENTORIES

	31/12/2022 RMB'000	31/12/2021 RMB'000
Merchandise for resale	**3,021,650**	2,831,407
Write-down for obsolescence	**(3,214)**	(1,062)
	3,018,436	2,830,345
Low value consumables	**18,361**	9,150
	3,036,797	2,839,495

During the year 2022, the management assessed that there was write-down of inventories amounting to RMB2,152,000.

During the year 2021, the selling prices for certain merchandises have increased. As such, a reversal of write-down of RMB976,000 has been recognised.

30A. TRADE RECEIVABLES

	31/12/2022 RMB'000	31/12/2021 RMB'000
Trade receivables – contracts with customers	**250,030**	150,248
Less: allowance for credit losses (note 47b)	**(7,177)**	(4,862)
	242,853	145,386

The aging analysis of the trade receivables net of allowance for credit losses at the end of the reporting period, arising principally from the Group sales of merchandise with credit terms ranging from 30 to 60 days (2021: 30 to 60 days), presented as follows:

	31/12/2022 RMB'000	31/12/2021 RMB'000
0-30 days	**229,386**	142,429
31-60 days	**3,554**	2,048
61-90 days	**3,468**	401
Over 90 days	**6,445**	508
	242,853	145,386

The aging is determined from the date on which the control of the goods or services is transferred to the customers till the end of the reporting period.

The trade receivables are mainly public institutions with good credit standing. The management considered the credit quality of the trade receivables that are neither past due nor impaired were good and there was no default from those debtors in historical record. For trade receivables which are past due, the Group has applied provision matrix to measure the ECL.

Aging of trade receivables which are past due:

	31/12/2022 RMB'000	31/12/2021 RMB'000
1-30 days past due	**3,468**	401
More than 30 days past due	**6,445**	508
	9,913	909

30B. TRANSFER OF FINANCIAL ASSETS

As at 31 December 2022, the Group has discounted bills receivables amounted to RMB1,000,000,000 to banks on a full recourse basis. As those bills are issued by banks with high credit rating, the directors of the Company had assessed and satisfied that the Group had transferred substantially all of the risks and rewards relating to those bills. The Group had derecognised the full carrying amount of the abovementioned bills receivables.

31. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	31/12/2022 RMB'000	31/12/2021 RMB'000
Deposits and prepayments	**312,315**	231,301
VAT recoverable	**49,948**	266,363
Interest receivables	**239,628**	134,949
Other receivables	**99,500**	88,617
Less: allowance for credit loss (note 47b)	**(4,745)**	(5,928)
	696,646	715,302

Details of impairment assessment of trade and other receivables are set out in note 47b.

32. AMOUNTS DUE FROM/TO AN ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES

During the year ended 31 December 2021, the Group obtained borrowings from fellow subsidiaries amounting to RMB600,000,000 at an interest rate of 4% per annum, which was fully settled in 2022. The remaining amounts due from/to an ultimate holding company/fellow subsidiaries are trade in nature, unsecured, interest free, with credit terms ranging from 30 to 60 days (2021: 30 to 60 days). As at 31 December 2022, balances of both amounts due from/to an ultimate holding company/fellow subsidiaries are all aged within 90 days (2021: 90 days).

33. AMOUNTS DUE FROM/TO ASSOCIATES

Amounts due from/to associates represent balances arising from expenses paid on behalf of certain associates and purchase of merchandise from associates. Balances are all aged within 90 days (2021: 90 days) and the credit terms of the trade balances aged from 30 to 90 days (2021: 30 to 90 days). Such balances with associates are unsecured and interest free.

34. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and short-term bank deposits, placed with banks with an original maturity of three months or less in the PRC and denominated in RMB. The remittance of these funds out of the PRC is subject to the exchange control imposed by the PRC government.

Bank balances carry interest at prevailing market rates ranging 0.25% to 4.99% (2021: 0.3% to 4.99%) per annum as at 31 December 2022.

Details of impairment assessment of bank balances are set out in note 47b.

35. TRADE AND BILLS PAYABLES

	31/12/2022 RMB'000	31/12/2021 RMB'000
Trade payables	**3,525,669**	3,467,986
Bills payables	**1,000,000**	–
	4,525,669	3,467,986

The aging analysis of trade payables at the end of the reporting period, arising mainly from purchase of merchandise with credit terms ranging from 30 to 60 days (2021: 30 to 60 days), is as follows:

	31/12/2022 RMB'000	31/12/2021 RMB'000
0-30 days	**1,342,254**	1,494,703
31-60 days	**704,211**	718,851
61-90 days	**427,381**	366,786
Over 90 days	**1,051,823**	887,646
	3,525,669	3,467,986

The aging is determined from the date on which the control of the goods or services is transferred to the Group till the end of the reporting period.

36. OTHER PAYABLES AND ACCRUALS

	31/12/2022 RMB'000	31/12/2021 RMB'000
Payroll, staff welfare and other staff cost payable	**334,645**	332,811
Value added tax and other tax payables	**92,593**	84,451
Deposits from lessees, franchisees and other third parties	**318,352**	315,614
Dividend payable to non-controlling interests	**120**	98,275
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	**5,341**	14,390
Prepayments received from franchisees and other third parties	**734,136**	811,367
Payables for acquisition of property, plant and equipment and low value consumables	**115,345**	108,158
Store closure provision (note)	**147,676**	139,953
Accruals	**206,214**	149,277
Other miscellaneous payables	**9,479**	6,675
	1,963,901	2,060,971

Note: As part of the daily management process, the management of the Group review and measure the operating performance of each segment reported by the regional management team to determine the operation and development strategy of the Group. Management will exercise judgement to close those store which are unprofitable or not viable to continue taking into account the timescale and turnaround ability. Store closure provision comprises mainly lease termination cost and employee compensations with corresponding amounts included in other expenses. The Group utilised amount of RMB20,953,000 (2021: RMB50,534,000) during the year end of 2022.

37. CONTRACT LIABILITIES

	31/12/2022 RMB'000	31/12/2021 RMB'000
Coupon liabilities (note)	**8,727,640**	8,418,224
Advance from customers	**200,568**	122,032
Total	**8,928,208**	8,540,256

As at 1 January 2021, contract liabilities amounted to RMB8,138,152,000.

Note:

Gift card carries no expiry date and 100% of its face value was paid by the customers for purchasing the gift cards.

The Group recognises the amount of breakage at expected redemption rate, which is formulated by reference to the ratio derived from historical information on proportion of coupon issued by the Group but not yet utilised by the customers for a period of time. Coupon charges are presented under "other income and other gains and losses".

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior years.

	Year ended 31/12/2022 RMB '000	Year ended 31/12/2021 RMB '000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**6,186,990**	6,539,041

38. LEASE LIABILITIES

	31/12/2022 RMB'000	31/12/2021 RMB'000
Lease liabilities payable:		
Within one year	**896,096**	911,399
Within a period of more than one year but not more than two years	**939,315**	1,258,282
Within a period of more than two years but not more than five years	**2,102,655**	1,990,661
Within a period of more than five years	**2,066,889**	2,492,544
	6,004,955	6,652,886
Less: Amount due for settlement within 12 months shown under current liabilities	**(896,096)**	(911,399)
Amount due for settlement after 12 months shown under non-current liabilities	**5,108,859**	5,741,487

The weighted average incremental borrowing rates applied to lease liabilities is 3.42-3.84% (2021: 3.42-3.84%) per annum.

39. DEFERRED INCOME

	31/12/2022 RMB'000	31/12/2021 RMB'000
Government grants	–	1,475

The balance represents asset related government grants received from the Authorities and is recognised as income over the useful lives of the related assets. The amount released and credited to other income and other gains and losses during the year amounted to RMB1,475,000 (2021: RMB4,441,000).

40. SHARE CAPITAL

	Number of shares		Nominal value	
	31/12/2022	31/12/2021	31/12/2022 RMB'000	31/12/2021 RMB'000
Ordinary shares of RMB1.00 each				
Registered, issued and fully paid:				
At 1 January 2021, 31 December 2021 and 31 December 2022	1,119,600,000	1,119,600,000	1,119,600	1,119,600

The share capital of the Company as at 31 December 2022 and 2021 comprises:

	Number of shares of RMB1.00 each		Nominal value	
	31/12/2022	31/12/2021	31/12/2022 RMB'000	31/12/2021 RMB'000
Domestic shares	715,397,400	715,397,400	715,397	715,397
Unlisted foreign shares	31,602,600	31,602,600	31,603	31,603
H shares	372,600,000	372,600,000	372,600	372,600
	1,119,600,000	1,119,600,000	1,119,600	1,119,600

The H shares rank pari passu in all respects with the domestic shares and the unlisted foreign shares and rank equally for all dividends declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between, legal or natural persons of Hong Kong, Taiwan, Macau Special Administrative Region of the PRC or any countries other than the PRC. The transfer of the domestic and unlisted foreign shares is subject to such restrictions as the PRC laws may impose from time to time.

41. NON-CONTROLLING INTERESTS

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Balance at beginning of year	**224,509**	302,427
Non-controlling interests arising on acquisition of a subsidiary (note 42)	**105,343**	–
Share of profit for the year	**78,983**	51,423
Dividends to non-controlling interest during the year	**(41,565)**	(129,341)
Balance at end of year	**367,270**	224,509

The summarised financial information in respect of the Group's subsidiary that has material non-controlling interests, namely Lianhua Huashang and its subsidiaries (collectively referred to as the "Lianhua Huashang Group") at the end of the reporting period is set out below:

Lianhua Huashang Group

	31/12/2022 RMB'000	31/12/2021 RMB'000
Current assets	**8,888,957**	8,096,556
Non-current assets	**6,576,344**	6,354,829
Current liabilities	**10,729,295**	10,308,431
Non-current liabilities	**3,779,897**	3,591,963
Equity attributable to owners of the Company	**627,647**	373,475
Non-controlling interests	**328,462**	177,516

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Revenue	**12,273,830**	12,924,506
Total cost of sales, expense and other income	**(11,899,261)**	(12,778,198)
Profit and total comprehensive income for the year	**374,569**	146,308
Profit and total comprehensive income attributable to owner of the Company	**305,099**	111,635
Profit and total comprehensive income attributable to non-controlling interests	**69,470**	34,673
Dividends paid to non-controlling shareholders	**23,867**	103,390
Dividends paid to the Group	**50,927**	292,372
Non-controlling interests arising on acquisition of a subsidiary	**105,343**	–
Net cash from operating activities	**2,012,948**	300,893
Net cash from (used in) investing activities	**1,084,775**	(2,577,980)
Net cash (used in) from financing activities	**(563,699)**	77,249
Net increase (decrease) in cash and cash equivalents	**2,534,024**	(2,199,838)

42. ACQUISITION OF A SUBSIDIARY

In January 2022, Lianhua Huashang completed the acquisition of 60% interest in Zhejiang Bailian, which is principally engaged in the supermarkets, hypermarkets and convenience stores business and was acquired with the objective of rapid expansion and enhancing the Group's market share in Zhuji. The acquisition has been accounted for as acquisition of business using the acquisition method.

Consideration transferred

	RMB'000
Cash	180,000

Acquisition-related costs amounting to RMB19,000 have been excluded from the consideration transferred and have been recognised directly as an expense in the period within the "other expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

Assets and liabilities recognised at the date of acquisition

	RMB'000
Property, plant and equipment	284,178
Right-of-use assets	41,744
Deposits, prepayments and other receivables	38,055
Inventories	83,023
Trade receivables	5,529
Bank balances and cash	10,173
Other payables and accruals	(4,083)
Lease liabilities	(41,744)
Trade and bills payables	(109,464)
Contract liabilities	(5,586)
Tax payable	(1,825)
Deferred tax liabilities	(36,642)
Total	263,358

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB5,529,000 at the date of acquisition had gross contractual amounts of RMB6,639,000.

The non-controlling interest 40% in Zhejiang Bailian recognised at the acquisition date was measured by reference to the fair value of the proportionate share of recognised amounts of net assets of Zhejiang Bailian and amounted to RMB105,343,000.

42. ACQUISITION OF A SUBSIDIARY (Continued)

Goodwill arising on acquisition

	RMB'000
Consideration transferred	180,000
Plus: non-controlling interests (40% in Zhejiang Bailian)	105,343
Less: recognised amounts of net assets acquired	(263,358)
Goodwill arising on acquisition	21,985

Goodwill arose on the acquisition of Zhejiang Bailian because the acquisition would make synergy effects by enhancing the Group's market share in Zhuji. This benefit is not recognised from goodwill because it does not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflows arising on acquisition of Zhejiang Bailian

	RMB'000
Consideration paid in cash	180,000
Less: Bank balances and cash acquired	(10,173)
Deposit	(2,450)
Payment for acquisition of equity interests in subsidiary (note 28)	(91,800)
Total	75,577

Impact of acquisition on the results of the Group

Included in the loss for the year is profit of RMB3,853,000 attributable to the additional business generated by Zhejiang Bailian. Revenue for the year includes RMB587,050,000 generated from Zhejiang Bailian.

43. RETIREMENT BENEFIT PLANS

Defined contribution plans

The employees of the Group are members of a state-managed retirement benefit scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total expenses recognised in profit or loss of RMB204,939,000 represents contributions payable to these scheme by the Group in respect of the current accounting period.

44. OPERATING LEASE ARRANGEMENT

The Group as lessor

Minimum lease payments receivable on leases are as follows:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Within one year	**310,662**	312,592
In the second year	**201,184**	196,985
In the third year	**120,681**	145,141
In the fourth year	**69,996**	103,289
In the fifth year	**41,760**	69,549
After five years	**57,007**	116,174
	801,290	943,730

45. CAPITAL COMMITMENTS

	31/12/2022 RMB'000	31/12/2021 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment, construction of buildings and land use rights:		
– contracted for but not provided in the consolidated financial statements	**43,878**	155,106

46. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group generally represents equity attributable to owners of the Company, comprising issued share capital, various reserves and retained profits.

The management reviews the capital structure regularly. The Company considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through new share issues as well as issue of new debts or the redemption of existing debts.

47. FINANCIAL INSTRUMENTS

47a. CATEGORIES OF FINANCIAL INSTRUMENTS

Financial assets

	31/12/2022 RMB'000	31/12/2021 RMB'000
Financial assets at FVTPL	**909,483**	1,049,847
Financial assets at amortised cost (including cash and cash equivalents)	**8,636,538**	7,727,968
	9,546,021	8,777,815

Financial liabilities

	31/12/2022 RMB'000	31/12/2021 RMB'000
Financial liabilities, at amortised cost	**4,677,972**	4,323,744

47b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, financial assets at FVTPL, finance lease receivables, term deposits, cash and cash equivalents, amounts due from/to an ultimate holding company/fellow subsidiaries/associates, trade and bills payables, other payables, lease liabilities and other non-current assets excluding the payment for acquisition of equity interests in subsidiaries. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and term deposits (see notes 34 and 24 for details). The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank balances, related party borrowings and term deposits. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the People's Bank of China benchmark rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook.

47. FINANCIAL INSTRUMENTS (Continued)

47b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

A fundamental reform of major interest rate benchmarks has been undertaken globally to replace some interbank offered rates ("IBORs") with alternative nearly risk-free rates. The directors of the Group considered this reform will not have significant impact to the Group as the Group's operation is in the PRC.

Total interest income from financial assets and finance lease income is as follows:

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Interest income		
– Financial assets at amortised cost	**261,120**	272,140

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the Group's variable-rate bank balances and term deposits. The analysis is prepared assuming the variable-rate financial assets outstanding at the end of the reporting period were outstanding for the whole year. A 10-basis point (2021: 10-basis point) increase or decrease in the interest rates is the sensitivity rate used when reporting interest risk internally to key management personal and represent the management's assessment of the reasonably possible change in interest rates.

If the interest rate had been 10-basis point (2021: 10-basis point) higher/lower and all other variables were held constant, the Group's post-tax loss for the years ended 31 December 2022 and 2021 would have decreased/increased by approximately RMB5,697,000 and RMB5,064,000 respectively.

Other price risk

The Group is exposed to equity and debt security price risk in relation to its financial assets at FVTPL which mainly include listed equity investments. The unlisted equity investments and legal person shares are measured at FVTPL. In the management's opinion, the sensitivity of these investments is then insignificant to the Group.

The Group currently does not have a price risk hedging policy and the management will continue to monitor price risk exposure and consider hedging against it should the need arise.

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date.

If the market prices of the respective equity instruments had been 5% (2021: 5%) higher/lower, post-tax loss for the year ended 31 December 2022 would decrease/increase by RMB1,662,000 (2021: decrease/increase by RMB2,053,000) as a result of the changes in fair value of the financial assets at FVTPL.

47. FINANCIAL INSTRUMENTS (Continued)

47b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment

As at 31 December 2022, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised as trade and other receivables, amount due from an ultimate holding company/fellow subsidiaries/associate, finance lease receivables, deposits, cash and cash equivalents, term deposits, financial assets at FVTPL and other non-current assets as stated in the consolidated statement of financial position.

In order to minimize the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on trade balances based on provision matrix. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

Amounts due from an ultimate holding company/fellow subsidiaries and an associate

The Group regularly monitors the business performance of the associates and fellow subsidiaries. The Group's credit risks in these balances are mitigated through the value of the assets held by these entities and the power to participate or jointly control the relevant activities of these entities. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2022 and 2021, the Group assessed the ECL for amount due from an ultimate holding company/fellow subsidiaries and an associate and were insignificant and thus no allowance was recognised.

Finance lease receivables

For finance lease receivables, the Group makes periodic individual assessment on the recoverability of finance lease receivables based on historical settlement record, past experience, and also quantitative and qualitative information that are reasonable and supportive forward-looking information. The management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2022 and 2021, the Group assessed the ECL for finance lease receivables are insignificant and thus no loss allowance is recognised.

Trade receivables

Trade receivables are due from regular institutional customers with an appropriate financial strength. The Group did not experience any significant defaults by the debtors.

For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items collectively by using a provision matrix, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current and the forecast direction of conditions at the reporting date.

47. FINANCIAL INSTRUMENTS (Continued)

47b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at the end of the reporting period:

At 31 December 2022

	Expected loss rate %	Trade Receivables RMB'000	Loss allowance RMB'000
Current (not past due)	**2**	**238,522**	**(5,581)**
1-30 days past due	**2**	**3,539**	**(71)**
More than 30 days past due	**19**	**7,969**	**(1,525)**
		250,030	**(7,177)**

At 31 December 2021

	Expected loss rate %	Trade Receivables RMB'000	Loss allowance RMB'000
Current (not past due)	2	148,033	(3,556)
1-30 days past due	2	409	(8)
More than 30 days past due	72	1,806	(1,298)
		150,248	(4,862)

Other receivables

For other receivables, most of which are interest receivables from bank and deposits paid to lessors or other third parties, the directors of the Company make periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. During the year ended 31 December 2022, ECL on other receivables amounting to RMB1,183,000 was reversed (2021: RMB1,906,000 was recognised) in the profit or loss.

Deposits

The directors of the Company believe that there are no significant increase in credit risk of deposits since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2022 and 2021, the Group assessed the ECL for deposits were insignificant and thus no loss allowance was recognised.

47. FINANCIAL INSTRUMENTS (Continued)

47b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment (Continued)

Bank balances, term deposits and financial assets at FVTPL

The credit risk on liquid funds, i.e., bank balances and short-term term deposit, is limited because the counterparties are banks with high reputation in the PRC. In addition, the credit risk on long-term term deposits and unlisted financial products recognised as financial assets at FVTPL is also limited because the counterparties are either banks with high reputation or nationwide and regional renowned financial institutions in the PRC.

As at 31 December 2022, the Group's bank balances and term deposits deposited in the major five banks in the PRC accounted for 60.1% (2021: 58.2%) of total term deposits and cash and cash equivalents of the Group.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

47. FINANCIAL INSTRUMENTS (Continued)

47b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment (Continued)

Bank balances, term deposits and financial assets at FVTPL (Continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2022	notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount RMB'000
Amounts due from an associate	33	Low risk	12m ECL	363
Amounts due from fellow subsidiaries	32	Low risk	12m ECL	48,633
Amount due from an ultimate holding company	32	Low risk	12m ECL	8
Trade receivables	30	Low risk	Lifetime ECL (not credit-impaired)	238,522
		Watch list	Lifetime ECL (not credit-impaired)	3,539
		Doubtful	Lifetime ECL (not credit-impaired)	6,805
		Loss	Lifetime ECL (credit-impaired)	1,164
			Total	250,030
Other receivables	31	Low risk or watch list	12m ECL	297,915
		Doubtful	Lifetime ECL (not credit-impaired)	40,778
		Loss	Lifetime ECL (credit-impaired)	435
			Total	339,128
Deposits	31	Low risk	12m ECL	100,908
Finance lease receivables	25	Low risk	12m ECL	236,653
Term deposits	24	Low risk	12m ECL	4,391,685
Cash and cash equivalents	34	Low risk	12m ECL	3,198,945
Other non-current assets	28	Low risk	12m ECL	82,115

47. FINANCIAL INSTRUMENTS (Continued)

47b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment (Continued)

Bank balances, term deposits and financial assets at FVTPL (Continued)

2021	notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount RMB'000
Amounts due from an associate	33	Low risk	12m ECL	251
Amounts due from fellow subsidiaries	32	Low risk	12m ECL	37,933
Amount due from an ultimate holding company	32	Low risk	12m ECL	15,028
Trade receivables	30	Low risk	Lifetime ECL (not credit-impaired)	148,033
		Watch list	Lifetime ECL (not credit-impaired)	409
		Doubtful	Lifetime ECL (not credit-impaired)	626
		Loss	Lifetime ECL (credit-impaired)	1,180
			Total	150,248
Other receivables	31	Low risk or watch list	12m ECL	204,387
		Doubtful	Lifetime ECL (not credit-impaired)	19,100
		Loss	Lifetime ECL (credit-impaired)	79
			Total	223,566
Deposits	31	Low risk	12m ECL	97,132
Finance lease receivables	25	Low risk	12m ECL	283,816
Term deposits	24	Low risk	12m ECL	4,557,970
Cash and cash equivalents	34	Low risk	12m ECL	2,193,456
Other non-current assets	28	Low risk	12m ECL	194,386

47. FINANCIAL INSTRUMENTS (Continued)

47b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment (Continued)

Bank balances, term deposits and financial assets at FVTPL (Continued)

For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

2022

	Past due RMB'000	Not past due/ No fixed repayment terms RMB'000	Total RMB'000
Amounts due from an associate	–	363	363
Amounts due from fellow subsidiaries	–	48,633	48,633
Amount due from an ultimate holding company	–	8	8
Trade receivables	11,508	238,522	250,030
Other receivables	41,213	297,915	339,128
Deposits	–	100,908	100,908
Finance lease receivables	–	236,653	236,653

2021

	Past due RMB'000	Not past due/ No fixed repayment terms RMB'000	Total RMB'000
Amounts due from an associate	–	251	251
Amounts due from fellow subsidiaries	–	37,933	37,933
Amount due from an ultimate holding company	–	15,028	15,028
Trade receivables	2,215	148,033	150,248
Other receivables	19,179	204,387	223,566
Deposits	–	97,132	97,132
Finance lease receivables	–	283,816	283,816

47. FINANCIAL INSTRUMENTS (Continued)

47b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

As of 31 December 2022, the Group has net current liabilities of RMB6,555,008,000 (2021: RMB8,145,428,000). Taking into account of the historical settlement and addition pattern of the contract liabilities and the Group's ability of withdrawal of non-current unrestricted term deposits of RMB1,885,000,000 (2021: RMB2,160,300,000), the directors of the Company consider the liquidity risk is significantly reduced and the Group is able to be continued as a going concern.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the earliest date on which the Group can be required to pay. The amounts disclosed in the table are contractual undiscounted cash flows.

	Weighted average interest rate	On demand or less than 12 months	1-5 years	more than 5 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2022						
Trade and bills payables	**–**	**4,525,669**	**–**	**–**	**4,525,669**	**4,525,669**
Other payables and accruals	**–**	**130,285**	**–**	**–**	**130,285**	**130,285**
Lease liabilities	**3.42-3.84**	**1,290,084**	**3,582,163**	**2,537,937**	**7,410,184**	**6,004,955**
Amount due to an ultimate holding company	**–**	**6,814**	**–**	**–**	**6,814**	**6,814**
Amounts due to fellow subsidiaries	**–**	**14,051**	**–**	**–**	**14,051**	**14,051**
Amounts due to associates	**–**	**1,153**	**–**	**–**	**1,153**	**1,153**
		5,968,056	**3,582,163**	**2,537,937**	**12,088,156**	**10,682,927**
As at 31 December 2021						
Trade and bills payables	–	3,467,986	–	–	3,467,986	3,467,986
Other payables and accruals	–	227,498	–	–	227,498	227,498
Lease liabilities	3.42-3.84	1,359,533	4,327,988	3,816,259	9,503,780	6,652,886
Amounts due to fellow subsidiaries	–	626,409	–	–	626,409	626,409
Amounts due to associates	–	1,851	–	–	1,851	1,851
		5,683,277	4,327,988	3,816,259	13,827,524	10,976,630

47. FINANCIAL INSTRUMENTS (Continued)

47c. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial instruments are measured at fair value for financial reporting purposes.

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group discussed with banks (representing the counterparties of the Group's purchased financial assets at FVTPL) to perform the valuation. The chief financial officer works closely with the bankers to establish the appropriate valuation techniques, inputs to the model and verifies the indicated expected return with the actual return on date of maturity. The chief financial officer reports the findings to the board of directors of the Company at the end of each reporting period to explain the cause of fluctuations in the fair value of the assets.

Fair value measurements recognised in the consolidated statement of financial position that are measured at fair value on a recurring basis.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	31/12/2022 RMB'000	31/12/2021 RMB'000			
1) Investments in unlisted financial products which are managed by licensed financial institutions in the PRC classified as financial assets at FVTPL in the consolidated statement of financial position	**865,170**	995,100	Level 2	Discounted cash flows method, estimated based on expected return and market interest rate	Not applicable
2) Investment in equity shares listed in Shanghai Stock Exchange classified as financial assets at FVPTL in the consolidated statement of financial position	**43,516**	52,875	Level 1	Quoted bid prices in an active market	Not applicable
3) Unquoted equity investments classified as financial assets at FVTPL	**797**	1,872	Level 3	Discounted cash flow. Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio, discounted at a rate that reflects the credit risk of various counterparties	Expected yield of the underlying investment portfolio and the discount rate

48. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable to non-controlling interests	Bank borrowing	Amounts due to fellow subsidiaries	Lease liabilities	Bills receivables	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	note 36			note 38		
At 1 January 2021	1,300	20,000	–	7,103,766	–	7,125,066
Financing cash flows	(32,366)	(20,000)	600,000	(1,005,154)	–	(457,520)
Interest paid included in operating cash flows	–	–	–	(275,590)	–	(275,590)
Interest expense	–	–	–	275,590	–	275,590
Dividends to non-controlling shareholders	129,341	–	–	–	–	129,341
New lease entered	–	–	–	982,951	–	982,951
Lease modification	–	–	–	(87,016)	–	(87,016)
Lease termination	–	–	–	(341,661)	–	(341,661)
At 31 December 2021	98,275	–	600,000	6,652,886	–	7,351,161
Financing cash flows	**(139,720)**	**–**	**(610,522)**	**(1,005,990)**	**982,632**	**(773,600)**
Interest paid included in operating cash flows	**–**	**–**	**–**	**(248,976)**	**–**	**(248,976)**
Interest expense	**–**	**–**	**10,522**	**248,976**	**17,368**	**276,866**
Dividends to non-controlling shareholders	**41,565**	**–**	**–**	**–**	**–**	**41,565**
Receipt of bills receivables	**–**	**–**	**–**	**–**	**(1,000,000)**	**(1,000,000)**
New lease entered	**–**	**–**	**–**	**783,673**	**–**	**783,673**
Lease modification	**–**	**–**	**–**	**(164,237)**	**–**	**(164,237)**
Lease termination	**–**	**–**	**–**	**(261,377)**	**–**	**(261,377)**
At 31 December 2022	**120**	**–**	**–**	**6,004,955**	**–**	**6,005,075**

49. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into new lease agreements for the use of leased properties for over 1 to 20 years. On the lease commencement, the Group recognised right-of-use assets of RMB783,673,000 and lease liabilities of RMB783,673,000 (2021: right-of-use assets of RMB982,951,000 and lease liabilities of RMB982,951,000).

50. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into significant related party transactions during the year, the details of which are set out below:

(1) Related party transactions

	notes	**Year ended 31/12/2022 RMB'000**	Year ended 31/12/2021 RMB'000
Sales to fellow subsidiaries	(a)	**568,994**	736,057
Purchases from associates	(a)	**3,991**	4,424
Purchases from an ultimate holding company and fellow subsidiaries	(a)	**211,834**	354,337
Sales to other related parties	(m)	**1,610**	–
Purchases from other related parties	(b)	**–**	145
Rental income from fellow subsidiaries	(c)	**46,319**	44,709
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	(d)	**5,242**	5,532
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	(d)	**7,119**	8,144
Service and platform usage fee charged by other related parties	(l)	**30,243**	28,295
Property management fee charged by fellow subsidiaries	(e)	**13,820**	15,096
Interest expenses on lease liabilities charged by fellow subsidiaries	(e)	**5,550**	6,950
Interest income earned from a fellow subsidiary	(f)	**12,470**	18,037
Interest expenses charged by a fellow subsidiary	(f)	**10,522**	9,311
Platform usage fee charged by fellow subsidiaries	(g)	**45,523**	33,366
Logistics resource leasing fee charged by fellow subsidiaries	(h)	**2,373**	2,228
Logistics and delivery service fee charged by fellow subsidiaries	(i)	**176**	3,208
Logistics and delivery services income from the other related parties	(i)	**4,585**	4,999
Logistics and delivery services fee charged by the other related parties	(j)	**1,303**	4,910
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account	(k)	**19,361**	19,235
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account upon redemption of membership points by the customers	(k)	**11,196**	13,019

50. RELATED PARTY TRANSACTIONS (Continued)

(1) Related party transactions (Continued)

Notes:

(a) This represents sales to fellow subsidiaries and purchase from fellow subsidiaries, associates and an ultimate holding company in respect of various kinds of merchandise, including but not limited to food products, daily products and electrical appliances, which were determined in accordance with the terms of underlying agreement at the market price.

(b) This represents purchase from Hangzhou Alibaba International Trading Co., Ltd. ("Hangzhou Alibaba") in respect of various kinds of goods, including but not limited to foods, fresh produce and industrial products. Hangzhou Alibaba is a fellow subsidiary of Alibaba (China) Technology Co., Ltd. ("Alibaba China"), which is a substantial shareholder and therefore is a connected person of the Group.

(c) Certain areas of the Group's hypermarkets are leased to fellow subsidiaries which were charged in accordance with the terms of the underlying agreements at the market price.

(d) According to the business agreement on the settlement of coupon liabilities entered into between the Group and a fellow subsidiary controlled by Bailian Group, when the coupons issued by one party are redeemed in exchange for products or services to the retailers contracted by the other party or when the coupon liabilities are settled through the other party's network, a commission would be charged at a rate of 0.5% (2021: 0.5%) as agreed between the two parties, based on the gross transaction amount on a monthly basis. The gross transaction amount owed by each other and the related commission income/charge are settled on a net basis each month.

(e) These represent rental expenses and property management fee of certain hypermarkets charged by the fellow subsidiaries. Under HKFRS 16, except for lease contracts with short-term exemption, the lease expenses paid in the current period are divided into lease liabilities and related interest expenses, which were charged in accordance with the terms of the underlying agreements at the market price.

(f) According to the financial services agreement entered into between the Group and a fellow subsidiary controlled by Bailian Group, the fellow subsidiary will provide deposits service and loan service to the Company at a rate equal to or more favourable than those offered by other major commercial banks in the PRC in respect of comparable deposits and loans.

(g) This represents the platform usage fee charged by Bailian Omni-channel E-commerce Co., Ltd. ("Bailian Omni-channel") which is no more than 4% of the total transaction amount of goods sold through Bailian Omni-channel and/or its subsidiaries on behalf of the Group through their e-commerce platforms according to the terms of the underlying agreements.

(h) These logistics resources leasing fees of the Group was charged by Bailian Group and fellow subsidiaries controlled by Bailian Group. The fee was charged in accordance with the terms of the contracts at the market price.

50. RELATED PARTY TRANSACTIONS (Continued)

(1) Related party transactions (Continued)

Notes: (Continued)

(i) The logistics and delivery service fee and income of the Group was charged and collected by Bailian Group and fellow subsidiaries controlled by Bailian Group. The fee included but was not limited to delivery, allocation and returning services within the city of Shanghai, as well as delivery and warehousing services outside the city of Shanghai. Delivery service referred to the delivery of goods by Bailian Group to the Group at the various outlets of the Group, while warehousing service referred to the delivery of goods into the warehouse, storage, sorting and retrieval of goods from the warehouse.

(j) The logistic and delivery service fee of the Group was paid to the fellow subsidiaries of Alibaba China. The fee was charged in accordance with the terms of the contracts at market price.

(k) These represent the transaction amounts transferred between Bailian Finance and the Group in respect of the membership bonus points earned/redeemed by the customers of Lianhua Group. Under the membership points agency and settlement service agreement between Bailian Finance and the Group, the Group will transfer the transaction amounts earned by the customers on consumption in Lianhua Group to Bailian Finance. Alternatively, Bailian Finance will transfer the transaction amounts on redemption of the membership bonus points by the customers to the Company.

(l) This represents the service and platform usage fees paid by the Group to Alipay.com Co.,Ltd (“Alipay”)， Lazas Technology (Shanghai) Co., Ltd., (“Lazas”), Zhejiang Haochao Network Technology Co., Ltd. and Hangzhou Taoxianda Network Technology Co., Ltd.(“Taoxianda”) for using the platform selling various kinds of merchandise and the equipment that supports the system of Alipay to identify the bar code or QR code on end customers’ smart phones or other wireless equipment to complete the settlement process.

(m) This represents sales to other related parties, all of which are priced at market prices, including but not limited to food, daily necessities and electrical appliances.

(2) Related party balances

The Group entered into a financial services agreement with a fellow subsidiary controlled by Bailian Group, pursuant to which the fellow subsidiary agreed to provide the Group the deposit and loan services at a rate equal to or more favourable than those offered by other major commercial banks in the PRC in respect of comparable deposits and loans.

During the year ended 31 December 2021, the Company entered into a new Investment and Wealth Management Cooperation Framework Agreement with Shanghai Securities, pursuant to which, the Company and Shanghai Securities agreed on the investment and wealth management cooperation, including but not limited to investment products, entrusted investment services and other investment cooperation.

50. RELATED PARTY TRANSACTIONS (Continued)

(2) Related party balances (Continued)

The summary of cash and cash equivalents, unrestricted term deposits, investment made in and borrowings owed to a fellow subsidiary is set out as below:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Cash and cash equivalents in a fellow subsidiary	**713,666**	539,008
Loan from a fellow subsidiary	**–**	600,000
Investment and wealth management cooperation with a fellow subsidiary	**865,170**	794,640

Summary of lease liabilities to related parties is as follows:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Lease liabilities	**121,879**	167,373

Note: during the year ended 31 December 2022, the Group entered into one new lease agreement for supermarket operating with the holding company for one year. Except for short-term lease in which the Group applied recognition exemption, the Group has recognised an addition of right-of-use assets and lease liabilities of RMB1,229,000 (2021: RMB201,000) and RMB1,229,000 (2021: RMB201,000), respectively.

(3) Transactions/balances with other government related entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled, jointly controlled or significantly influenced by the PRC government ("Government Related Entities") including Bailian Group. Apart from the transactions with fellow subsidiaries disclosed above, the Group has also entered into various transactions, including sales, purchase, deposits placement, and bank borrowing with other Government Related Entities.

In view of the nature of the retail business operated by the Group, the directors of the Company are of the opinion that it is impracticable to identify the identities of the counterparties from the sales of merchandise as to whether they are Government Related Entities.

During both years, significant amount of the Group's purchase were from Government Related Entities and most of the Group's deposits and bank borrowing are placed with and advanced from banks which are also Government Related Entities.

50. RELATED PARTY TRANSACTIONS (Continued)

(4) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Salaries and other short-term employee benefits	**11,601**	12,891
Post-employment benefits	**651**	642
Other long-term benefits	**261**	261
	12,513	13,794

The remuneration of directors and key management is determined by the remuneration and appraisal committee having regard to the performance of individuals and market trends.

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANYS

Details of the Company's principal subsidiaries at the end of the reporting period are set out below.

Name of entity	Date of establishment	Place of incorporation/ registration/ operations	Paid up issued/ registered capital RMB'000	Proportion voting power and ownership interest held by the Company Directly		Indirectly		Principle activities
				2022 %	2021 %	**2022 %**	2021 %	
Shanghai Century Lianhua supermarket Development Co., Ltd* (上海世紀聯華超市發展有限公司)	24 November 1997	The PRC	500,000	**100.00**	100.00	**–**	–	Hypermarket
Lianhua Huashang (杭州聯華華商集團有限公司)	1 June 2001	The PRC	120,500	**74.19**	74.19	**–**	–	Hypermarket and supermarket
Lianhua Supermarket Jiangsu Co., Ltd.* (聯華超市(江蘇)有限公司)	21 March 2003	The PRC	50,000	**100.00**	100.00	**–**	–	Hypermarket and supermarket
Guangxi Lianhua Supermarket Joint Stock Co., Ltd.* (廣西聯華超市股份有限公司)	18 November 2001	The PRC	68,670	**95.00**	95.00	**–**	–	Hypermarket, supermarket and convenience store
Shanghai Lianhua Supermarket Development Co., Ltd.* (上海聯華超級市場發展有限公司)	8 April 2006	The PRC	10,000	**100.00**	100.00	**–**	–	Supermarket
Lianhua Quik Stores Co., Ltd.* (上海聯華快客便利有限公司)	25 November 1997	The PRC	493,000	**100.00**	100.00	**–**	–	Convenience store
Shanghai Yanyu Trading Co., Ltd* (上海岩鈺貿易有限公司)	29 October 1998	The PRC	5,000	**100.00**	100.00	**–**	–	Purchase and distribution
Lianhua Logistic Co., Ltd.* (聯華物流有限公司)	17 October 2007	The PRC	50,000	**100.00**	100.00	**–**	–	Purchase and distribution
Lianhua E-business Co., Ltd.* (聯華電子商務有限公司)	4 October 1995	The PRC	55,000	**100.00**	100.00	**–**	–	Trading
Hualian Supermarket Holdings Company Limited* (華聯超市股份有限公司)	15 August 2006	The PRC	300,000	**99.40**	99.40	**0.60**	0.60	Supermarket

Note: Guangxi Lianhua Supermarket Joint Stock Co., Ltd and Hualian Supermarket Holdings Company Limited are companies limited by shares. Other entities above are all limited liability companies. None of the subsidiaries had issued any debt securities at the end of the year.

* English name is for the identification purpose only.

52. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	31/12/2022 RMB'000	31/12/2021 RMB'000
Non-current assets		
Property, plant and equipment	**157,124**	160,862
Construction in progress	**–**	3,585
Intangible assets	**15,337**	9,333
Investments in subsidiaries	**1,706,220**	1,706,220
Interests in associates	**354,876**	354,876
Financial assets at FVTPL	**4,674**	5,909
Term deposits	**200,000**	250,000
Deferred tax assets	**174**	92
Other non-current assets	**1,730**	1,853
Amounts due from subsidiaries	**1,316,040**	1,301,485
	3,756,175	3,794,215
Current assets		
Inventories	**599,618**	614,934
Deposits, prepayments and other receivables	**13,876**	333,972
Amounts due from fellow subsidiaries	**16,332**	4,805
Amounts due from subsidiaries	**5,561,276**	5,180,503
Amounts due from an associate	**363**	251
Term deposits	**150,000**	100,000
Cash and cash equivalents	**894,864**	854,593
	7,236,329	7,089,058
Total assets	**10,992,504**	10,883,273

52. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Information about the statement of financial position of the Company at the end of the reporting period includes: (Continued)

	31/12/2022 RMB'000	31/12/2021 RMB'000
Capital and reserves		
Share capital	**1,119,600**	1,119,600
Reserves	**5,594,518**	5,585,870
Total equity	**6,714,118**	6,705,470
Non-current liability		
Deferred tax liabilities	**840**	1,149
Current liabilities		
Trade and bills payables	**1,819,021**	1,671,501
Tax payable	**3,797**	10,904
Other payables and accruals	**173,120**	156,021
Contract liabilities	**1,898,515**	1,902,554
Amounts due to an ultimate holding company	**6,814**	–
Amounts due to fellow subsidiaries	**8,136**	24,882
Amounts due to subsidiaries	**366,990**	408,941
Amounts due to associates	**1,153**	1,851
	4,277,546	4,176,654
Total liabilities	**4,278,386**	4,177,803
Total equity and liabilities	**10,992,504**	10,883,273
Net current assets	**2,958,783**	2,912,404
Total assets less current liabilities	**6,714,958**	6,706,619

Movement in the Company's reserves

	Share capital RMB'000	**Capital reserve** RMB'000	**Other reserve** RMB'000	**Statutory common reserve fund** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2021	1,119,600	258,353	3,595	559,800	4,564,758	6,506,106
Profit and total comprehensive income for the year	–	–	–	–	199,364	199,364
At 31 December 2021	1,119,600	258,353	3,595	559,800	4,764,122	6,705,470
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**8,648**	**8,648**
At 31 December 2022	**1,119,600**	**258,353**	**3,595**	**559,800**	**4,772,770**	**6,714,118**

CONTENTS

PREPARATION OF REPORT

This report is the seventh *Environmental, Social and Governance (ESG) Report* of Lianhua Supermarket Holdings Co., Ltd., for the purpose of providing investors and other stakeholders with information of the concept which the Company upholds for sustainability issues in the course of business, the management approach established, the work promoted and the performance achieved.

Scope of Reporting

This report covers Lianhua Supermarket Holdings Co., Ltd. and its subsidiaries ("Lianhua Supermarket", the "Group", the "Company"). Unless otherwise stated, the scope is consistent with that of the consolidated financial statements of Lianhua Supermarket (stock code: 00980) for the same period.

Full Name of Companies	Abbreviation in this report
Lianhua Supermarket Holdings Co., Ltd.	Lianhua Supermarket, the Group, the Company
Shanghai Century Lianhua Supermarket Development Co., Ltd.	Century Lianhua or Hypermarket Operation Centre
Shanghai Lianhua Supermarket Development Co., Ltd.	Lianhua Supermarket Development or Supermarket Operation Centre
Lianhua Logistics Co., Ltd.	Lianhua Logistics
Shanghai Lianhua Quik Convenience Stores Co., Ltd.	Lianhua Quik
Hangzhou Lianhua Huashang Group Co., Ltd.	Lianhua Huashang
Anhui Century Lianhua Development Co., Ltd.	Lianhua Anhui Company
Henan Century Lianhua Supermarket Co., Ltd.	Lianhua Henan Company
Lianhua Supermarket (Jiangsu) Co., Ltd.	Lianhua Jiangsu Company
Guangxi Lianhua Supermarket Joint Stock Co., Ltd.	Lianhua Guangxi Company

Reporting Period

The reporting period is from 1 January 2022 to 31 December 2022. Unless otherwise stated, data included in this report is for the reporting period.

Basis of Preparation

This report is prepared in accordance with the *Environmental, Social and Governance Reporting Guide* (effective from January 2022) issued by The Stock Exchange of Hong Kong Limited.

Note for the Data

Data in this report and the relevant adjustments are from the formal record of the Company in respect of actual business operation. In case of inconsistency between these data and those provided in the Company's annual financial statements, the data of annual financial statements shall prevail.

The financial data in this report is presented in Renminbi.

Access to Report

This report is published in the electronic version and available on information disclosure platforms designated by stock exchanges.

Reporting Principles

In the preparation, this report follows the principles stated below, to achieve the goal of effective communication with stakeholders of the Company by providing effective, complete, accurate and comprehensive information.

Materiality	The Company identifies material issues that investors and other stakeholders are interested in and are related to business operation and takes these issues as the focus of this report. The reporting of material issues also covers the characteristics of the industries with which the Company's operation is associated and the regions where the operation is conducted. The process of material issue analysis and the analysis result are detailed in the "ESG Management" section of this report, which also provides key information of matters in ESG aspects that may have significant impact on investors and other stakeholders.
Balance	This report reflects the facts and provides unbiased disclosure of positive and negative information of the Company. For the entities covered by this report, the Company, after searching in Qingyue Data (data.epmap.org), is not aware of any negative event that should be disclosed but have not been disclosed during the reporting period.
Quantitative and consistency	This report discloses key quantitative performance indicators and offers historical data as comprehensive as possible. It applies consistent statistical approach and disclosure way for one indicator in different reporting periods; in case of changes of the statistical approach and disclosure way, adequate explanation will be provided in the notes of this report, so as to enable stakeholders to conduct meaningful analysis to assess the trend of the Company's ESG performance.

1 ESG MANAGEMENT

1.1 ESG Management Concept

In line with its corporate vision known as "increasing our customers' loyalty to us (讓消費者更喜愛我們)", the Company sets its corporate mission as "good commodities and good experience to build a goodlife (好商品、好體驗構建人情好生活)"with its ESG vision defined as "with premium goods and green operation to safeguard people's livelihood and help them live a good life", which reflects its ESG concept as an operator running business concerned with people's livelihood: to ensure supply of daily necessities and help consumers realize high-quality lifestyle and to build a better living environment through offering high-quality products and services as well as eco-friendly and sustainable operation.

ESG Strategy

Since 2021, the Company, after giving full consideration to its business and the appeals of its stakeholders, puts forward the ESG management strategies covering four major aspects, i.e. goods and services, employee development, green operation, community and people's livelihood.

	Short to mid-term strategy (3-5 years)	Long-term strategy (5-10 years)
Goods and services	• Create a culture of responsibility that values integrity and compliance to ensure smooth development of our operations; • Continue to improve our product quality management system, strengthen the quality control of our suppliers, and ensure the quality of our products; • Constantly improve the shopping environment of our stores to ensure safety and hospitality.	• Continuously improve our product quality management and shopping environment to provide diversified and high-quality products and friendly services that meet the needs of customers and markets.
Employee development	• Respect and safeguard the legitimate rights and interests of our employees, and build a harmonious relationship with them with a multi-level communication mechanism and employee caring activities; • Provide a safe and enjoyable working environment for our employees; • Provide diversified and innovative training resources and career development channels to empower our employees' development.	• Strive to make us an excellent employer in the industry and empower the innovative development of the retail industry.
Green operation	• Promote green stores to improve resource efficiency and reduce greenhouse gas emissions; • Introduce green office operation, green logistics and green warehousing to reduce greenhouse gas and waste emissions in the operation process of the Group.	• Strengthen education for consumers on sustainable consumption, reduce consumers' impact on environment, and advocate sustainable consumption; • Advocate sustainable production and reduce the impact of suppliers' commodity production on the environment.
Community and people's livelihood	• Give a fully play of our role in guaranteeing people's livelihood, and ensure supply of basic commodities in case of social emergency; • Actively participate in volunteer service and social welfare activities, and strengthen integration with the community.	• Establish our brand of social welfare in line with the Company's principal business, continue to participate in community and social welfare activities, to improve our social influence.

Practice of Primary Responsibilities and Achievements for 2022

ESG Strategy	Practice of Primary Responsibilities	Achievements
Goods & services 8 DECENT WORK AND ECONOMIC GROWTH	• Create a culture of responsibility that values integrity and compliance • Strictly guarantee the quality of goods • Provide safe and healthy food • Build a safe and enjoyable shopping environment	• Anti-corruption trainings cover 100% of members of the Board; • Experts of other institutions are invited to provide the Board with trainings on listing rules, which include issues of anti-corruption and anti-bribery, with participation of 15 trainees; • Trainings on food safety are offered, and video courses and the test bank for standards of trustworthy supermarket management, food trace ability and skills of handling complaints are developed, with 38,301 participants; • 182 discussion meetings, promotion meetings and trainings on work safety are organised, with 8,782 participants.
Employee development 5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH	• Ensure equal employment and democratic communication for employees, and carry out employee care activities • Protect the occupational health and safety of employees • Provide our employees with training and development opportunities	• Labour contract signing rate and social security contribution rate are 100%; • During the reporting period, the Group reported zero work-related injury or death, zero occupational disease, zero fire accident; • Trainings to support employees' development cover a total of 6,609 trainees.

ESG Strategy	Practice of Primary Responsibilities	Achievements
Green operation  	• Improve our environmental management system • Promote green stores • Improve green logistics and warehousing • Carry out green concept promotion activities	• Power consumption of 2022 decreased by 9.5% as compared with 2021; greenhouse gas emissions per unit area decreased by 6.5% as compared with 2020; water consumption per unit area of 2022 decreased by 10% as compared with 2020; • Green logistics is promoted, and trays and turnover boxes of standard size are adopted to save transportation space; recyclable transit containers are adopted according to the characteristics of goods, which can be re-used afterward.
Community and people's livelihood  	• Ensure supply for people's livelihood • Carry out public welfare activities in communities • Help farmers through purchase, and promote rural development by paired-up assistance	• The model of ensuring supply for people's livelihood featuring efficient response, flexible and coordinated arrangements and stable supply has been developed; • The agricultural industrialisation and standardisation is promoted by fully developing the advantage of outlet scale and leveraging the advantageous resources of regions of paired-up assistance and the Group's marketing and transportation network, accumulating "Lianhua Experience" for the path of sustainable agricultural development and the rural revitalisation; • During the reporting period, a total of RMB215,800 has been invested in community charity activities, and 1,770 employees are engaged in volunteer services, with 26,478 service hours.

ESG Targets

The Group has set the ESG Environmental management targets for energy use, greenhouse gas emissions and water use. In the first quarter of each year, the Board reviews the Group's ESG performance and achievement of the targets in the previous year, and ensures that the Group's ESG performance is disclosed in the ESG report, so as to promote the realisation of ESG performance targets.

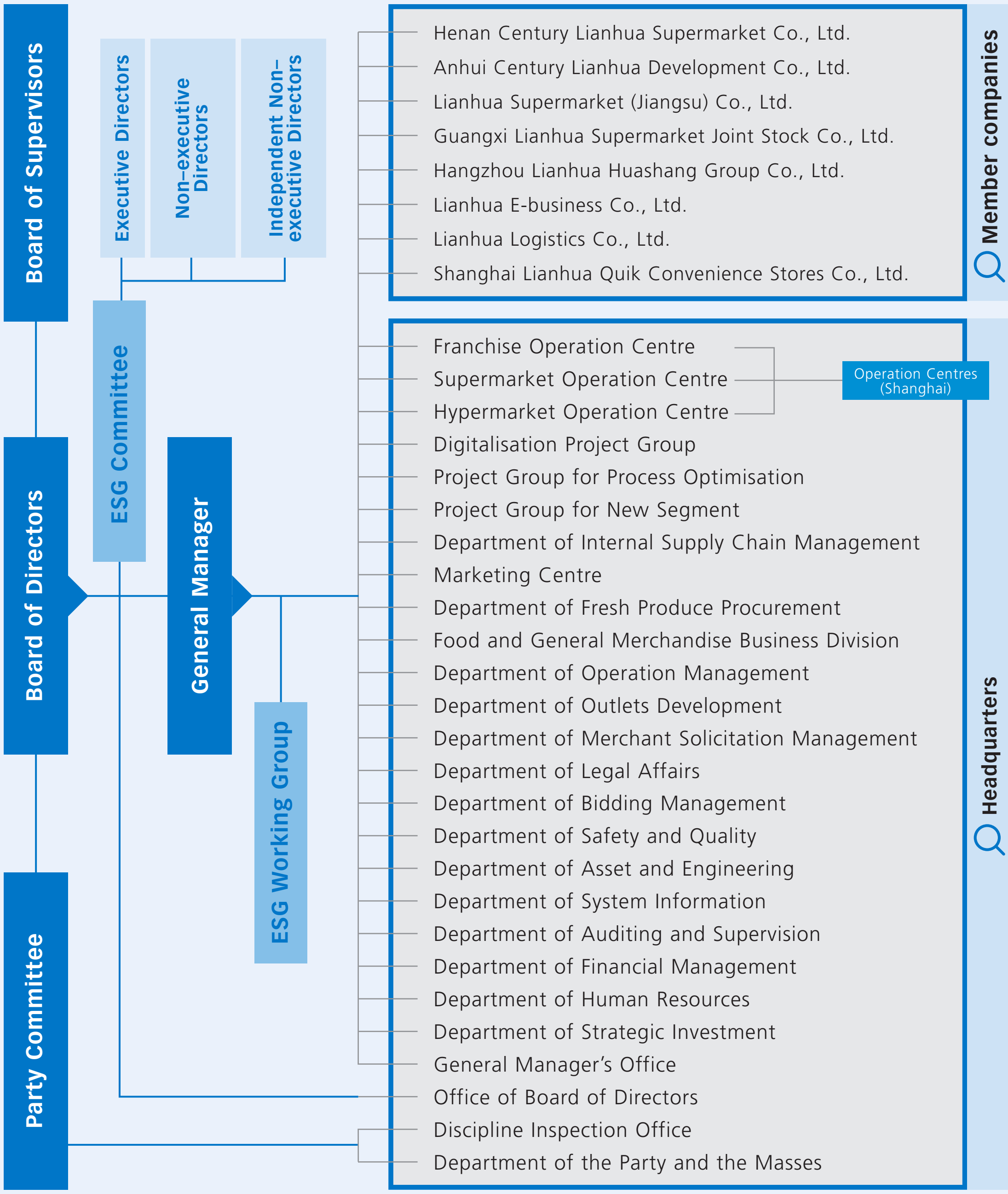
ESG Management Environmental Targets of Lianhua Supermarket for 2030	
Energy use Reduce unnecessary energy consumption and gradually mprove the proportion of renewable energy	**Greenhouse gas emissions** Decreasing GHG emissions per unit of business area in 2030, with 2020 as the base year
Water use Decreasing the water consumption per unit of business area in 2030, with 2020 as the base year	**Waste emissions** 100% of stores implement waste sorting, and ensure that 100% of recyclable materials are recycled and other wastes are appropriately disposed of

1.2 ESG Management Structure

In line with the increasing concern of Chinese capital markets on ESG issues, the Board strengthens its supervision of the ESG performance of the Company. The Company has established the Environmental, Social and Governance (ESG) Committee of Lianhua Supermarket and formulated the *Terms of Reference for the Environmental, Social and Governance (ESG) Committee of Lianhua Supermarket*, which further clarifies the ESG management structure and the composition, responsibilities and authority and rules of procedure of the ESG Committee.

The Company's ESG Committee consists of Executive Directors, Non-executive Directors and Independent Non-executive Directors and is responsible for the decision-making in respect of the Group's ESG issues as a whole; the Company has also established the ESG Working Group consisting of members from the relevant departments and affiliates to promote the implementation and improvement of specific ESG work.

ESG Management Structure



ESG Management Structure and Respective Responsibilities

The Board is responsible for guiding the Company's ESG work, with specific responsibilities being: a) receiving the report of ESG work, approving relevant matters and directing the ESG management work.	**The Board**
The ESG Committee has overall responsibility for the Company's ESG performance, including: a) identifying and assessing the Company's ESG-related risks and opportunities; b) ensuring that appropriate and effective ESG risk management and internal control systems are in place; c) formulating the Company's ESG management policies, strategies, priorities and objectives; d) regularly reviewing the Company's efforts in achieving its ESG objectives; e) approving disclosures in the Company's ESG reports.	**ESG Committee**
As the manager and coordinator of ESG issues to ensure implementation of ESG tasks by each relevant department, the ESG Working Group has the following responsibilities: a) guiding and reviewing formulation of ESG management policies and strategies; b) overseeing formulation and implementation of ESG objectives, and reviewing the progress of achieving such objectives; c) guiding and reviewing the identification and sorting of important ESG topics; d) assisting in the preparation of annual ESG reports and other ESG-related information, and submitting the same to the Board for consideration and approval for disclosure; e) identifying ESG risks associated with the Company each year, assessing the impact of such risks on the Company and advising the Board on how to cope with such risks; f) other responsibilities delegated by the Board.	**ESG Working Group**

1.3 Communication with Stakeholders

The Group cares sincerely about the needs and concerns of its stakeholders, and identifies its key stakeholders and their focuses on the basis of its own business and operations, with reference to those of its domestic and foreign counterparties. In addition, the Group explores diversified communication methods and actively responds to the requests of its stakeholders in its daily management and business practices.

Key Stakeholders of Lianhua Supermarket and Topics for Communication

Key Stakeholders	Topics of Interest	Communication and Response
Shareholders	• Corporate governance • Risk management • Anti-corruption	• Information disclosure of listed companies • Shareholders' meetings • Shareholder communication meetings • Investor meetings
Government and regulators (including the Market Supervision Administration, the Food and Drug Administration, etc.)	• Corporate governance • Anti-corruption • Green operation • Use of packaging materials • Climate change mitigation and adaptation	• Policy implementation • Energy conservation and emission reduction actions • Actions for reduction of packaging materials • Construction of sustainable supply chain • Information disclosure
Consumers	• Commodity quality assurance • Responsible marketing • Consumer relationship management • Protection of consumers' information and privacy	• Food safety management • Consumer consultation and complaint platform • Customer satisfaction survey
Suppliers	• Supply chain management	• Supplier review and evaluation • Supplier meetings • Communication and visits
Employees	• Employees' benefits and welfare • Employees' health and safety • Employees' development and training • Talent attraction and retention	• Trade union and employee representative meetings • Activities • Employee training • Internal publications
The public and communities	• Welfare of communities • Guarantee of people's livelihood • Green operation	• Support to rural revitalisation • Community service activities • Communication through WeCom • Promotion through Official Accounts • Advocating by exhibition in stores
Industry organisations	• Industry development	• Industry association activities

1.4 Analysis of Material Topics

In 2022, the Group has identified 17 material ESG topics based on its own business and operational characteristics in accordance with the *Environmental, Social and Governance Reporting Guide* of The Stock Exchange of Hong Kong Limited and national and industry policies, and with reference to the practices of its industry peers based domestically and overseas. After consulting the external experts, the Group rated the materiality of these topics based on the importance to stakeholders and the importance to the Company's development.

Process for Identification of Material Topics

Topic identification

- Identify environmental, social and governance topics based on the GRI Standards and the SEHK's Environmental, Social and Governance Reporting Guide

Rating

- Identify 17 topics related to the Company's business management and rate the materiality reference to practices of industry peers based domestically and overseas and actual operation conditions of the Company

Expert judgement

- Adjust the material topics with reference to experts' analysis of policies and standards and judgements about the Company's conditions, ultimately determine the material topics and prioritise the response to these topics in the report

Matrix of Material Topics of Lianhua Supermarket

Importance to stakeholders / Importance to the Company's development	Low	High
High	• Anti-corruption • Commodity quality assurance • Welfare of communities • Protection of consumers' information and privacy • Responsible marketing	• Green operation • Supply chain management • Corporate governance • Consumer relationship management • Risk management • Climate change mitigation and adaptation • Guarantee of people's livelihood
Low	• Industry development	• Use of packaging materials • Employees' benefits and welfare • Employees' health and safety • Employees' development and training

Topics of high materiality
Topics of medium materiality
Topics of low materiality

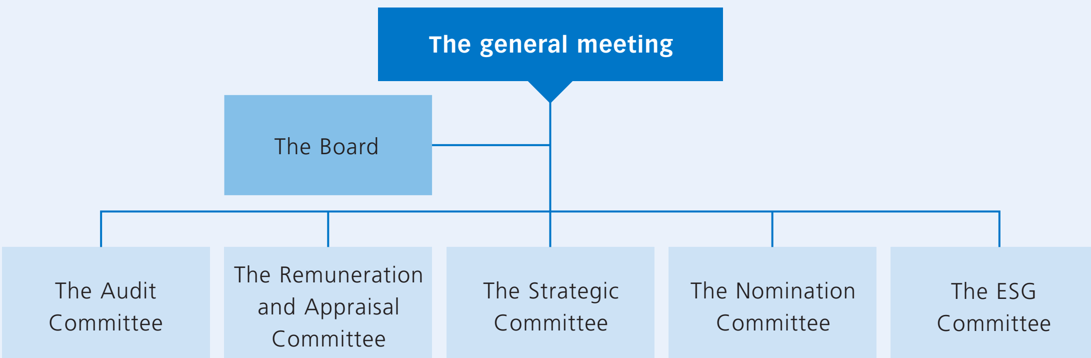
2 SOLID FOUNDATION OF ROBUST GOVERNANCE

2.1 Corporate Governance

In strict compliance with the *Company Law of the People's Republic of China*, the *Securities Law of the People's Republic of China*, the *Corporate Governance Code* as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and other relevant laws, regulations and requirements, the Company improves the corporate governance standard and the level of standard operation to lay solid foundation for a robust governance, thereby supporting the steady progress and growth.

The Company has established a standard and orderly governance structure consisting of the general meeting, the Board and its committees (the Audit Committee, the Remuneration and Appraisal Committee, the Strategic Committee, the Nomination Committee and the ESG Committee) and the senior management, and has built the governance mechanism featuring clear responsibilities and powers of the organ of authority, the organ of decision making and the organ of implementation, mutual cooperation and checks and balances, thus effectively protecting the legitimate rights and interests of itself and shareholders.

Corporate Governance Structure



Committees' Responsibilities in Respect of Governance

Committee	Responsibilities
The Remuneration and Appraisal Committee	Establishing and determining the Group's incentive and performance review system
The Strategic Committee	Consulting about, conducting investigation and assessment for the Group's future investment strategies and relevant matters
The Nomination Committee	Improving the structure of the Board and the management of the Company
The Audit Committee	Reviewing the Group's financial reporting procedures and internal control system
The ESG Committee	Guiding the Group's ESG policies and strategies and the setting of ESG targets, and controlling ESG management risks

All members of the Board acknowledge and fulfill their own responsibilities and obligations, treat every shareholder of the Company equally and protect the rights and interests of investors by all means. Among the 11 members of the Board, one serves as the executive Director, six (including the Chairman) act as the non-executive Directors, and four serve as the independent non-executive Directors, who represent more than one third of the number of Directors. Further, the Company upholds the board diversity policy, selects talents based on merit in the course of appointing members of the Board, and ensures that talents are discriminated against for their gender, age, race and other reasons. Currently, female members account for 9% of the Board.

2.2 Risk Management and Internal Control

Risk management is an important basis for the Group's sound operation. The Group incorporates the construction of risk control system into its strategic plans and adopts measures to improve the risk control standard. The Board participates in the daily review and the risk management; the Internal Audit Department assesses the risk points of each department and executive management level on regular basis, analyses and follows the relevant risk control work in a timely manner. In addition, the Internal Audit Department and the Audit Committee have meetings together to report and enhance the risk management work and identify potential risks, thereby promoting compliance and sound operation of the Group.

In respect of internal control, the Group has further strengthened and improved the internal supervisory functions in accordance with the relevant requirements of the *Internal Control Manual of Lianhua Supermarket Holdings Co., Ltd.* and with reference to the actual conditions of the Company, with the Internal Audit Department as the implementation department to conduct regular and continuous daily supervision and inspection on the implementation of internal control, and at the same time to reinforce targeted and specialised supervision on important aspects of internal control.

To ensure effective operation of the internal control system, the Group prepared and announced the *Interim Measures of Lianhua Supermarket Holdings Co., Ltd. for Management of the Internal Control of the Board of Directors of Controlled Subsidiaries*（《聯華超市股份有限公司對下屬控股公司董事會事務內部控制管理暫行辦法》）and the *Interim Measures of Lianhua Supermarket Holdings Co., Ltd. for Management of the Internal Control of the Board of Directors of Joint Venture Subsidiaries*（《聯華超市股份有限公司對參股公司董事會事務內部控制管理暫行辦法》）in accordance with the *Company Law of the People's Republic of China* and the Articles of Association at the end of 2021, and implements these measures from 1 January 2022, which incorporate the management of the board of directors of subsidiaries into the daily management system of the Board of the Company and set clear rules for the appointment of board members of subsidiaries, matters related to subsidiaries' board and shareholders' meetings and performance review of the board of directors of subsidiaries, thus improving the corporate governance structure of controlled subsidiaries and joint venture subsidiaries.

2.3 Anti-corruption

The Group has developed the *Accountability Mechanism of Clean and Honest Party Construction and Responsibility of Discipline Supervision of Lianhua Supermarket Holdings, Co., Ltd.* (《聯華股份落實黨風廉政建設責任制紀委監督責任清單》) and the *Regulations on Management's Performance Wage and Business Expenses by Lianhua Supermarket Holdings, Co., Ltd.* (《聯華股份關於規範各級領導人員履職待遇與業務支出的管理辦法》), to strengthen the efforts of anti-corruption. It has signed the *Responsibility Agreement on Clean and Honest Party Construction* (《黨風廉政責任書》), the *Letter of Commitment of Party Members* (《黨員崗位承諾書》) with Party members, and the *Letter of Undertaking on Clean and Honest Practices* (《廉潔從業承諾書》) with personnel of key positions including procurement and operation to improve employees' anti-corruption awareness, to enhance employees' anti-corruption awareness.

To combat corruption, bribery and other irregularities, the Group has developed the *Measures of Lianhua Supermarket Holdings, Co., Ltd. for Management of Connected Transactions* and the *Measures of Lianhua Supermarket Holdings, Co., Ltd. for Management of Inside Information* in accordance with the *Company Law of the People's Republic of China*, the *Securities Law of the People's Republic of China*, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Articles of Association of Lianhua Supermarket Holdings, Co., Ltd., which clarify the Group's management works in respect of connected transactions and inside information for the purpose of preventing irregularities and minimising the possibility of corruption in the Group's business operation.

In 2022, the Group invited experts of other institutions to provide the Board with trainings on the listing rules, with emphasis on anti-corruption and anti-bribery and with participation of 15 trainees, including 8 Directors, 2 supervisors, 3 deputy general managers, 1 deputy secretary of the Party Committee and 1 secretary to the Board. The trainings incorporated anti-corruption topics into the introduction of the *Corporate Governance Code* and highlighted the Group's compliance principle and anti-corruption requirements.

The Group stresses feedback and whistle-blowing through various channels, provides clear whistle-blowing channels such as emails, telephones, and mailboxes, highly concerns about the suspicious internal corruption events reported by employees. It checks the reported problems and clues one by one, and deals with them in accordance with the relevant provisions of the *Disciplinary Regulations of the Chinese Communist Party*. At the same time, the Group strives to protect the safety of whistle-blowers and the security of reported information, strictly keeps the whistle-blower's name, contact information and reported matters confidential and prohibits the disclosure of such information to the person being reported; and disciplinary actions would be taken against those who violate the requirements, and criminal liabilities would be investigated in accordance with the law if the violation constitutes a crime. During the reporting period, the Company reported no corruption, bribery, extortion, fraud or money laundering, or no lawsuits caused by such events.

3 GREEN AND SUSTAINABLE HOMELAND

3.1 Environmental Management System

The Group upholds the concept of green development, incorporates green management practices into its daily operation activities, and regulates green management processes through the construction of environmental management systems such as the *Operation Requirements for Energy Saving and Consumption Reduction*, the *Manual of Operation Standards* and the *Energy Conservation and Emission Reduction Implementation Plan*, with a view to reducing energy and natural resource consumption, reducing waste and using environmentally friendly products and services as much as possible.

For 2022, the Group has set clear environmental management targets and tracked the progress of each aspect during the current year by collecting and monitoring the annual performance data.

	Environmental targets	Progress of 2022
Energy use	Reduce unnecessary energy consumption and gradually improve the proportion of renewable energy	Power consumption of 2022 decreased by 9.5% as compared with 2021
Greenhouse gas emissions	Decreasing GHG emissions per unit of business area in 2030, with 2020 as the base year	Greenhouse gas emissions per unit business area of 2022 decreased by 6.5% as compared with 2020
Water use	Decreasing the water consumption per unit of business area in 2030, with 2020 as the base year	Water consumption per unit business area of 2022 decreased by 10% as compared with 2020
Waste emissions	100% of stores implement waste sorting, and ensure that 100% of recyclable materials are recycled and other wastes are appropriately disposed of	100% of stores implement waste sorting; 100% of recyclable materials are recycled, and other wastes are appropriately disposed of

3.2 Response to Climate Change

The consumption of energy and resources is strongly correlated with climate change. Global climate change not only causes various extreme weather events, but also seriously affects various economic and social activities. The Group proactively responds to the concerns of the government, investors and other stakeholders in addressing climate change, identifies risks and opportunities related to climate change with reference to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board, and continuously improves management based on the results to minimize the carbon footprint generated by operating activities.

In order to better respond to the potential risks and opportunities related to climate change, the Group identifies climate change-related risks and opportunities related to its own operations through policy research and with reference to practices of industry peers and expert opinion, and evaluates the impact of the risks and opportunities on its financial position.

Approach for Analysis of Climate-related Risks and Opportunities

Identification	• Identify climate-related risks and opportunities in accordance with the unified climate change-related information disclosure framework developed by TCFD.
Assessment	• Assess climate-related risks and opportunities based on the Company's businesses and strategies, with consideration of experts' advice.
Analysis	• Construct the matrix of climate-related risks and opportunities based on the assessment result, and identify the materiality of risks and opportunities with reference to the probability and the degree of impact of such risks and opportunities.

Analysis of the Financial Impact of Climate-related Risks

<table>
<tr><th colspan="4">Identification results of main climate change-related risks and opportunities</th><th>Potential financial impact</th><th>Counter measures</th></tr>
<tr><td rowspan="3">Risks</td><td>High</td><td>Policy and legal risks</td><td>The Company and its product suppliers may face risks of being held accountable, being taken regulatory measures, being given disciplinary sanctions, loss of property or business reputation due to non-compliance with climate-related policies or laws, or the risk of rising operating costs due to the opening of the carbon market and the rising clean energy pricing.</td><td>Operating income↓
Operating costs↑
Credit risk↑</td><td rowspan="3">• Improve environmental management and climate change-related management system.

• Practice green development concept, focus on green, low-carbon products procurement and sales.

• Establish emergency response plans for extreme weather or natural disasters.

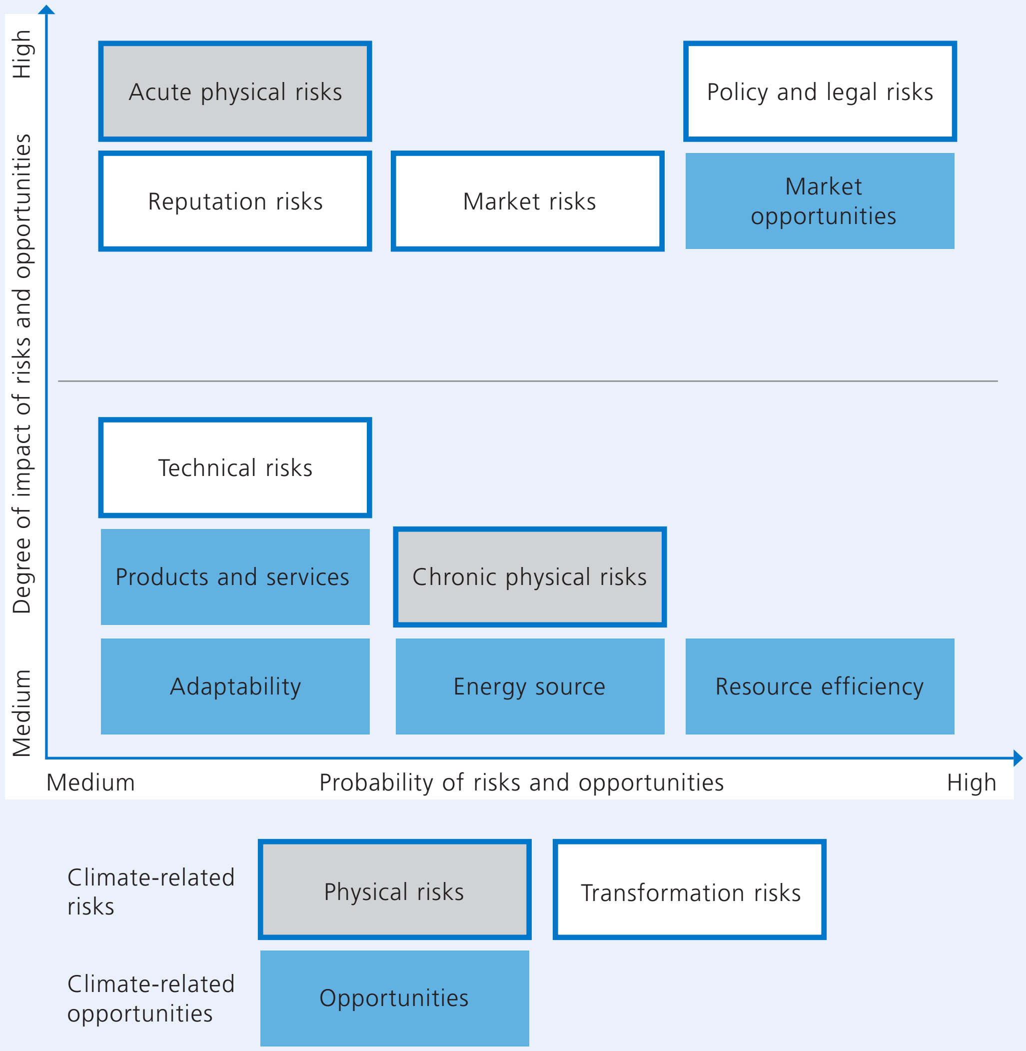
• Publish or disclose the energy-saving measures and green products involved in store operations in a timely manner to expand the influence.

• Replace energy-consuming materials in the Group' stores with low energy-consuming materials.</td></tr>
<tr><td rowspan="2">Medium</td><td>Market risks</td><td>The introduction of relevant policies such as carbon neutrality has given rise to the market demand for climate-friendly products or services and thus the businesses of the Company and its suppliers will face market risks.</td><td>Operating income↓
Credit risk↑</td></tr>
<tr><td>Acute physical risks</td><td>Severe climate changes such as typhoons and floods will cause extreme weathers or natural disasters, which may affect the normal operation of the Company's stores, thereby affecting the Company's business.</td><td>Operating income↓
Operating costs↑
Value of fixed assets↓</td></tr>
</table>

Identification results of main climate change-related risks and opportunities				Potential financial impact	Counter measures
Risks (Continued)	Medium (Continued)	Chronic physical risks	Long-term natural pattern changes such as sea level rise and sustained high temperatures may affect the Company's normal operations.	Operating costs↑ Value of fixed assets↓	
		Reputation risks	As the public is paying more and more attention to green operation, the Company's failure to meet the expectations of stakeholders may bring reputational risks to the Company's operations.	Operating income↓ Operating costs↑	
	Low	Technical risks	In the process of low-carbon technology transformation, the development and application of energy-saving and environment-friendly technologies such as renewable energy and new energy may have a certain impact on the Company's operations and businesses.	Value of fixed assets↓ Operating costs↑	

Identification results of main climate change-related risks and opportunities				Potential financial impact	Counter measures
Opportunities	High	Market opportunities	The introduction of relevant policies on carbon neutrality and climate change has a guiding effect on the green product market, and focusing on the business of developing climate-friendly products is conducive to opening up new growth space for the Company.	Operating income↑ Credit risk↓	• Adopt LED energy-saving lamps in the workplace. • Equip the stores with low energy-consuming refrigerators and other equipment. • Purchase products with sustainability certificates and adopt local sourcing.
	Medium	Resource efficiency	Energy conservation and emission reduction are promoted by improving resource and energy use efficiency and will help reduce operating costs.	Operating costs↓	
		Energy source	The use of clean energy and low-carbon energy to replace traditional energy will help reduce the Company's energy expenditure in the future.	Operating costs↓	
	Low	Adaptability	Business research and industry exchanges related to climate change will help improve the Company's ability to respond to climate risks and seize climate opportunities, and enhance the brand image of fulfilling social responsibilities.	Credit risk↓	
		Products and services	The Company's purchase of eco-friendly products and efforts of promoting sustainable consumption is an appropriate response to consumers' requirements for eco-friendly products, which can strengthen the competitiveness of products and services.	Operating income↑ Credit risk↓	

Matrix of Climate-related Risks and Opportunities



3.3 Energy and Water Resource Management

Most of the Group's consumption of energy and water is for store operations, warehousing and logistics and daily office operations. The Group strictly follows the *Law on Energy Conservation of the People's Republic of China*, and reduces unnecessary energy and water consumption by all means with reference to the actual conditions of the stores.

For energy consumption, the Group promotes effective energy conservation management by formulating environmental protection policies and guidelines, setting corresponding environmental protection targets and adjusting the annual budget for stores' energy consumption. In the daily operations, warehousing and logistics processes, the Group requires stores to record relevant environmental data, review and monitor the environmental performance on regular basis, check the annual energy consumption and review the effectiveness of energy conservation measures. The logistics subsidiary of the Group has developed the *Measures of Lianhua Logistics for Energy Management* to strengthen energy management in the logistics process.

For water use, the Group regularly inspects and maintains water consuming equipment, repairs and updates damaged equipment in a timely manner, to improve water efficiency in business operations, and promotes water conservation awareness among employees through publicity on environmental protection from time to time. Further, the Group collects resource consumption data (including water consumption and office supplies consumption) on regular basis, analyses the reasons for large resource consumption, develops consumption reduction plans and tracks the implementation and effectiveness of such plans.

Major Energy Conservation Actions

<table>
<tr><th>Green store</th><th>Green warehousing and logistics</th><th>Green office</th></tr>
<tr><td>

Adopt intelligent control system to control the compressor of the cold chain system and the anti-dew system of freezer, to avoid frequent startup of compressor and reduce energy consumption.
Adjust the energy saving performance through three-phase electricity load balance.
Promote the grooved lightening system with low power and high efficiency by the pilot programme, to further reduce power consumption.
Upgrade the cooling system, replace the long-distance air-cooled condenser with a water cooled system, to further improve efficiency and reduce energy consumption.

</td><td>

Adopt the energy-saving refrigerating compressor set, control energy consumption by the frequency converter and the energy regulating module, and upgrade the re-steam room and the air curtain machine at the inlets and outlets of the refrigeration house, to reduce condensation and energy consumption.
Adopt automatic sorting lines with the active energy conservation mode, to reduce equipment loss and power consumption.
Adopt energy-saving LED lights for the lightening systems in parks and warehousing areas.
Monitor the real-time power and water consumption data, and analyse the exceptional data.
Promote the pilot programme of using new thermal containers to deliver frozen goods, improve the loading capacity of vehicles, and optimise the delivery routes, to reduce fuel consumption and carbon emissions.

</td><td>

Control the performance costs involved, find out the entry point for cost savings through analysis of cost data, and refine reasonable control work.
The ordering and use of store supplies should be in strict accordance with the relevant system. The head of the department in charge of the actual use is responsible for applying and receiving store supplies, and the store manager and the person on duty are responsible for supervising, ensuring that orders are based on evidence and receipt is based on sales.
A sticker on the light switch reminding to turn off the light calls for employees to save electricity.
Establish the Customer Service Department for daily operations to supervise energy consumption on a daily basis, strengthen employees' awareness of electricity and energy conservation, and implement the Lianhua Logistics Energy Management System to reduce energy consumption.

</td></tr>
</table>

3.4 Packaging Material Management

Packaging materials which the Group uses are mainly the turnover boxes for warehousing and logistics and the packaging bags used in the sales of stores. The Group is committed to reducing packaging materials, controlling the use of packaging materials in the processes of warehousing, logistics and sales, and promoting low-carbon and sustainable development of the society by reducing packaging, recycling and green concept promotion.

Major Actions for Package Material Reduction

Green store	Green warehousing and logistics
• Post warm reminders of "pick up as needed" at the area of stores where the roll-up bags are required, encourage customers to use the bags reasonably, advocate customers to "take the cloth bag, bring up the vegetable basket", and reduce the use of disposable plastic. • Promote the rational recycling of plastic products and the reuse of environmentally friendly materials by using its official account, in the hope of driving more consumers to participate in green and low-carbon life.	• Adopt trays and turnover boxes of standard size to save transportation space. • Adopt recyclable cold-chain turnover boxes, vegetable baskets, room-temperature turnover boxes, turnover boxes specialised for flow lines and thermal containers according to the characteristics of goods, and re-use them afterward.

3.5 Waste Management

The Group is not engaged in industrial production. Waste generated during the operation process is mainly non-hazardous waste such as packaging materials, paper used for printing of shopping receipts and expired fresh produce, and other wastes including LED lights, air cabinets and conductive cabinets (including electronic thermometers, etc.), excluding production waste. The emissions generated during office operation mainly include: domestic waste water generated by the offices, the domestic waste water generated during the logistics operation process and oily sewage generated by vehicle maintenance. Regarding the treatment of emissions, the Group has set up a secondary sewage treatment tank to treat such oily sewage generated by vehicle maintenance of logistics and warehousing segment before discharge.

For waste management, the Group classifies the main wastes into wet garbage, dry garbage and recyclable waste. The recyclable waste mainly includes packaging cartons of the products sold, wrapping film and thermal containers for warehousing, which are packaged and collected by the designated waste packaging disposal companies.

Waste Sorting and Management

<table>
<tr><th>Classification</th><th>Type</th><th>Disposal way</th></tr>
<tr><td>Wet garbage</td><td>Expired fresh produce, etc.</td><td rowspan="2">• Employees sort the garbage when they are replenishing and working on the inventories of the fresh produce areas
• Wastes are collected in the designated "garbage room" for centralised disposal and management
• Stores cooperate with local waste disposal companies to dispose of the wastes</td></tr>
<tr><td>Dry garbage</td><td>Waste packaging materials, shopping receipts, waste LED lights, etc.</td></tr>
<tr><td>Recyclable waste</td><td>Packaging cartons, wrapping film, thermal containers, etc.</td><td>• The designated waste packaging disposal companies collect and recycle such wastes.</td></tr>
</table>

4 PROVIDING PRODUCTS AND SERVICES OF SUPERIOR QUALITY

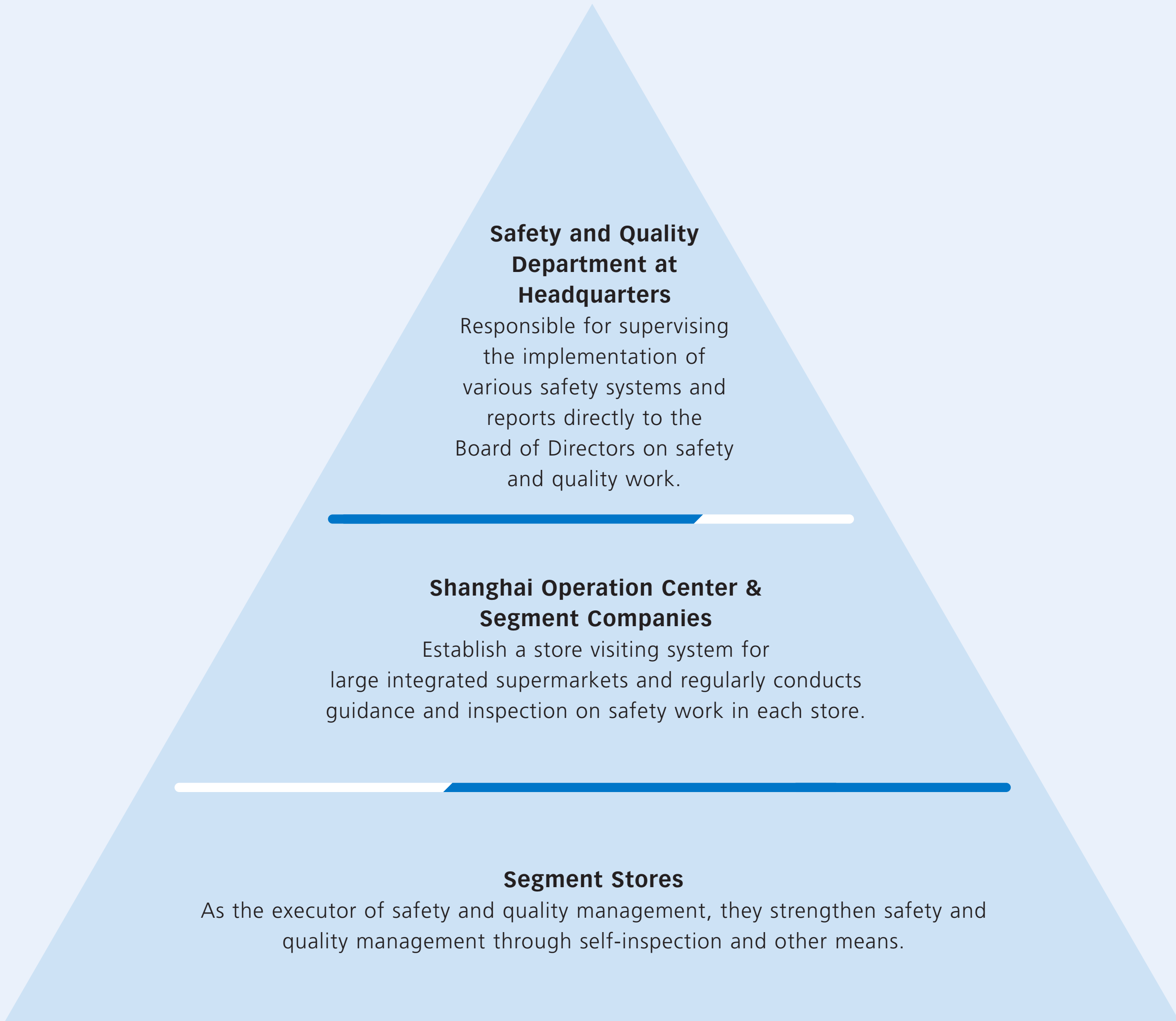
4.1 Product quality management

Product quality management system

The Group complies strictly with the relevant laws and regulations such as the *Food Safety Law of the People's Republic of China*, the *Measures for Retrospective Management of Food Safety Information in Shanghai* and the *Product Quality Law of the People's Republic of China*, as well as its quality guidelines known as "Priority to safety, focus on prevention, take proactive actions, and service empowerment", and has established corresponding internal management systems for each aspect of product quality assurance, including the *Review & Management Procedures for Supplier of Proprietary Brands, Review & Management Procedures for Proprietary Products*, and *Measures for Management of Product Certificates and Invoice*, etc.

The Group has established a comprehensive three-level quality management system and continued to carry out the three-level inspection and rectification and three-level training in 2022 in order to strengthen its internal quality management.

Three-level Quality Management Framework



Three-level Quality Management System

Three-level inspection and rectification	• Self-inspection by stores, random inspection by operation centers/segment companies, and supervision under the safety and quality department at the Headquarters.
Three-level feedback	• Rectification, feedback and verification of problems according to the three-level (store-operation center/segment company-headquarters) feedback.
Three-level training	• Training for front-line employees held by stores, training for store managers by operation centers/segment companies, and training for key managers of operation centers/segment companies by Headquarters.
Three-level notification	• Regulations and notices are passed down through the three-level hierarchy.
Three-level reporting	• Complaints and random checks are reported through the three-level hierarchy.

As a principal product seller, Lianhua Supermarket attaches great importance to product quality assurance and has set up sophisticated review and control processes covering review of suppliers, review of products, product acceptance, inspection of products on shelf and disposal of defective products etc., to ensure the quality and safety of its on-shelf products.

Product Quality Review Process

Process	Measures
Review of suppliers	• Review of supplier qualifications and credit • On-site review by a third-party professional organization for the production of proprietary goods
Review of products	• Commodity qualification review: claims for certificates and invoice (certificate of qualification, etc.) • Physical review: sample packaging, intuitive determination of food quality, weight of goods, product batch qualification certificates
Commodity acceptance control	• Testing centers and stores to manage product quality acceptance
Inspection of goods on shelf	• Strictly monitor the quality and safety of the products sold by such means as third-party inspections, spot checks, and feedback
Disposal of defective goods	• Safety and Quality Department, Purchasing Department, Comprehensive Commodity Management Department, Lianhua Logistics, operation centers/stores are jointly responsible for the handling of defective goods • Formulate emergency responding and disposal measures, determine the process of handling defective goods, and initiate refunds

For the defective goods found during the daily inspection process, the Group will take a series of measures according to the "Defective Case Handling Process", e.g., stop selling and withdrawing such defective products from the shelves, returning them to their suppliers and, and demanded the suppliers to rectify the defects. Only after they have corrected all the defects and obtained the test reports recognized by the provincial and municipal quality supervision bureau or health bureau, can those products be put back on the shelves for sale.

In 2022, the Group strictly observed the quality and safety of the products it sold by means of engaging third-party examination, sampling and giving feedback to the suppliers, and for the defective products, the Group took such measures as withdrawing them from the shelves, recalling and returning them to the suppliers in the first instance, while getting the relevant departments together to analyze the causes of the problems and carry out rectification. In 2022, Lianhua Supermarket issued a total of 26 notices of withdrawing defective products from the shelves, involving 37 defective products. With the prompt and effective actions taken by the relevant departments to deal with the accidents in a timely and effective manner, all the defective goods have been properly disposed of.

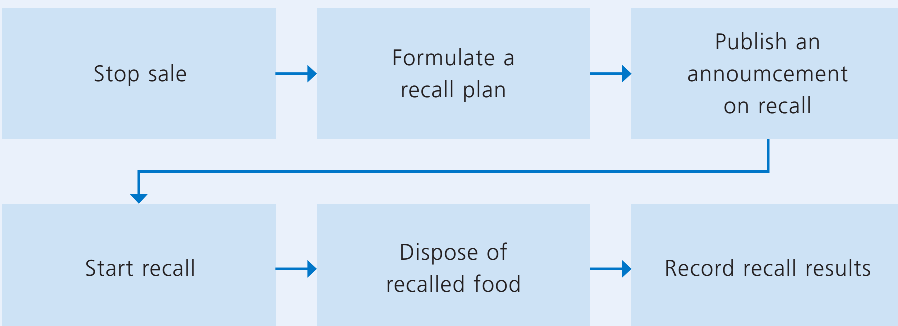
Assurance of food safety

Food safety is directly linked with the health and safety of the consumers, and is therefore the Group's top priority. In accordance with the *Food Safety Law of the People's Republic of China*, the *Food Safety Law Implementation Regulations* and the *Measures for Retrospective Management of Food Safety Information in Shanghai and other relevant laws and regulations*, the Group has established a food safety network covering the "Safety and Quality Department at the Headquarters, Shanghai Operation Center, Quik Convenience, and other member companies in other regions", which serves to pass from top to bottom the government's requirements for food safety and the notices of the relevant activities of the Company, and communicate food safety-related information on a regular basis from bottom to top to promote its food safety management.

In 2022, the Group complied with and implemented the core spirit of strengthening the responsibility for safety as set forth in the *Fifteen Measures for Safe Production formulated and deployed by the Safety Commission of the State Council*, and actively participated in a series of activities organized by the Shanghai Municipal State-owned Assets Supervision and Administration Commission such as "The main responsible party talking about the main responsibility (責任主體談主體責任)". The Group also issued the "Regulations on the Supervision and Management of the Group's Implementation of Main Responsibility for Food Safety" while establishing the main organizational structure of the Group's responsibility for food safety in combination with its three-level quality management system, and required its employees at all positions to conduct daily inspections on food safety and maintain proper records, so as to guarantee food safety.

In addition, the Group has formulated the "Food Recall Management Procedures of Lianhua Supermarket Holdings Co., Ltd." to guide and facilitate timely recall of the defective food and goods so as to protect the health of consumers.

Food Recall Process



In order to enhance its efforts at food safety, the Group developed and launched a "Bailian iLearning" APP to provide its staff with web-based micro training programs under the name of "Lianhua's Monthly Discussion on Safety" (the "Monthly Discussion"), while organizing monthly training courses on different safety topics with classroom exercises to consolidate the training results. In 2022, the Group organized a total of 7 sessions of "Monthly Discussion" training on food safety, while developing training video tutorials and examination databases on the management rules of trustworthy supermarkets, food traceability and complaint handling skills for its outlets, directly-operated supermarkets, franchised supermarkets, and Quik Convenience Stores, with a total of 38,301 participants.

In addition, the Group carried out food safety inspections in its segments stores in 2022, including 528 inspections in the segment stores of Hypermarket, Lianhua directly-operated supermarkets, Lianhua franchised supermarkets, and Lianhua Quik Convenience Stores in Shanghai region, or specifically, 22 inspections in hypermarkets, 278 in Lianhua directly-operated supermarkets, 108 in Lianhua franchised supermarkets, 68 in Lianhua directly-operated Quik Convenience Stores and 52 in Lianhua franchised Quik Convenience Stores.

Information-based Food Safety Warranty

The advancement in information and digital technology has effectively boosted the efficiency and quality of the Group's operations. Applying the cutting-edge technologies to food safety warranty, the Group has developed its Lianhua Food Safety Information Traceability and License Management System to control the quality of goods at source and ensure product safety.

In 2022, after one year of operation following the completion of its development, the Group's Food Safety Information Traceability System realized direct uploading of food traceability data to the government's traceability platform, including information on food delivered from its logistic warehouses and that on goods delivered directly from its outlets, with all its directly-operated supermarkets equipped with QR code food labels that enable traceability.

Quality assurance of fresh ingredients

Quality control of fresh food is a top priority in the Group's food safety management. The Group establishes acceptance standards for different categories of fresh goods such as cooked food, aquatic products, vegetables, fruits, bread, meat and poultry and frozen and refrigerated commodities in terms of certificates, transportation and quality. In respect of the management of fresh commodities, the Group has formulated the "Procurement Management Procedures for the Department of Fresh Produce Procurement" to ensure that the fresh products they purchase satisfy the prescribed requirements, and that qualified suppliers provide fresh ingredients of good quality on a long-term basis.

Fresh Produce Procurement Process

Supplier Evaluation	Supplier Selection	Purchasing Preparation	Purchasing Implementation	Supplier Management
• Certificate request • Sample assessment	• Primary selection based on a combination of factors • Evaluation based on sales and quality	• Suppliers must be qualified • Supplier should provide supporting documents and sign supply agreements	• Item numbers, product names, specifications and such other information of the incoming products must be confirmed • Vegetables and fruits are handled according to the corresponding direct-purchase management plan	• Quality tracking and periodic sampling are imposed on suppliers with further actions to be taken based on their performance

The Group is committed to establishing a supply chain model featuring direct purchase from the production bases while constantly improving the relevant processes and systems such as planting, harvesting, processing, transportation and acceptance, etc., and assesses the bases comprehensively in terms of origin, climate, soil and production mode to ensure the quality of fresh ingredients.

Vegetable Quality Management Process

Planting stage	• Fertilizers and pesticides must comply with the relevant regulations of the PRC • Maintain good ledger records according to the relevant requirements, so that the entire planting process can be traced
Testing stage	• Each type of products must be tested twice, one in the greenhouse the day before picking, which can be picked only if it meets the standard, and then tested again on the day of delivery, and can be distributed only if it meets the standard
Distribution stage	• The test report must accompany the vegetable, and be accepted and publicized in the store • 5% of the vegetables should be picked for a random check to make sure the vegetables are free from yellow leaves and mud, and are clean and fresh • For twice a year, the Bureau of Measurement will conduct testing of our pesticide residue testing equipment, so as to guarantee the accuracy and reliability of the inspection data
Sales stage	• Supervise the partners to harvest vegetables and distribute them at the prescribed time, and there should not be more than 24 hours between the time the vegetables are picked and the time when they are put on shelf • Carry out a series of brand promotion activities such as screening for the best products, putting on display, holding promotional activities, and selling via live broadcasts on the platform

[Case] Three stores under Lianhua Huashang were named "No-worry Fresh Grocery Demonstration Stores"

On 28 November 2022, the Market Supervision Bureau of Hangzhou City organized a meeting with food circulation enterprises to promote the implementation of the main responsibility for food safety among them, and report on the progress in opening no-worry fresh grocery demonstration stores in 2022 and grant certificates to those qualified stores. CiTYLiFE Shijiaqiao Store, Century Lianhua Fuyang Wanda Plaza Store and Century Lianhua Huashang Star City Store under Lianhua Huashang were named "No-worry Fresh Grocery Demonstration Stores".

Since 2017, Lianhua Huashang has been actively opening "No-worry Fresh Grocery Demonstration Stores" under the general guiding principle of "satisfying the people's aspirations and needs for a better life" of the Market Supervision Administration, and 42 of such stores have been successfully opened. To date, 42 stores have been successfully upgraded as "No-worry Fresh Grocery Demonstration Stores".

4.2 Supply Chain Management

Optimizing supplier management

High-quality value chain support is an important foundation for the long-term development of a business. As a retailer, Lianhua Supermarket's main suppliers are commodity suppliers. The Group attaches great importance to supply chain management, aiming to ensure the quality of the products it purchases through sound management and strict screening. Meanwhile, the Group accelerates the construction of a sustainable supply chain and joins hands with its supply chain partners with a higher degree of sustainability to provide consumers with eco-friendly products and reduce the impact of its value chain on the environment.

The Group's suppliers mainly consist of proprietary merchandise suppliers and non-proprietary merchandise suppliers, and the Group ensures that its suppliers' licenses meet the requirements of relevant laws and regulations by continuously strengthening basic certification and packaging label certification in the procurement process. The Safety and Quality Department of the Group is responsible for the management of its suppliers, who will examine the qualifications of each one of them carefully, and those with incomplete qualifications, false certificates or those blacklisted will be resolutely rejected.

Licenses Examination – Suppliers shall submit the following valid licenses based on the types and categories of their products (food, cosmetics, disinfection products and disposable sanitary products, home appliances, other general merchandise, imported goods), including but not limited to	1) **Basic licenses:** Business license, food business license or production license, trademark registration certificate, barcode certificate, single product inspection report, national industrial production permit, sanitary permit for cosmetics, organization code certificate, alcoholic products wholesale license, sanitary permit for disinfection products, and tax registration certificate
	2) **Packaging label certificates:** health food approval document, green food certificate, organic food certificate, halal food certificate, HACCP certificate, ISO9001 certificate, ISO22000 certificate, genetic modification registration certificate, origin certificate, special cosmetics registration certificate, etc.

For proprietary merchandise suppliers, the Group has established the *Quality Control Process for Private-label Products of Lianhua Supermarket*, *Review Procedures for Suppliers of Private-label Products* and *Review Procedures for Private-label Products*, aiming to implement more stringent management standards and improve the review process for suppliers of private-label products and ensure product quality.

The Group introduced hierarchical management for its proprietary merchandise suppliers to exercise supervision of different degrees on them in accordance with the third-party review score and risk degree of their production sites, with the manufactured products subject to random checks before they enter the warehouse and during the sales process, so as to ensure that each "Lianhua Manufactured Product" is safe and harmless.

Review Process of Suppliers of Private-label Products

Initial Review	Factory Review	Signing and Receipt of Goods	Sales Tracking
• Review of licenses	• Review and evaluation by third-party professional organizations, including production environment, production process, quality management system, etc. • Second review for newly selected brands	• The third party conducts spot check on quality, clears the first batch of defective products, and terminates the cooperation • Check the factory inspection report	• At least 2 spot checks shall be conducted for private-label foods that have been on the market every year • Unannounced inspection of manufacturers

In 2022, the Group engaged a third-party professional auditor to conduct on-site inspections of the proprietary product manufacturers, with 83 manufacturers inspected on site, including food manufacturers and non-food manufacturers, all of which have passed the inspections with satisfactory results.

Constructing a sustainable supply chain

With the introduction of China's "30 • 60" Dual-carbon Initiative, consumers' recognition of the importance of sustainable development has also been improved. In response to their demands and to promote the Group's sustainable development, the Group incorporated social and environmental considerations into its procurement and supplier management processes to accelerate the construction of a sustainable supply chain.

Approaches for Sustainable Supply Chain Development

Approaches	Actions and Achievements
Sourcing products with sustainability certification	The Group purchased fresh produce with sustainability certification, including organic vegetables, green vegetables, antibiotic-free eggs, antibiotic-free pork, etc., with the percentage of certified products accounting for about 5% of the total category.
Localized procurement	The Group has been deeply cultivating its local businesses in Shanghai, and has cooperatives, farms, slaughtering and processing plants in Chongming, Nanhui, Qingpu, Jinshan and Songjiang as its long-term cooperative base suppliers, covering vegetables, fruits, meat/poultry/eggs, rice, aquatic products, etc.
Initiating nation-wide joint procurement	The Group explored deeply into the renowned agricultural products produced in different regions and promoted the development of the industry chain of local agricultural products through nationwide joint procurement to enhance the stability of the Group's supply chain. The Group has 15 categories of fresh produce subject to nation-wide joint procurement, including vegetables, fruits, groceries, and grains, with production bases in 8 provinces and a total procurement volume of over 3,000 tons.
Principle of "low carbon and energy saving" priority	Priority is given to suppliers certified in technical innovation, energy conservation and environmental protection.
Concern about business ethics	The Group looked into the suppliers' criminal records of bribery behaviors on the China Judgments Online, and added binding clauses in the contracts signed with them, stipulating that suppliers with criminal records of bribery will be blacklisted with restricted access to, disqualified from bidding for, and stopped from undertaking the Group's projects, or even disqualified as its suppliers.

4.3 Optimizing Customer Service

Creating a convenient and comfortable shopping environment

Consumers' comfortable experience is the primary pursuit of Lianhua Supermarket's customer service. Following its vision of "increasing our customers' loyalty to us", the Group has formulated a series of standards such as "Customer Service Manual" and "Service Enhancement Plan", and has taken a number of measures to continuously improve the shopping experience of its customers.

Consumer Experience Optimization Initiatives

Initiatives for convenience	Five commitments to no-worry shopping	Arrangement of Product Selection Officer	Return without reason within Seven days
• Home appliances and grocery area: Provide size and capacity information, with porcelain area equipped with packaging materials, etc. • Fresh grocery area: handwashing liquid provided • Outside the cash register zone: free storage, customer rest area, ice, etc. • Service center: membership processing, free broadcast for finding people, "sewing kits", reading glasses and other personalized services	• Bailian shopping, authenticity guarantee • Bailian after-sales, worry-free warranty • Bailian to home, fresh and fast • Bailian membership, rights and benefits across Lianhua • Bailian classic, ingenuity inheritance	• Product selection officers installed to help customers in the store area A, fresh vegetables and fruits area, so as to meet the customer's shopping needs and service needs	• A sign of "Return without reason within Seven days" posted in the store to remind customers of their rights and increase the credibility of our stores

Promoting digital transformation

In 2022, the Group continued to promote the digital transformation of its traditional stores to give them new features of convenience, intelligence and novelty, so as to improve customer experience in our stores. With the application of the digital store management system and various digital devices, the staff efficiency and business capacity of our stores have been greatly enhanced, thus releasing more manpower for the reception and communication services, membership services and fresh food services, and further improving the customer experience in our stores. Meanwhile, the digital transformation of our stores has also boosted our online product sorting capability, which helps improve the online and offline experience of our customers in our stores in an all-round manner.

Since the beginning of its digital transformation in 2021, the Group has been relentlessly optimizing its digital system by conducting a number of training and research sessions with external experts and completing the "Feasibility Study Report on Lianhua Supermarket Holdings, Co., Ltd.'s Digital Platform Construction Project" and the "Construction Plan for Lianhua Supermarket Holdings, Co., Ltd.'s Digital Logistics". In 2022, the Group supported the practice of digitalization of the 10 newly-opened stores and another one transformed into a 3.0 store by making store opening arrangements, tracking the store opening process, assisting the new staff in their training, providing on-site support and answering their questions online etc., so as to ensure the smooth progress of digitalization of those stores.

Digital system optimization measures and effectiveness

Introduction of electronic price tags	Use of AI smart scales	Cashiers equipped with smart cameras	Robotic Process Automation (RPA)
• Improving customers' satisfaction with price tags, saving time and costs in price tagging, and improving work efficiency	• Customers queuing only once to checkout, thus reducing their time spent in queuing, while improving weighing accuracy • Saving consumables (including scale paper, printer, ink, etc.)	• Notification of arrival of blacklisted shoplifters to facilitate risk prediction • Real-time alarming for unscanned products during check-out • Video playback for order tracking, so as to provide evidence for loss recovery, and reduce theft-related losses	• Automating repetitive manual tasks with RPA robots to improve efficiency

Ensuring Safe Shopping Environment

Maintaining a safe shopping environment is the foundation of the Group's operations. The Group manages the safety of its stores under a three-level safety quality management system, and ensure safety accountability by signing the *Letter of Responsibility for Safe Production* and *Letter of Commitment to Safe Production* with its employees. In 2022, the Group carried out safety drills and training, safety audits and rectifications to enhance safety management, safety awareness and safety risk prevention, and ensure the safety of consumers during shopping.

Safety and security promotion initiatives for 2022

- Organizing our staff to watch safety warning and promotion videos of safety month theme by forwarding the same among WeChat groups or via applets
- Actively watching the relevant videos such as "Comply with laws and regulations and be a primary responsible person" via multimedia software such as the "Shanghai Emergency Call Channel (上海應急守護視頻號)" and the "Video Channel of eastday.com (東方網視頻號)"
- Participating in various forms of safety education activities such as the new Safety Law Knowledge Contest

In 2022, the Group organized a total of 182 production safety-related seminars, intensive lectures and training sessions, with a total of 8,782 participants; 138 production safety-related activities such as "open classes", "discussions" and "team sessions" with a total of 9,091 participants; 176 safety production-related warning and education videos and thematic exhibitions, with a total of 9,806 participants; and 183 emergency rescue drills and knowledge and skill training for all our staff, with a total of 9,840 participants. During the reporting period, there was no fatal accident of consumers occurring while they were shopping in our stores.

Customer complaints and handling

The Group attaches great importance to the handling of customer complaints and has formulated the *Methods for Handling Customer Complaints* to clarify the principles of customer complaint handling, designate departments of responsibilities, and ensure that customer complaints are properly handled.

Principles for Handling Customer Complaints

- Principle of Satisfaction
- Principle of Speed
- Principle of Gratitude
- Principle of Fairness
- Principle of Listening

Types and handling of consumer complaints

Type of complaint	How to handle it
Complaints for Stores	• Our stores will take care of it until the customer is satisfied. • If the store cannot properly handle the complaint, it will be reported to the company's superior management department. After the superior management department negotiates with the customer to reach a mutually agreeable solution, the customer's complaint is closed. • If the customer complaint involves the quality of the product or food safety, the safety and quality department will meet with the supplier and jointly offer a treatment plan in conjunction with the purchasing department.
Complaints for Headquarters	• The Safety and Quality Department will register the complaint in a timely manner and directly transfer it to the operation center/segment/member enterprises and relevant departments, who will finally feedback the processing results to the Safety and Quality Department.

In addition, our stores stepped up their communication with consumers by offering considerate on-site and telephone consultation services to them, aiming to solve their problems on the spot, so that they return home satisfied; we held customer seminars and established "The Goodies Group (好物群)" managed by dedicated personnel, aiming to better understand our customers' needs, improve our service quality and reduce the number of consumer complaints through online/offline channels. The "The Goodies Group" posts greetings, promotional stuff, and publicity information each day, so that our customers can obtain the promotional activities of our stores without leaving home. Should customers have any questions or inquiries about the products while shopping, such questions will be answered in a timely manner by store personnel in the "The Goodies Group".

During the reporting period, all of the Group's consumer complaints were handled properly as an effort to protect our customers' rights and interests and answer their needs.

Protect Consumer Privacy

The Group attaches great importance to the privacy and personal information protection of its consumers. With the continuous advancement of digital transformation, the Group continues to strengthen its personal information protection system and strives to protect consumers' personal information in a proper manner.

The Group strictly abides by the *Personal Information Protection Law of the People's Republic of China* and collects, uses and preserves consumer information in accordance with the requirements of the *iBailian Privacy Policy* (《i百聯隱私政策》) of Bailian Group, adopts encryption technologies such as transmission layer security protocols to ensure the security of user data, adopts strict data access control and multiple identity authentication technologies to protect consumer personal information from illegal use, and uses code security automatic inspection and data access log analysis technology to ensure personal information security. Additionally, in the process of carrying out the home delivery business, the Group adopts a unique "smile face sheet" in the delivery order to avoid the exposure of sensitive user data in the delivery process.

In 2022, the Group strengthened employees' awareness of personal information protection including security and privacy protection training, and strengthened data security training for logistics employees in the home delivery business to raise the awareness of logistics employees of protecting users' private data. During the reporting period, there were no confirmed complaints of infringement of customer privacy and leakage of customer information.

4.4 Responsible marketing

The Group strictly abides by the *Trademark Law of the People's Republic of China*, the *Advertising Law of the People's Republic of China* and other laws and regulations, formulates the *Corporate Brand Manual* and ensures responsible marketing by continuously strengthening the review and management of marketing information such as product labels and promotional information.

The Group exercises reasonable care in the presentation and proper use of marketing information, so as to circumvent improper wordings. The promotional information can be publicized only after it is reviewed by an adequate group of people, so as to eliminate to the greatest extent possible the possibility of improper marketing caused by subjective factors. In 2022, the Group updated, iterated and implemented the branding visual and standard marketing material usage regulations for supermarkets and hypermarkets, and gradually establishes branding visual and standard marketing material usage regulations to be promoted throughout the Group.

During the reporting period, the Group did not violate any laws and regulations when conducting marketing activities (including advertising, marketing and sponsorship).

5 SUPPORT STAFF GROWTH AND DEVELOPMENT

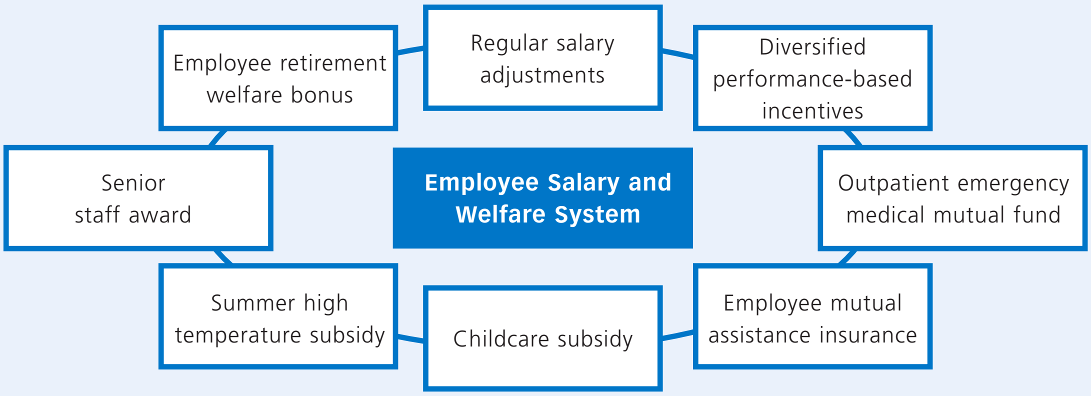
5.1 Rights and Benefits of Staff

Employee compliance employment

Employees play a crucial role in supporting the growth and progress for Lianhua Supermarket. The Group has established a comprehensive employment and welfare protection system for its employees, including recruitment and dismissal, working hours and holidays, remuneration and benefits. In respect of employment, the Group adheres to the principle of fair competition and selection of employees on the basis of merit. At the same time, the Group strictly prohibits child labor and forced labor, and stringently verifies the age of candidates for employment, and absolutely prohibits employment of those found to be under 18 years old. If the problem of forced labor is found, the employees can complain by mail, complaint telephone and other ways, and related personnel of the Group will carry out investigation to protect the rights and interests of the employees. The Group signs employment contracts with each employee according to the regulations, and pays five social insurances and the housing provident fund for its employees. During the Reporting Period, the Group signed employment contracts with all the employees and paid social insurance for all of them.

Respecting the employees' rights and interests is one of the basic principles of the Group's employee management. The Group strictly abides by *Labor Law of the People's Republic of China*, *Law of the People's Republic of China on Employment Contracts*, *Special Rules on the Labor Protection of Female Employees*, *Social Insurance Law of the People's Republic of China*, *Regulation on Work-Related Injury Insurance of the People's Republic of China*, *Individual income tax law of the People's Republic of China* and other relevant laws and regulations, to ensure the protection of employees' rights and interests.

System



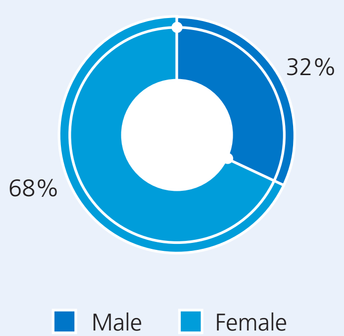
During the Reporting Period, the Group experienced a total of two labor disputes, involving the respective employees filing a lawsuit against Lianhua Supermarket for illegal termination of labor contract and illegal termination of labor contract during the probationary period. The relevant management personnel of the Group promptly followed up and handled the cases. After trial, the Group won the lawsuit or reached a settlement with the counterparty, and both parties confirmed unanimously that all issues arising from the labor relationship have been fully resolved and there were no further claims against each other.

Focus on employee diversity

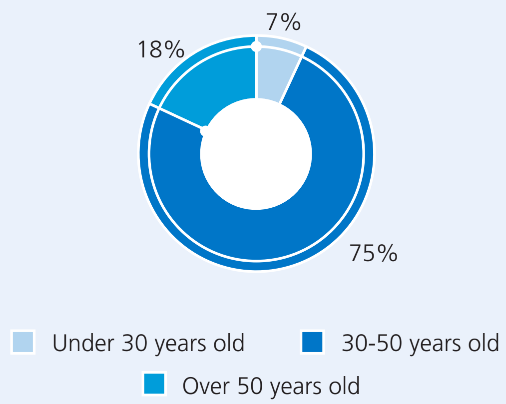
The Group values employee diversity and has established relevant rules, regulations, and procedures to create an inclusive, respectful, and diverse working environment. We respect the different lifestyles of our employees and support those in need through practical actions, aiming to enhance their sense of happiness.

The Group pays attention to gender diversity and supports the inclusion of the disabled and ethnic minorities in the Group. The Group has strictly complied with the *Labor Law of the People's Republic of China*, the *Law of the People's Republic of China on the Protection of Rights and Interests of Women* and other laws and regulations, while also clearly stipulated various rights entitled to female employees in the *Special Contract for Female Employee* (《女職工專項合同》), including organizing interaction activities between female employees irregularly, offering exclusive holidays and gifts for female employees, etc., in order to fully protect their rights.

Employees by gender



Employees by age



Staff Care

Each business branch and regional branch of the Group organizes various activities for employees to enrich their cultural life and promote work-life balance, such as setting up hobby clubs and cultural and entertainment parties. The diversified activities enhance communication and exchange among employees, release work pressure, and facilitate their physical and mental relaxation.

In 2022, the Group held the "Flower Goddess Festival" to express its care for female employees, inviting professional florists to provide skills training. Through this event, the Group conveyed the spirit and values of independence, self-improvement, and self-confidence to its female employees, supporting them in achieving self-development.

In terms of caring for employees in difficulty, the Group has formulated a series of welfare policies, such as providing medical expenses reimbursement to employees. In addition, the Group is concerned about the needs of employees and seeks to understand their difficulties. To promote targeted assistance to employees in difficulties, the Group has formulated *Administrative Measures for Helping Employees in Difficulties* and established the tiered assistance system of the trade union to identify employees with difficulties of varying degrees.

Identification and Categorization of Help Situations

Help	Employees' Difficulties
Medical help	• Employees suffering from the 24 major diseases stipulated by the Shanghai Federation of Trade Unions • Employees suffering from high hospitalization costs and no financial resources for spouse and minor children • Employees recovering at home or hospitalized for more than 5 days due to work – related injuries, accidents, chronic diseases, four surgeries for female employees and other diseases • Employees' immediate family members suffering from greater medical expenses due to hospitalization
Death help	• Employee passed away due to illness • Death of an immediate family member dependent on the employee
Disaster relief	• Accident or injury to employee's family
Paired assistance	• Leaders and employees in difficulty paired with assistance • Conducting visits and sending condolences around major festivals
Education support	• The per capita monthly income of the employee's family is lower than the minimum monthly wage standard for Shanghai workers, and his/her children are admitted to domestic universities
Other condolences	• Employees sent by the unit to donate blood • Daily support for employees in difficulty

5.2 Occupational Health and Safety

Occupational health and safety of employees is an important part of the safety production work. The Group strictly abides by the *Occupational Disease Prevention and Control Law of the People's Republic of China*, the *Safety Production Law of the People's Republic of China* and other relevant laws and regulations, and has formulated the management systems such as the *Measures for Management of Employees' Occupational Health*, the *Measures for Management of Labor Protection of Female Employees*, and the *Employees' Protective Equipment Management System* to provide guidelines for creating a safe and healthy workplace environment. With a view to reducing safety risks and raising employees' awareness of occupational health, the Group arranges regular medical check-ups for employees, conducts safety hazard inspections in the office environment and provides occupational safety education and training for employees.

In addition, to further promote safe production, the Group formulated the "Safety and Stability Work Indicator Explanation" with reference to the "Bailian Group Safety Production Target Management Assessment Reward and Punishment Measures (Trial)", which incorporates the requirements related to staff safety production into the performance responsibilities of the management, creating a safe and stable working environment for staff. During the reporting period, the Group did not experience any work-related fatalities, incidents of occupational disease, or fire accidents.

Logistics and warehouse safety are one of the key safety areas of concern in the operating process of the Group. The Group has established a sound risk management and control system and a comprehensive emergency response mechanism, as well as taken a series of measures to ensure logistics and warehouse safety.

Logistics and warehousing safety management measures

Logistics staff safety	Fire safety
The Group requires all logistics drivers to attend monthly safety education and training, and invites specialists from transport agencies to provide logistics drivers with one or two safety trainings every year	The Group provides guidelines for fire safety prevention and control through improvement of the safety standardization system documents and safety operation procedures
The Group explicitly prohibits dangerous driving behaviors such as driving after drunk and speeding, and will publicly criticizes employees and vehicles violations of the rules and regulations if occurred	The Group enhances warehousing safety management through the establishment of one file for each set of special equipment, and regularly organizes fire drills for its staff for warehouses

5.3 Human Capital Development

Talent recruitment and retention

The Group is committed to establishing a sound talent recruitment and retention system, constantly improving the mechanism of "career achievement for talent and environment retention for talent", and providing a platform for employees to display their talents. The Group primarily implements its talent development system through talent reserves, team building, and salary optimization.

In order to improve employee performance evaluation and provide timely motivation for employee development, the Group formulated and issued the *Employee Annual Performance Evaluation Management Measures of Lianhua Supermarket Holdings, Co., Ltd. (Trial Version 2022)*（《聯華股份員工年度績效考評管理辦法（2022年試行版）》） in 2022, and completed the performance evaluations of management personnel for 2021 with reference to the system, covering the Group's headquarters employees, subsidiaries' employees, front-line managers and staff from hypermarkets and supermarkets, with a total of 68 professional managers evaluated for their performance in 2021. Based on the 2021 evaluation results, the Group completed promotions, salary adjustments, and other tasks for headquarters employees.

Talent recruitment and retention approaches

Talent reserve	Team building	Salary optimization
• Pay attention to campus talent cultivation and reserve young talents: Management Trainee Program • Strengthen internal talent pipeline construction and accelerate talent growth: "Eagle Series" program	• "Strong Soldiers and Sturdy Horses (兵強馬壯)" Plan: strengthening the construction of a team of 100 Core Cadres • External recruitment and internal training system: internal promotion and external recruitment	• Optimize compensation system • Build flexible bonus mechanism • Deepen the partner mechanism

In terms of talent reserves, the Group conducted campus recruitment in 2022 to reserve talents for the Company's management pipeline. 19 management trainees with undergraduate and graduate degrees were recruited, of which 94.7% were from Double First-Class universities. After completing three stages of theoretical learning, store internships, and departmental rotations, 14 management trainees passed the probationary period assessment and entered different departments for job rotations and learning.

In terms of team building, the Group implemented an external recruitment and internal training system and carried out recruitment activities around the "100 Store Manager Project". A total of 41 reserve store managers were recruited externally, and 47 management trainees were recruited through school-enterprise cooperation. A total of 75 reserve management personnel for hypermarkets and supermarkets were trained and all passed the assessment. As of December 31, 2022, various employee development support trainings have covered a total of 6,609 participants, and the Group is expected to receive a subsidy of RMB3,965,400 from the Ministry of Human Resources and Social Security of the People's Republic of China.

In addition, during 2022, the Group recruited five market-oriented cadres, proposed to promote seven internal cadres, trained two internal probationary cadres, assigned three cadres to temporary positions, and removed two cadres from the cadre team. The average age of the cadre team decreased from 48.6 years old at the beginning of 2022 to 48.3 years old, effectively promoting the continuous optimization of the talent structure and professional quality of the Group.

Staff Selection and Promotion

The Group pursues mutual benefit and common development with employees. Lianhua Supermarket continuously optimizes the talent pool and encourages employees to develop their personal expertise, providing a platform for them to enhance their skills and capabilities. Meanwhile, the Group has established a comprehensive promotion process and a "core management – headquarters – frontline staff" motivation system to motivate employees to enhance their professionalism and support their promotion and development.

Staff Promotion Channels and Process

Promotion channels

- Recommendation by seniors
- Appointment and removal by party committee's discussion and inspection
- Competition for posts
- Promotion of staff with outstanding performance through an annual evaluation
- Spontaneous promotion proposal by seniors

Promotion Process

Announcement → Evaluation → Publication of results

Staff Training

The Group provides diversified learning and improvement opportunities for employees, enabling each employee to better realize his/her value at work. In order to enhance the professional skills and management capabilities of our employees, the Group organizes customized training programs and large lecture hall activities for middle and senior management, store partners, store employees, new employees, interns and other employees at all levels.

Training Programs for Different Types of Employees

Type of employee	Training Program
Interns	• Hatching Program
New employees	• Young Eagle Growth Program • New Staffs "Rainbow" Program – New employee orientation
Store employees	• Eagle Talent Program (reserve)
Store partners	• Warhawk Empowerment Program
Middle and senior management personnel	• Annual training plan for middle and senior management personnel • Eagle Success Program
Internal lecturers	• Guide Star Program

Type of Training and Training Program

Type of training	Training Program
Professional technologies	• New Retail Program • Safety Guard-Food Safety, Production Safety Training Program
Management capacities	• Brand Training Camp • Red (Patriotic) Education

6 BUILD AND SHARE A BETTER SOCIETY TOGETHER

6.1 Ensure livelihood goods

The Group is committed to ensuring the supply of livelihood goods and to overcoming difficult situations smoothly and orderly in times of emergency, in order to ensure community harmony and stability. During the pandemic prevention and control period in 2022, the Group actively participated in the fight against the pandemic, with logistics, offline stores, and marketing centers in various regions working at the forefront of ensuring livelihood support.

The Group's employees put the community before themselves, held their positions, and collaborated across multiple formats, departments, and channels to efficiently complete the annual task of ensuring the supply of goods during the pandemic. Together with the community, they solved the last mile delivery problem through modes such as "community group buying" and "location-based delivery", effectively alleviating the shortage of goods during the pandemic prevention and control period. In addition to completing the supply of goods to surrounding communities, the Group also actively responded to the supply guarantee task for mobile cabin hospitals, and provided online support to the most vulnerable groups through telephone hotlines, enterprise WeChat, and other means. Based on practical experience in various regions, the Group has developed an efficient emergency supply guarantee model for livelihood goods that is flexible in mobilizing all parties and ensures a continuous and stable supply.

During the pandemic prevention and control period in Shanghai, the Group immediately established an emergency supply guarantee team, connected with the district, street, and community committees at all levels, and established a grid-like supply guarantee network. The operations, procurement, and logistics departments collaborated closely, with support from the finance and information departments. Through the use of "community group buying", "unified arrangement of location-based delivery" and "hotline online" services, and in collaboration with professional logistics companies and street communities, the Group provided both online and offline services, ensuring that goods were delivered to residents' homes as soon as possible to meet the livelihood needs under different lockdown conditions.

Performance of Lianhua Supermarket's Supply Guarantee Work in 2022

Total number of community and village committee services	Over 5,400
Supply citizen gift package	4.50 million
Supply of guaranteed goods	Over 1.40 million
Cooperate with large and small mobile cabin hospitals	Over 30
Cooperate with related enterprises	Over 100
Complete orders for anti-pandemic supplies	Over 300,000
The total guaranteed supply amount of the Group (including Lianhua Huashang) within the year	Over RMB1.0 billion

[Case]Ensure guarantee supply and demonstrate the responsibility as a state-owned enterprise

During the pandemic prevention and control period in Shanghai, the Group actively responded to the "Warm Spring Action (暖春行動)"[1] initiated by the Bailian Group, and dispatched volunteers to handle hotline tasks and provide supply guarantee for the most vulnerable groups. The Group established multiple teams and reserve members based on different contact channels, such as setting up resident volunteers for the special characteristics of the enterprise WeChat channel and the exclusive channel for the hearing-impaired, and the teams were adjusted according to the weekly incoming call volume. During the 41-day action, a total of 6,357 calls were received, and 2,564 orders were fulfilled, dedicated to addressing the livelihood needs of the most vulnerable groups. From April to May 2022, the Group published 38 reports on the "Warm Spring Action", with a cumulative exposure of 8.97 million. While promoting through mainstream media channels, contact information was also embedded in the enterprise WeChat and hotline channels, reaching more potential seekers for help.

Supply guarantee work of the Group's subsidiaries in 2022

Lianhua Huashang	• As a key emergency supply guarantee unit in Zhejiang province, Lianhua Huashang promptly responded to supply demands from various regions, efficiently coordinated and completed tasks such as menu docking, sourcing, logistics, procurement, and distribution with guaranteed quality and quantity. • Lianhua Huashang organized a "comfort visit task force" to prepare and deliver care packages to the families of medical staff who came to Shanghai to support the epidemic prevention and control efforts. Despite the tight logistics and delivery schedule, the task force completed the mission and provided quality logistical support for the fight against the pandemic. • Lianhua Huashang has provided over 2 million emergency supplies to various regions of the province. Prior to the Spring Festival, Lianhua Huashang sent 80,000 "Spring Festival's gift packages" to residents in the pandemic prevention and control areas of Hangzhou, and provided a list of seasonal goods and supplies for the residents in line with the traditional customs and needs of the Spring Festival.

1 Bailian Group's Warm Spring Action: As the prevention and control of the pandemic in Shanghai entered a critical stage in 2022 , Lianhua Supermarket, a subsidiary of the Bailian Group, fully utilized its supply guarantee capabilities, further focused on the livelihood needs of the disabled, elderly living alone, and other special groups in difficulties, organized three affordable livelihood packages, and opened various contact windows such as the Warm Spring hotline, making the service more caring and accurate.

Lianhua Anhui Company	• Ensure the supply of goods. Daily procurement of livelihood necessities is carried out by a unified and professional team, and distributed to communities to respond to residents' daily needs. All work revolved around the theme of "supply guarantee, epidemic prevention, and expanding sales", meeting the consumption needs of surrounding residents through online platforms, ensuring quality and quantity supply, and delivering goods quickly. • Anhui Yinhu store participated in the livelihood project of Wuhu City, and became a designated unit for Wuhu City's "Hui Min Basket" program, providing high-quality and affordable services to the surrounding people. • In April 2022, the Wuhu Century Lianhua Zhongshan Store cooperated with the task of providing 300 units of essential supplies for the Wuhu mobile cabin hospitals, quickly mobilized employees and actively contacted the company's merchandise department to organize the supply chain, while coordinating with sister stores and central warehouses to ensure the timely delivery of goods. The task was completed 1.5 hours ahead of schedule, ensuring the basic supply of medical equipment for the hospital.
Lianhua Jiangsu Company	• During the period of October to December 2022, the Taizhou Store provided 25,645 sets of livelihood packages for the commerce bureau, civil affairs bureau, street communities and other units, amounting to a total of RMB928,500. The 55 employees stayed at the store worked together to sort, package, load and transport the essential supplies to ensure their timely delivery. • In the new wave of COVID-19 outbreak in Dantu New District in November, the Century Lianhua Dantu store responded promptly upon receiving notification. During the one-week anti-pandemic period, the Dantu store provided a total of 2,739 units of essential supplies, amounting to a total of RMB263,000.
Lianhua Guangxi Company	• In February 2022, Lianhua Guangxi Company responded promptly to the anti-pandemic material task in Baise, and urgently collected over 20,000 sets of various daily necessities from Shanghai, Zhejiang and other places.

[Case]"Community group buying" ensures the livelihood supply

On the afternoon of 8 April 2022, upon receiving an emergency supply task from Pudong, Shanghai, the Group quickly established a Pudong supply work special team and worked overnight to coordinate with the local street offices. We launched five key supply packages for the Sanlin Town. On 10 April, the first batch of approximately 3,000 sets of emergency supplies were delivered to residential areas in Sanlin Town, Pudong.

To achieve systematization of "order collection and payment", our Group has adopted community group buying tools to generate orders and improve the efficiency of order collection and fulfillment, through which, we established communication groups with 150 community group leaders and neighborhood committee officials in Sanlin Town in the shortest possible time and announced the upcoming supply packages via posters in the groups. In this supply guarantee action, the Group adopted the model of "using community group buying to collect orders and arranging centralized delivery points", with the Group coordinating with a professional logistics company for trunk transportation and being responsible for the "last kilometer", while the community personnel in Sanlin Town were responsible for the "last hundred meters". This enabled collaborative efforts from all parties to bridge the last mile, and ensured that essential supplies were delivered to residents' homes in the shortest possible time.

[Case]Supply guarantee in Beilun, Ningbo: 280 hours of steadfast dedication in the front line of supply guarantee

On 16 October 2022, upon receiving notice from the Beilun District Bureau of Commerce in Ningbo City (寧波市北侖區商務局), all shopping malls, supermarkets, and farmers' markets in Beilun District were immediately closed for business, and the Century Lianhua Beilun Inplace store also closed in response to the call for pandemic prevention.

As a key emergency supply guarantee unit in Zhejiang Province, the Group's Ningbo regional stores overcame difficulties and actively undertook local supply guarantee demands, with all company executives and employees responding positively to support the supply guarantee efforts. The Group's employees remained at the stores and were on standby for emergency supply guarantee. The fresh goods procurement center and logistics department were fully engaged, with the logistics center operating day and night. Various functional departments of the Company took turns to participate, ensuring that high-quality daily necessities were delivered from the base to Beilun in Ningbo. By the early morning of 28 October, all areas in Beilun District of Ningbo City were lifted from silent management. The supply guarantee team at our stores stood firm for 280 hours, ensuring the supply needs of the residents in Beilun District during the silent management period.

6.2 Supporting Community Development

The Group is concerned about the development of the communities in which it operates, carrying out various community welfare and donation activities, encouraging employees to participate in community voluntary services, and building a corporate culture and atmosphere of public welfare. The amount invested in community welfare during the Reporting Period was RMB215,800. The Group actively focused on community care, helping the elderly and the needy, and worked together with residents and consumers to build a harmonious community life. In 2022, a total of 1,770 employees volunteered for 26,478 hours of service.

Major Public Welfare Activities in 2022

Community donation	• The Group has continued to carry out five "Summer Breeze" activities since 2018. Lianhua Logistics cooperated with the fire brigade in Jiangxi Town to prepare drinks, mineral water and instant noodles worth RMB6,000 for the fire brigade; Lianhua Supermarket Development donated 1,350 cases of pure water and salted soda water to outdoor workers; Lianhua Anhui Company sent mineral water to the Jinghu Traffic Police Brigade who were working on the frontline to express their sympathy. • Some outlets of Lianhua Supermarket Development set up outdoor love relay stations to provide basic protection services such as rest, drinking water and meal heating to outdoor workers. • During the pandemic, Lianhua Logistics donated more than 1,000 disposable medical surgical masks, 10 boxes of drinking water and 10 boxes of instant noodles to the local Home Affairs Committee.
Helping the elderly and the needy	• Lianhua Anhui Company joined hands with the Baofeng Village Party Branch to carry out activities to comfort party members in need, bringing warmth as well as various daily necessities to them. At the same time, it also paid tribute to the old comrades of the branch who have been working in the branch for 50 years. • On the day of the Double Ninth Festival, Lianhua Anhui Company's outlet launched the "Double Ninth Festival for the Elderly – Free Breakfast for the Elderly" activity, where senior citizens aged 60 or above could receive noodles and eggs in person.
Blood donation	• Lianhua Huashang launched a blood donation campaign and organised volunteers from the Company to go to the blood donation station in each district of Hangzhou to provide voluntary services and gifts to the caring people from all walks of life, calling on the whole society to give more understanding and support to the cause of blood donation.

6.3 Supporting Rural Revitalization

Lianhua Supermarket actively participated in the revitalization of villages. As an operator of commodities for people's livelihood, the Group, in addition to providing good commodity management services and ensuring supply, is also mindful of the people in rural areas and the development of agriculture, and contributes to the revitalization of villages by helping farmers through industry support and the exhibitions and sales of agricultural produces.

In 2022, the Group fully took advantage of the scale of its outlets and used the matching of production and sales as an entry point. The Group targeted its assistance to villages in Xinjiang and Zhejiang, making a good use of the local characteristic and advantageous resources and the efficient and comprehensive sales and transportation network of Lianhua Supermarket to promote the standardised development of local agricultural industries and enhance the popularity of their products, accumulating the "Lianhua Experiences" for exploring a sustainable path of agricultural development and supporting rural revitalization.

Major Rural Revitalization Initiatives in 2022

Industry support	• 2022 is the sixth year of the Group's support to Linqi Village in Zhejiang. The Group continued to promote the standardisation of local agricultural products and the construction of direct-picking bases for agricultural products in accordance with local conditions to help sell special agricultural products and increase farmers' income.
Solving the problem of slow sales	• Due to the pandemic, thousands of tonnes of vegetables in the fields of Chenji Town, Yongcheng City, Shangqiu City, Henan Province could not be transported out, resulting in slow sales. With the help of the Group's coordination with the governments at various levels in Henan, the Group purchased 8,000 tonnes of vegetables in batches to help farmers overcome the problem.
Exhibition and sales of agricultural products	• The New Year's Eve event named "Cooperation between Hangzhou and Aksu – Good Gifts from Aksu (杭阿情深—阿克蘇好禮)" was held from 24 January to 6 February. Based on its 60 outlets in Hangzhou, Lianhua Huashang joined hands with more than 10 local e-commerce enterprises in Aksu, such as Xinjiang Guozhangmen Agriculture (新疆果掌門農業) and Aksu Zaohua Beekeeping (阿克蘇棗花蜂業), to display and promote Aksu's products online and offline. • Through a combination of the offline marketing campaign in which any buyer of our products can get free products at its Hangzhou outlets and online live streaming, Lianhua Huashang attracted consumers and further increased the awareness and market share of Aksu's quality agricultural products and by-products and deep-processed agricultural products and by-products in the Zhejiang market.

7 PERFORMANCE

Environment

Performance indicator	Unit	2020	2021	2022
Emissions				
Total GHG emissions[1]	ton CO_2e	273,615.04	279,451.18	**246,930.16**
Scope 1 GHG emissions[2]	ton CO_2e	3,220.81	2,882.39	**2,432.67**
Scope 2 GHG emissions[3]	ton CO_2e	270,394.23	276,568.79	**244,497.49**
GHG emissions per unit business area	kg CO_2e/m^2	152.63	156.33	**142.76**
Total quantity of hazardous wastes[4]	ton	9.24	7.19	**3.36**
Hazardous wastes output per unit business area[4]	kg/m^2	0.01	0.01	**0.002**
Total quantity of non-hazardous wastes[4]	ton	5,581.96	4,945.05	**3,795.50**
Non-hazardous wastes output per unit business area[4]	kg/m^2	8.33	7.50	**2.19**
Use of Resources				
Total consumption of power[5]	MWh	443,196.57	473,657.80	**428,717.32**
Power consumption per unit business area[5]	kWh/m^2	247.22	264.97	**247.86**
Total gas consumption[6]	m^3	136,194.08	136,409.35	**84,862.7**
Gas consumption per unit business area	m^3/m^2	0.15	0.15	**0.05**
Total water consumption	10,000 m^3	322.53	287.73	**279.37**
Water consumption per unit business area	ton/m^2	1.80	1.61	**1.62**
Total quantity of purchased packages[7]	ton	2229.26	1,819.26	**1,750.64**

Notes:

1. Total GHG emissions include Scope 1 and Scope 2 GHG emissions.

2. Scope 1 GHG gas emissions came from the Company's natural gas, as well as the gasoline and diesel used by its self-owned official vehicles and freight vehicles. The emission factors related to natural gas, gasoline and diesel for 2020 and 2021 take reference to the coefficients in the "How to prepare an ESG Report – Appendix 2: Reporting Guidance on Environmental KPIs" issued by the SEHK on 28 May 2021. The emission factors related to natural gas, gasoline and diesel for 2022 take reference to the coefficients in the "Guidelines for Measurement Methodology and Reporting of Corporate Greenhouse Gas Emissions of Power Generation Equipment (2022 revision)".

3. Scope 2 GHG emissions came from the Company's purchased electricity. This indicator is calculated based on the electricity consumption data and the grid emission coefficients which are based on the latest national grid emission coefficients published in the year of disclosure. The 2020 emission coefficients are based on the latest national grid emission coefficient of 0.6101 kg CO_2/kWh published by the Ecological Environment Bureau of the People's Republic of China (2019), the 2021 emission coefficients are based on the coefficient of 0.5839t CO_2/MWh in the"Guidelines for Measurement Methodology and Reporting of Corporate Greenhouse Gas Emissions of Power Generation Equipment (2021 revision)", and the 2022 emission coefficients adopts the coefficient of 0.5703t CO_2/MWh published in the "Notice on the Management of Greenhouse Gas Emissions Reporting by Enterprises in the Power Generation Industry for 2023 to 2025" by the Ministry of Ecology and Environment. Compared with 2021, the Group adopted the latest national grid emission coefficients in 2022, and the total electricity consumption will decrease at the same time, thus leading to a decrease in the GHG emissions in Scope 2.

4. Data in relation to hazardous and non-hazardous wastes in 2020, 2021 and 2022 exclude Lianhua Supermarket Development, Lianhua Quik, Lianhua Huashang and Lianhua Henan Company. In 2022, due to the impact of the epidemic prevention and control, most outlets in the Shanghai region were closed for approximately three months, so there was a decrease in the total amount of hazardous waste and total amount of non-hazardous waste generated from outlet operations, as well as the corresponding amount of hazardous waste generated per unit of business area and the amount of non-hazardous waste generated per unit of business area.

5. The data on total electricity consumption and electricity consumption per business area for 2021 have been updated through a data traceability exercise. At the same time, the 2021 GHG emissions in Scope 2, total GHG emissions and GHG emissions per unit of business area have been updated simultaneously. Compared to 2021, there was a decrease in the total electricity consumption in 2022 due to the impact of the epidemic prevention and control and the closure of most outlets in the Shanghai region for approximately three months.

6. In 2022, some of the Group's basement outlets strengthened their fire management and ceased to use natural gas, while some of the outlets' caterers ceased to operate due to the impact of the pandemic, resulting in a greater decrease in total natural gas consumption.

7. Packages include trays, cling film and roll bags. The total purchases of packages in 2020, 2021 and 2022 exclude Lianhua Quik.

Employment and Labor Practice

Performance indicator	Unit	2020	2021	2022
Employment				
Total staff	Person	31,368	27,780	**28,701**
Males	Person	9,818	8,841	**9,044**
Females	Person	21,550	189,39	**19,657**
Labour contract staff	Person	24,911	22,439	**19,347**
Labour dispatch staff	Person	3,326	2,788	**3,412**
Staff in other ways of employment[1]	Person	3,131	2,553	**5,942**
Under 30 years old	Person	2,289	1,840	**1,985**
30-50 years old	Person	23,781	20,436	**21,405**
Over 50 years old	Person	5,298	5,504	**5,311**
Number of staff from mainland	Person	31,368	27,780	**28,701**
Number of staff from Hong Kong, Macao and Taiwan & overseas	Person	0	0	**0**
Employee turnover rate[2]	%	26.98	25.43	**26.71**
Male employees' turnover rate	%	33.29	23.01	**24.94**
Female employees' turnover rate	%	24.11	26.56	**27.53**
Under 30 years old employees' turnover rate[3]	%	64.53	63.48	**71.44**
30-50 years old employees' turnover rate	%	21.69	19.52	**20.49**
Over 50 years old employees' turnover rate	%	34.50	34.67	**35.10**
Turnover rate of staff from mainland China	%	26.97	25.43	**26.71**
Turnover rate of staff from Hong Kong, Macao and Taiwan & overseas	%	0	0	**0**
Health and safety				
Number of work-related fatalities	Person	0	0	**0**
Lost days due to work injury[4]	Day	9,858	9,870	**11,104**
Number of participants attending safety trainings	Person time	165,660	136,131	**153,470**
Development and training				
Percentage of employees trained[5]	%	93.50	96.31	**94.71**
Percentage of male employees trained	%	30.89	32.16	**32.01**
Percentage of female employees trained	%	69.11	67.84	**67.99**
Percentage of junior management trained	%	97.63	98.00	**97.66**
Percentage of middle management trained	%	2.24	1.87	**2.20**
Percentage of senior management trained	%	0.12	0.14	**0.14**
Average training hours completed per employee	Hour	17.36	18.93	**22.83**
Average training hours completed by male employees	Hour	19.22	21.98	**25.26**
Average training hours completed by female employees	Hour	16.50	17.51	**21.71**
Average training hours completed by junior management	Hour	17.03	18.44	**21.94**
Average training hours completed by middle management[6]	Hour	32.19	39.94	**55.02**
Average training hours completed by senior management[7]	Hour	15.78	26.27	**141.49**

Notes:

1. Staff in other forms of employment includes hourly workers, people re-employed after retirement, outsourcing staff, borrowed staff, people who agree to retain the social insurance relations, and apprentices.

2. The staff turnover rate = number of employees in that category left during the year/total number of employees in that category at the end of the period x 100%.

3. Due to the special nature of the retail industry, employees are required to work on scheduled shifts (six-day work or pay on working hours), which is not well accepted by employees under 30 years old, and the traditional industry is not attractive to employees under 30 years old, therefore, the turnover rate of employees under 30 years old is high.

4. The number of working days lost due to work injury is delayed due to the delayed nature of work injury recognition, therefore, some of the lost days occurred in 2021 are delayed and disclosed in 2022, and the actual number of lost days occurred in 2022 is lower than that in 2021. In the future, the Company will only conduct trainings on relevant topics around work safety, continue to explore employment factors that are likely to trigger risks, strengthen prevention, reduce employment risks and reduce the occurrence of work-related accidents.

5. The employee training coverage rate = number of employees trained (end of period)/total number of employees (end of period) x 100%.

6. In 2022, the Group conducted more trainings related to epidemic subsidies, therefore, the training hours per employee of middle management increased as compared to 2021.

7. In 2022, the senior management of Lianhua Huashang of the Group regularly conducted online platform learning and business travel trainings for party members, among which the frequency of learning for party members was higher and the cumulative time was longer, therefore, the training hours per employee of senior management increased significantly as compared to 2021.

Product Responsibility

Performance indicator	Unit	2020	2021	2022
Sales of products sold subject to recalls for safety and health reasons as a percentage of total sales	%	0.003	0.004	**0.002**
Complaint received in relation to products and services[1]	Case	3,645	2,118	**1,912**
Complaint treatment rate with respect to products and services	%	100	100	**100**
Confirmed complaint of infringement of customer privacy and loss of customer information	Case	0	0	**0**

Note:

1. The number of complaints on products and services received in 2021 has been updated after data retrospect.

Supply Chain Management

Performance indicator	Unit	2020	2021	2022
Number of suppliers	/	2,279	1,924	**2,060**
Number of suppliers from mainland	/	2,277	1,922	**2,058**
Number of suppliers from Hong Kong, Macao and Taiwan & overseas	/	2	2	**2**

Anti-Corruption

Performance indicator	Unit	2020	2021	2022
Percentage of employees covered by anti-corruption training	%	12.52	23.29	**32.42**
Average hours of anti-corruption training per employee	Hour	1.54	1.46	**1.17**
Percentage of members of the Board covered by anti-corruption training	%	27.27	72.73	**100**
Average hours of anti-corruption training per director	Hour	3.00	2.50	**2.5**
Number of concluded lawsuits regarding corruption brought against the issuer or its employees during the Reporting Period	Case	0	0	**0**

Community Investment

Performance indicator	Unit	2020	2021	2022
Number of volunteers[1]	Person time	327	3,907	**1,770**
Number of volunteer services hours[2]	Hour	293.00	5,959.50	**26,477.61**
Public welfare and community investment	RMB'0000	46.98	15.38	**21.58**

Note:

1. After data retrospect, the original "Number of volunteers" should be amended as "Number of employee volunteers".

2. The frequency of regular volunteering activities of the Group and its subsidiaries decreased due to the pandemic prevention and control and the implementation of supply assurance work, and therefore, the number of staff volunteering decreased, but the number of staff volunteering hours increased in 2022.

8 INDEX OF ESG REPORTING GUIDE BY SEHK

Part B: Mandatory Disclosure Requirements

Mandatory Disclosure Requirements		**Chapter Disclosed**
Governance Structure	A statement from the board containing the following elements: (i) a disclosure of the board's oversight of ESG issues; (ii) the board's ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses); and (iii) how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses.	ESG Management Structure
Reporting Principles	A description of, or an explanation on, the application of the following Reporting Principles in the preparation of the ESG Report: **Materiality:** The ESG report should disclose: (i) the process to identify and the criteria for the selection of material ESG factors; (ii) if a stakeholder engagement is conducted, a description of significant stakeholders identified, and the process and results of the issuer's stakeholder engagement. **Quantitative:** Information on the standards, methodologies, assumptions and/or calculation tools used, and source of conversion factors used, for the reporting of emissions/energy consumption (where applicable) should be disclosed. **Consistency:** The issuer should disclose in the ESG report any changes to the methods or KPIs used, or any other relevant factors affecting a meaningful comparison.	Preparation of Report
Reporting Boundary	A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report. If there is a change in the scope, the issuer should explain the difference and reason for the change.	Preparation of Report

Part C: "Comply or explain" Provisions Subject Areas, Aspects, General Disclosures and KPIs		Chapter Disclosed
	A. Environmental **Aspect A1. Emissions**	
General Disclosure A1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Management System Waste Management Energy and Water Resource Management
KPI A1.1	The types of emissions and respective emissions data.	Environmental Management System Waste Management Performance
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Performance
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Performance
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Performance
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	ESG Management Concept Green and Sustainable Homeland
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	ESG Management Concept Waste Management

Part C: "Comply or explain" Provisions Subject Areas, Aspects, General Disclosures and KPIs		Chapter Disclosed
	Aspect A2. Use of Resources	
General Disclosure A2	Policies on the efficient use of resources, including energy, water and other raw materials.	Energy and Water Management
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Performance
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Performance
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	ESG Management Concept Energy and Water Resource Management
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	ESG Management Concept Energy and Water Resource Management
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Performance
	Aspect A3. The Environment and Natural Resources	
General Disclosure A3	Policies on minimizing the issuer's significant impacts on the environment and natural resources.	Environmental Management System Energy and Water Resource Management
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental Management System Response to Climate Change Energy and Water Resource Management
	Aspect A4. Climate Change	
General Disclosure A4	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Response to Climate Change
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Response to Climate Change

Part C: "Comply or explain" Provisions Subject Areas, Aspects, General Disclosures and KPIs		Chapter Disclosed
	B. Social Employment and Labour Practices **Aspect B1. Employment**	
General Disclosure B1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.	Rights and Benefits of Staff
KPI B1.1	Total workforce by gender, employment type (for example, full– or part-time), age group and geographical region.	Performance
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Performance
	Aspect B2. Health and Safety	
General Disclosure B2	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Occupational Health and Safety
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Performance
KPI B2.2	Lost days due to work injury.	Performance
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Occupational Health and Safety
	Aspect B3. Development and Training	
General Disclosure B3	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development of Human Resources
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Performance
KPI B3.2	The average training hours completed per employee by gender and employee category.	Performance
	Aspect B4. Labour Standards	
General Disclosure B4	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Rights and Benefits of Staff
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Rights and Benefits of Staff
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Rights and Benefits of Staff

Part C: "Comply or explain" Provisions Subject Areas, Aspects, General Disclosures and KPIs		Chapter Disclosed
	B. Social Operating Practices	
	Aspect B5. Supply Chain Management	
General Disclosure B5	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	Performance
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Supply Chain Management
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management
	Aspect B6. Product Responsibility	
General Disclosure B6	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Quality Management Responsible Marketing
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Performance
KPI B6.2	Number of products and service-related complaints received and how they are dealt with.	Performance
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	The indicator is not applicable as the Company is a retail enterprise and the products it sells mainly include fresh produce, private label and other branded products and no management of intellectual property rights involved.
KPI B6.4	Description of quality assurance process and recall procedures.	Product Quality Management
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Optimizing Customer Service

Part C: "Comply or explain" Provisions Subject Areas, Aspects, General Disclosures and KPIs		Chapter Disclosed
	Aspect B7. Anti-corruption	
General Disclosure B7	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-Corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Performance
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Anti-Corruption
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Anti-Corruption Performance
	Aspect B8. Community Investment	
General Disclosure B8	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Ensure livelihood goods Supporting Community Development
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Ensure livelihood goods Supporting Community Development Supporting Rural revitalization
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Performance

联华超市股份有限公司

LIANHUA SUPERMARKET HOLDINGS CO.,LTD.