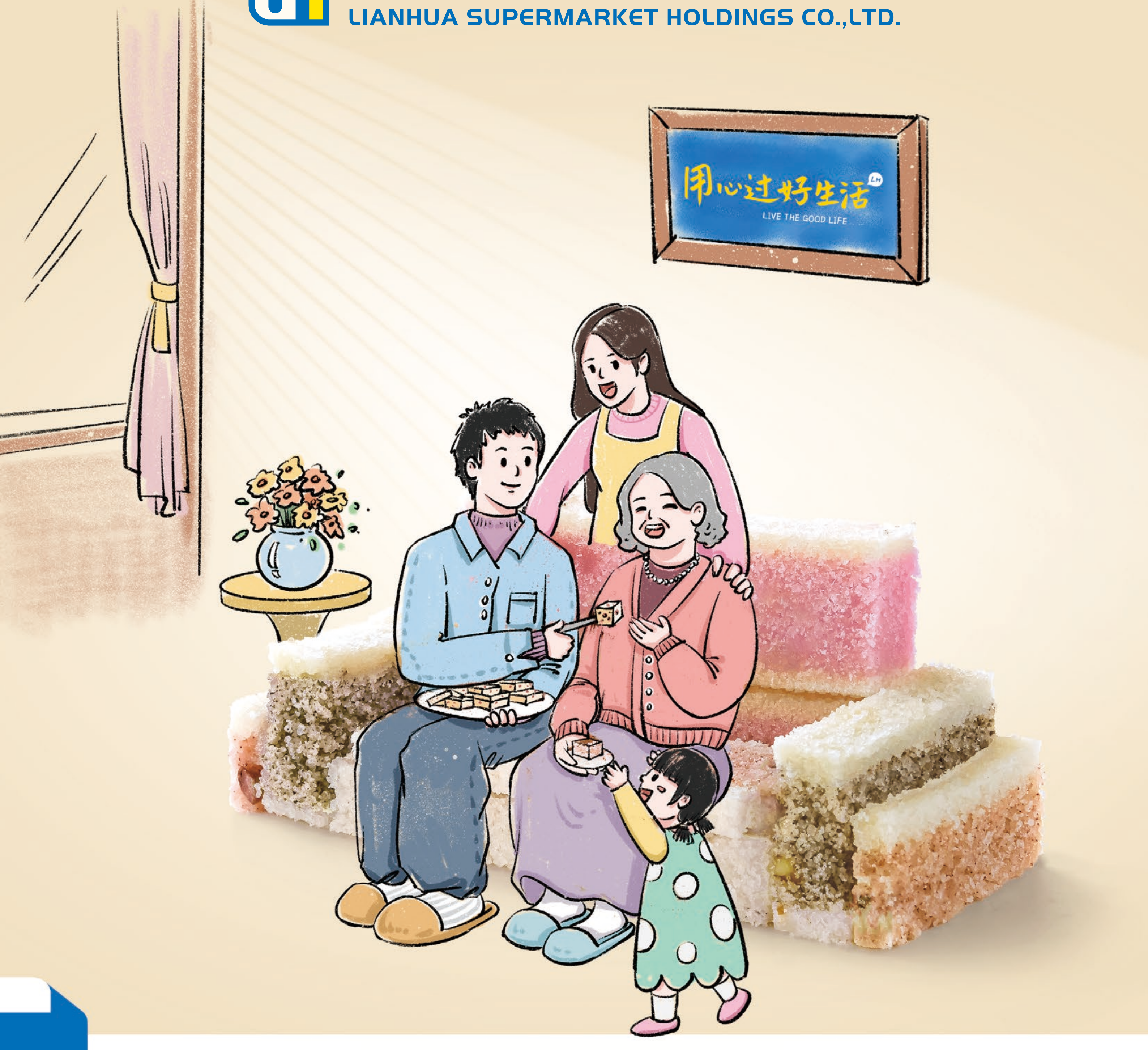
联华超市股份有限公司
LIANHUA SUPERMARKET HOLDINGS CO.,LTD.



2023 ANNUAL REPORT

Stock Code 0980

Lianhua Supermarket Holdings Co., Ltd. ("Lianhua Supermarket" or the "Company") commenced its business in Shanghai in 1991. In the past 32 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 2023, Lianhua Supermarket and its subsidiaries (the "Group") operated a total of 3,356 outlets (excluding those operated by the Company's associated companies) in 27 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.

	●	▲	■
Inner Mongolia	0	2	0
Tibet	0	1	0
Guizhou	0	1	0
Hebei	0	1	1
Shanghai	29	1,197	551
Beijing	1	6	18
Tianjin	0	1	0
Heilongjiang	1	0	0
Anhui	8	56	0
Yunnan	0	7	0
Jiangsu	7	165	3
Qinghai	0	10	0
Chongqing	0	1	0
Zhejiang	66	434	171
Shandong	0	134	0

Lianhua Supermarket operated a total of

3,356 outlets

Province	Hypermarket	Supermarket	Convenience Store
Henan	8	8	0
Liaoning	0	0	135
Guangdong	0	4	0
Guangxi	3	251	0
Hunan	0	28	0
Shanxi	0	1	0
Hainan	0	5	0
Hubei	0	3	0
Fujian	0	1	0
Sichuan	0	7	0
Jiangxi	0	3	0
Gansu	0	27	0

Hypermarket
Convenience Store
Supermarket

Contents

Corporate Information

Directors

Executive Directors

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

Non-executive Directors

Mr. Pu Shao-hua *(Chairman)*
Mr. Shi Xiao-long (Resigned on 7 February 2024)
Mr. Xu Pan-hua (Retired on 15 June 2023)
Ms. Hu Xiao
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 (Resigned on 7 February 2024)
Ms. Zhang Hui-qin
Mr. Chen Wei
Mr. Zhao Xin-sheng

Strategic Committee

Mr. Pu Shao-hua *(Chairman)*
Mr. Shi Xiao-long (Resigned on 7 February 2024)
Ms. Zhang Hui-qin
Mr. Xu Pan-hua (Retired on 15 June 2023)
Ms. Hu Xiao
Mr. Chong Xiao-bing
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

Supervisors

Mr. Li Feng *(Chairman)*
Ms. Tang Hao
Ms. Tian Ying-jie (Retired on 15 June 2023)
Mr. Luo Yang-hong

Joint Company Secretaries

Ms. Xu Xiao-yi
Ms. Leung Shui Bing (Resigned on 2 July 2023)

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
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Shanghai, PRC

Place of Business in the PRC

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Shanghai, PRC

Principal Place of Business in Hong Kong

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Company Website

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Shareholder's Enquiries

Contact Information of the Company

Office of the Board
Tel: 86 (21) 5278 9576
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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

SEHK Stock Code

980

Number of H shares Issued

372,600,000 H shares

Year-end Date

31 December

Results Announcements

Interim Results for 2023 were published on 29 August 2023
Annual Results for 2023 were published on 27 March 2024

Dividends

Interim Dividends: Nil
Proposed Final Dividends: Nil

Major Achievements

January

1. Lianhua Supermarket actively developed the rural market to facilitate rural revitalization. With the support of the relevant departments in Chongming District, Shanghai, chain supermarkets were opened in villages. Shanghai Lianhua Supermarket Development Co., Ltd. ("Lianhua Supermarket Development") newly opened Luyu Village store and Xinzhong Village store in Chongming in January, effectively meeting the needs of basic and quality consumption of more villagers in their daily life, creating a "15-minute convenient living circle" (15分鐘便民生活圈) for integrated development of urban and rural areas, and accelerating Lianhua brand's commercial outlet deployment in villages.

2. Yi Lian-hong (易煉紅) (the secretary of CPC Zhejiang Provincial Committee) visited the Hangzhou Qingchun store of Century Lianhua under Hangzhou Lianhua Huashang Group Co., Ltd. ("Lianhua Huashang") to learn about the situation of securing market supplies during the festival period.

3. Lianhua Supermarket's party committee collaborated with Zhina Village of Zhonghe Township, Yongren County, Chuxiong Prefecture, Yunnan Province to provide Zhina Village with a special welfare fund of RMB100,000 every year for the construction of a "Love Supermarket" (愛心超市) in the village and the development of small-scale public welfare projects at the village level.

February

1. Lianhua Huashang was awarded two honorary titles, namely, "Outstanding Contribution Enterprise" (突出貢獻企業) and "Leading Enterprise in the Industry Sector" (產業賽道領跑企業), at the 2023 High-Quality Development Conference held by the Government of Gongshu District, Hangzhou City.

2. Guangxi Lianhua Supermarket Joint Stock Co., Ltd ("Lianhua Guangxi Company") undertook the responsibility of daily necessities storage at Liuzhou city level in 2023, established 4 daily necessities warehouses for Liuzhou city, and specially carried out the work of daily necessities storage at Liuzhou city level.

3. The Taizhou store of Lianhua Supermarket (Jiangsu) Co., Ltd. was awarded the honorary title of "Outstanding Contribution Enterprise" (突出貢獻企業) by Chengnan Street Office, People's Government of Hailing District, Taizhou City.

March

1. Lianhua Huashang was awarded the qualification of "basket" (菜籃子) key commodity supply security operator (enterprise) of Hangzhou City in 2023.

2. Lianhua Guangxi Company was honoured with the prestigious title of "Five-starred Party Organization" by the Organization Department of CPC Yufeng District Committee, Liuzhou City.

April

1. The Caojiadu store of Lianhua Supermarket Development was selected as "Pioneer Workers" (工人先鋒號) by the Shanghai Federation of Trade Unions.

2. Lianhua Huashang was awarded the title of "Standardized Fruit and Vegetable Turnaround Basket Application Demonstration Unit" (標準化果蔬周轉筐應用示範單位) in the "Agricultural Products Circulation Sustainable Development Project" (農產品流通可持續發展項目) jointly implemented by the China Chain-Store & Franchise Association (CCFA) with the Institute of Agricultural Economics and Development (IAED) of the Chinese Academy of Agricultural Sciences and the Swedish Environmental Research Institute (IVL).

3. Cheng Wei (程巍) (the deputy secretary of the party committee of Shanghai SASAC) visited Lianhua Huashang to conduct investigation, research and guidance.

May

1. Lianhua Supermarket's thematic IP campaign - "Lighting Up Dream Dinner (Season 4)" (點亮夢想晚餐第四季) was officially launched.

2. Our colleague Wu Bin (伍斌) of the Warehouse Operation Department (Cold Chain) of Lianhua Logistics Co., Ltd. ("Lianhua Logistics") was awarded the "Shanghai May 1 Labor Medal" (上海市五一勞動獎章) by the Shanghai Federation of Trade Unions.

3. The Yuniao store of boutique supermarket Green & Health, the first "big community + small warehouse" (大社群+小倉儲) model store under Hangzhou Lianhua Huashang, was officially opened.

June

1. The three new products developed by the proprietary brand team of Lianhua Supermarket namely, "Lianou Original Seaweed" (聯藕原味海苔), "UPSH Button Lithium Battery" (UPSH 紐扣鋰電池) and "UPSH Long Strip Sleeve Hot Water Bag" (UPSH長條護套熱水袋), won the "Excellent Product Award" (卓越產品獎) in the 7th Global Proprietary Brand Product Asia Expo – Proprietary Brand Golden Star Award Selection Campaign for the expansion of overseas supply chain, environmentally friendly materials and innovative design. The proprietary brand team of Lianhua Supermarket also won the "Excellent Team Award" (卓越團隊獎) in the Golden Star Award.

2. Renaud de Barbuat, President and CEO of GS1, and Bart Adam, Chief Financial and Administration Officer of GS1, visited Hangzhou Qingchun store of Century Lianhua under Lianhua Huashang to carry out investigation and research.

July

1. Lianhua Huashang reached strategic cooperation with Zhoushan Trade Group with respect to the management of Zhejiang Zhoushan Basket Service Co., Ltd.* (浙江省舟山市菜籃子服務有限公司).

2. Lianhua Huashang held the meeting on the establishment of temporary party branch for the exclusive warehouse of the Asian Games and the pledge meeting for the Asian Games.

August

1. Lianhua Huashang was awarded the honorary title of "2023 Hangzhou Headquarters Enterprise"（2023年度杭州市總部企業） by the Leading Group of Headquarters Economic Development in Hangzhou, Zhejiang Province.

2. Lianhua Huashang was ranked 369th in the list of the 19th "Top 500 Enterprises in Service Industry in China"（中國服務業企業500強） released by the China Enterprise Confederation and the China Enterprise Directors Association.

September

1. Lianhua Supermarket held the 2nd Spark Festival with Jiushi Sports, taking the "Shanghai Rolex Masters"（上海勞力士大師賽） as an opportunity to create a "diet + sports + art"（飲食+運動+藝術） scenario with the concept of health, and build a sustainable ecological chain of healthy diet to contribute to a new better life.

2. The Zhejiang Association of Enterprises, the Zhejiang Entrepreneurs Association and the Zhejiang Federation of Industrial Economics released the list of Top 100 Enterprises of Zhejiang Province in 2023, and Lianhua Huashang won the title of "Top 100 Enterprises in Service Industry of Zhejiang Province in 2023" (2023浙江省服務業百強企業).

3. Lianhua Guangxi Company was accredited with the national certification of the ISO9001 quality management system.

October

1. Lianhua Logistics was approved as a qualified level 3 safety standardized enterprise by the Emergency Management Bureau of Jiading District, Shanghai.

2. Lianhua Supermarket received a letter of appreciation from the Agriculture and Rural Comprehensive Service Center of Huaxi Township, Huaning County, Yunnan Province for poverty alleviation.

3. Lianhua Huashang won the title of "2023 Innovative Enterprise of Proprietary Brand"（2023自有品牌創新企業） in the Zhejiang-Fujian chain industry. "Tasy"（她樹）, a proprietary brand of Lianhua Supermarket won the title of "2023 Excellent Proprietary Brand"（2023優秀自有品牌） in the chain industry of Zhejiang Province. The "Lianhua" brand won the title of "2023 Excellent Franchise Brand in Zhejiang Province"（2023浙江省優秀特許品牌）.

November

1. Lianhua Supermarket's innovative business segment – Century Lianhua City Life High-end Boutique Supermarket officially opened its Shanghai Gubei store.

2. As the service provider of the exclusive food ingredient warehouse (including the exclusive warehouse for imported food) for athletes of the 19th Hangzhou Asian Games and the 4th Asian Para Games, and of the transit food ingredient warehouse for non-athletes in the sports village of the Asian (Para) Games, Lianhua Huashang accomplished the mission of guaranteeing food ingredient supply for the Asian Games, and was awarded the certificate of "Advanced Group of Zhejiang Province"（浙江省先進集團） for the Asian Games and the Asian Para Games jointly issued by the Office of CPC Zhejiang Provincial Committee and the Office of the People's Government of Zhejiang Province.

December

1. The National Federation of Trade Unions issued the list of the "Most Beautiful Service Stations for Outdoor Workers of the Trade Unions" (最美工會戶外勞動者服務站點) for 2023, and the love station for outdoor workers at the Xinzha Road store under Lianhua Supermarket Development was included on the list.

2. The partner project of Lianhua Supermarket Development was selected as one of the outstanding cases in the "Employee Responsibility Chapter" (員工責任篇) of the "State-owned Assets and State-owned Enterprises in the Blue Book of Social Responsibility (2023)" (《國資國企社會責任藍皮書(2023)》).

3. Lianhua Guangxi Company won the "2023 Outstanding Contribution Award" (2023年度突出貢獻獎) from the Food Safety Industry Association of Liunan District, Liuzhou City.

4. The Zhejiang Trade Association of Commerce and Ant Group Co., Ltd. jointly issued the "Shopping in Zhejiang – Hundreds of Streets, Thousands of Brands and Tens of Thousands of Stores" (浙裏來消費·百街千品萬店) high quality consumption scenario list for 2023. The Hangzhou Hanghai Road store of Century Lianhua and the Yiwu Yinyue City under Lianhua Huashang were on the TOP10 list of "Trendy Stores in Zhejiang" (浙裏潮店).

Connection


精选
18 90
精选商品
85
家电 蔬果
食品 酒饮
收银
128
89
348


新年味
精选
128
精选商品
99
148
45

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 2023.

In 2023, the complex and volatile international situation led to an increase in uncertainties. The world economy was characterized by "high inflation, high-interest rates, high debt and low growth". In 2023, China's economy showed steady recovery despite external pressures and internal difficulties; however, it still faced certain difficulties and challenges. The year 2023 witnessed recovery in the consumer market and gradual improvement in consumer confidence. Nevertheless, the speed of recovery in the supermarket industry was much slower than that of the food and beverage industry.

Supermarkets were the only retail sector to experience a decline in growth, with the physical retail industry struggling to cope with the headwinds.

In 2023, the Group embraced the concept of pragmatism and moved forward courageously and decisively. On the one hand, the Group remained committed to meeting the needs of consumers and gained in-depth understanding of customer demands. While winning the trust of consumers, the Group realized the double enhancement in commercial value and social value, jointly undertaking Lianhua's mission to "safeguard people's livelihood, promote consumption and stabilize growth". On the other hand, the Group stayed true to its roots as a retailer and diligently pursued key areas of focus, including segment transformation and improvement, category optimization, system upgrades, and talent development and incentives. The Group continued to build a new Lianhua for sustainable development through the development and merchant solicitation guarantee, internal supply chain optimization, overall marketing capability enhancement, comprehensive budget management and management efficiency enhancement, and the further improvement in headquarters capacity and execution power with the support of digital means.

In 2023, the Group exerted great efforts to promote the implementation of key segment models and accelerated the optimization of transformation and positioning of the Group. The supermarket segment upgraded the 2.0 selected supermarket model, with the grand opening of CITY LIFE supermarket Gubei store, Shanghai's first community-based quality life high-end boutique supermarket, on 8 November 2023. The boutique supermarket Green & Health Yuniao store, the first "big community + small warehouse" （大社群+小倉儲） model store under Lianhua Huashang, was officially opened. The selected supermarket conveys the new lifestyle concept of "environmental protection, health, taste and life" and advocates a natural and healthy lifestyle, which is an important step in the Group's strategic deployment in the new retail system.

In 2023, the Group's delivery-to-home business continued to maintain a double-digit growth in online sales as a result of the Group's sustained efforts and multiple breakthroughs. In addition to strengthening the exchange of resources with Meituan, Ele.me and other third-party platforms to increase the traffic of the main website, the Group implemented innovative Xiaohongshu, live streaming and other public traffic projects, while securing the quality of contract fulfillment and optimizing the after-sale process of home delivery, which effectively promoted omni-channel development.

In 2023, Lianhua Huashang, a subsidiary of the Group, accomplished the mission of guaranteeing supply of exclusive warehouse for the Asian Games held in Hangzhou City, and achieved the "four zero" （四個零） goals of "zero occurrence" of food-borne stimulant incidents, "zero occurrence" of food safety accidents, "zero interruption" of food supply, and "zero complaint" on food quality. The accomplishment was highly recognized by the Asian Games Committee, and provincial and municipal departments at all levels. In addition, the case of "Digitalized, Intelligent and Innovative Exclusive Warehouse and Food Safety

Guarantee for the Asian Games"（數智創新亞運專倉，保障亞運食品安全）was selected as one of the top 20 cases of Hangzhou brands, which further enhanced the brand image of the Company.

In 2023, the Group focused on product categories that could increase brand awareness and strengthened the proprietary brands with the 3 LOVE strategy of "Love Health, Love Yourself, Love Life"（愛健康、愛自己、愛生活）to create Lianhua's unique competitiveness, which yielded significant results. With regard to the supply chain, the Group optimized the supply chain by direct procurement from the source, while increasing the proportion of the sales of directly-sourced fresh produce. Regarding the price, the Group reshaped the price system of Lianhua's proprietary products through the "pricing uniformly"（一價到底）strategy to build up Lianhua's image of the best value for money. In terms of the brand, the Group fully defined Lianhua's products as "quality in manufacturing, sense and price"（質優、質感、質價）with the five major brand products. In addition, the Group explored co-branded operation by integrating the proprietary product plan in order to cater to the preferences of young customers and expand its customer base.

In 2023, the Group placed a strong emphasis on enhancing the overall marketing capabilities and promoting branded integrated marketing as well as thematic IP marketing campaigns, while strengthening its private sector development. In 2023, the Group completed five S-class marketing campaigns and two thematic IP campaigns, namely, "Lighting Up Dream Dinner"（點亮夢想晚餐）and "Lianhua Spark Festival"（聯華燃動節）, to create a festive scenario in a five-in-one, whole-chain and close-loop manner. In 2023, the Group secured 895,000 new registered members and 4,670,000 digital members of Bailiantong, representing a year-on-year increase of 54%. The exposure of the brand's media communication reached 580,000,000, representing a year-on-year increase of 580%.

In 2023, the Group continued to promote the partnership system, which was also being promoted simultaneously by the companies in Zhejiang, Guangxi and other external areas. Stores of the supermarket segment promoted the multi-modal iteration of our partners, such as fresh produce category diversification and internal consignment model, with the promotion of the full partnership system. As of the end of 2023, the Group's partner stores had reached 593.

In 2024, China's economy will still be at a critical stage of recovery, while the long-term positive fundamentals will remain unchanged. As Chinese consumers become more "rational" in their decision-making, there will be a greater emphasis on healthy products, value-for-money offerings, and differentiated consumption. Recognizing this trend, the Group will align its strategies with the annual work focus of "3+1" and the five major support and guarantee systems. The main objective for the year will be "joint revitalization and reform optimization" (攜手重振、優化改革). In highlighting the strategic focus of "segment and channel development, supply chain and product development, omni-channel (including marketing) development, logistics efficiency enhancement, digital efficiency enhancement, organization and talent efficiency enhancement" with a view to increasing revenue, the Group propelled its reform and restructuring, reduced costs and enhanced efficiency, in order to achieve a turnaround from loss to profit. In 2024, we will fight with our strength, bearing through tempering.

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

27 March 2024
Shanghai, the PRC


达可水洗
厨房卷纸
3层厚韧可水洗
3倍吸油吸水
本月
新品
百联到家
Vinda
1800

Integrate

Five Years Financial Highlights

Unit: RMB'000 For the year ended 31 December	**2023**	2022 (Note 4)	2021	2020	2019
Revenue	**21,835,879**	24,681,396	24,759,659	26,331,155	25,859,198
Hypermarkets	**9,646,472**	12,395,766	13,580,446	15,025,717	14,976,770
– Percentage to turnover (%)	**44.18**	50.22	54.85	57.06	57.92
Supermarkets	**10,514,180**	10,690,632	9,407,111	9,571,907	8,958,752
– Percentage to turnover (%)	**48.15**	43.32	37.99	36.35	34.64
Convenience stores	**1,586,568**	1,496,185	1,500,828	1,576,588	1,829,787
– Percentage to turnover (%)	**7.27**	6.06	6.06	5.99	7.08
Other businesses	**88,659**	98,813	271,274	156,943	93,889
– Percentage to turnover (%)	**0.40**	0.40	1.10	0.60	0.36
Gross profit	**2,781,072**	3,382,295	3,061,729	3,535,291	3,518,840
Gross profit margin (%)	**12.74**	13.70	12.37	13.43	13.61
Consolidated income margin (%) (Note 1)	**23.78**	23.95	23.40	24.59	24.97
Operating (loss) profit (Note 1)	**(227,991)**	87,954	(316,961)	49,569	(32,163)
Operating (loss) profit margin (%) (Note 1)	**(1.04)**	0.36	(1.28)	0.19	0.12
Loss attribute to owners of the Company	**(791,317)**	(206,527)	(422,779)	(319,286)	(378,301)
Comprehensive expenses attributable to owners of the Company	**(791,317)**	(206,527)	(422,779)	(319,286)	(378,301)
Net loss margin (%) (Note 1)	**(3.62)**	(0.84)	(1.71)	(1.21)	(1.46)
Losses per share (RMB)	**(0.71)**	(0.18)	(0.38)	(0.29)	(0.34)
Interim dividend per share (RMB) (Note 2)	**–**	–	–	–	–
Final dividend per share (RMB) (Note 2)	**–**	–	–	–	–

Unit: RMB'000 As at 31 December	**2023**	2022 (Note 4)	2021	2020	2019
Net assets	**448,347**	1,246,271	1,254,397	1,755,094	2,046,506
Total assets	**20,989,143**	22,988,706	22,829,926	23,220,754	23,552,460
Total liabilities	**20,540,796**	21,742,435	21,575,529	21,465,660	21,505,954
Net cash flow	**(751,325)**	1,005,489	183,180	(188,263)	(462,561)
Average loss on total assets (%)	**(3.60)**	(0.90)	(1.84)	(1.37)	(1.86)
Average loss on net assets (%)	**(169.16)**	(21.82)	(34.06)	(19.80)	(19.26)
Gearing ratio (%) (Note 3)	**0.0**	0.0	47.8	0.0	0.0
Liquidity ratio (times)	**0.47**	0.60	0.48	0.44	0.65
Turnover of accounts payables (days)	**57**	59	54	59	60
Turnover of inventories (days)	**44**	43	40	39	38

Notes:

1. Consolidated income margin (%) = (Gross profit + Other revenues + Other income and other gains and losses)/Revenue
   Operating (loss) profit = (loss) profit before tax–Share of results of associates
   Operating (loss) profit margin (%) = ((loss) profit before tax–Share of results of associates)/Revenue
   Net loss margin (%) = Loss for the year attribute to owners 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 2023 at the Board meeting held on 27 March 2024.

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

4. This year, the Company restated the data of 2022 in the five years financial highlights by applying Hong Kong Accounting Standards No.12 (revised) "Deferred taxes related to assets and liabilities arising from individual transactions".

Management Discussion and Analysis

Operating Environment

In 2023, the international situation was full of twists and turns, making a new era of uncertainty and change, and the global economy recovery was struggled to gain traction with insufficient momentum for economic growth. Despite these challenges, China's macro-economy exhibited remarkable resilience. The overall economy showed a gradual and moderate recovery after a series of consumption-promotion policies introduced by the National Development and Reform Commission, the Ministry of Commerce and local governments. The Gross Domestic Product (GDP) reached approximately RMB12.6 trillion, representing a year-on-year growth of 5.2%. Throughout the year, the Consumer Price Index (CPI) increased by 0.2% compared to the previous year. However, during this period, pork prices experienced a decrease of 13.6%, while fresh vegetables prices dropped by 2.6%.

However, the "scarring effect" of the pandemic still existed. The labor market has not yet returned to its ideal level, and both the growth of disposable income and household assets witnessed a slowdown, resulting in a slower recovery in consumer confidence and more rational and cautious spending behaviour. At the same time, consumers are leaning towards seeking discounts and promotions, and shifting towards more price-competitive shopping channels. The intensified competition of emerging channels such as interest-based e-commerce platforms, specialty discount stores, O2O and other new channels posed a greater challenge to most physical retail stores. In terms of market segmentation, the fast-moving consumer goods market in the PRC as a whole recorded poor performance in 2023, with total omni-channel retail sales declining by 0.5% compared to the previous year, and retail sales in the offline market falling by 3.6% compared to the previous year.

Financial Review

Revenue

During the period under review, the Group's revenue was approximately RMB21,836 million, representing a year-on-year decrease of approximately RMB2,845 million, or approximately 11.5%. During the period under review, the speed of recovery in the supermarket industry was slower than that of the food and beverage and other consumer industries, which exerted an impact on the number of store visitors, with more rational consumption among the general public, and significant trend in consumption downgrading. At the same time, due to the impact of the pandemic at the beginning of the year on the peak-sale season of the Spring Festival, the revenue decreased year-on-year. Among them, the delivery-to-home online business showed steady growth, with online sales increasing by 12% year on year.

Gross Profit

During the period under review, the Group's gross profit was approximately RMB2,781 million, representing a year-on-year decrease of approximately RMB601 million, or approximately 17.8%. During the period under review, the overall gross profit margin of the Group was approximately 12.74%, representing a decrease of approximately 0.96 percentage point as compared with the gross profit margin of 13.70% for the corresponding period of last year, which was mainly due to the increase in marketing efforts after the pandemic as well as low loss and high gross profit margin of fresh produce in which the sales for ensuring commodities supply accounted for a large proportion in the same period last year.

Other Revenue

During the period under review, the Group's other revenue was approximately RMB1,904 million, representing a year-on-year decrease of approximately RMB155 million, or approximately 7.5%. During the period under review, the Group actively carried out merchant solicitation after the pandemic while optimizing and adjusting the layout of shops. The occupancy rate of shops has been gradually increasing, and our revenue from merchant solicitation increased by approximately RMB45 million compared with the same period last year. Due to the decline in revenue, related income from suppliers decreased by approximately RMB191 million compared with the same period last year.

Other Income and Other Gains and Losses

During the period under review, the Group's other income and other gains and losses amounted to approximately RMB508 million, representing a year-on-year increase of approximately RMB37 million, or approximately 7.8%. During the period under review, the Group's interest income on bank balances and term deposits, gain on change in fair value of financial assets at FVTPL and dividends from financial assets at FVTPL increased by approximately RMB54 million year on year.

Distribution and Selling Expenses

During the period under review, the Group's distribution and selling expenses amounted to approximately RMB4,287 million, representing a year-on-year decrease of approximately RMB429 million, or approximately 9.1%. The Group continued to refine the details of comprehensive budget management and standardized control over the entire process of expenses in all business sectors, and strengthened its line control efforts, resulting in a continuous decline in operation expenses.

Administrative Expenses

During the period under review, the Group's administrative expenses amounted to approximately RMB782 million, representing a year-on-year decrease of approximately RMB7 million, or approximately 0.8%.

Other Expenses

During the period under review, the Group's other expenses amounted to approximately RMB119 million, representing a year-on-year increase of approximately RMB77 million, which was mainly due to the increase in impairment provision for the closure of some hypermarkets in the Anhui and Jiangsu regions based on the Group's overall strategic adjustments.

Share of Results of Associates

During the period under review, the Group's share of losses of associates amounted to approximately RMB361 million, representing a year-on-year increase in losses of approximately RMB250 million. During the period under review, Shanghai Carhua Supermarket Co., Ltd. ("Shanghai Carhua"), an associate of the Group, provided for significant expected credit losses on the non-trade financial assets of its major related parties in addition to normal operating losses. The credit impairment of these financial assets was mainly due to the financial difficulties of Shanghai Carhua's related parties and there was no realistic prospect of recovery. The Group recognized its share of losses of Shanghai Carhua under the equity method in profit or loss of approximately RMB367 million, representing an increase in loss of approximately RMB255 million year on year. The Group's interest in Shanghai Carhua has been reduced to zero using the equity method in accordance with the accounting policy of the Group.

Loss before Tax

During the period under review, the Group's loss before tax amounted to approximately RMB589 million, representing a year-on-year increase in loss of approximately RMB566 million.

Income Tax Expense

During the period under review, the Group's income tax expense was approximately RMB125 million, representing a year-on-year increase of approximately RMB23 million.

Loss Attributable to Owners of the Company

During the period under review, the Group's loss attributable to owners of the Company amounted to approximately RMB791 million, representing a year-on-year increase in loss of approximately RMB585 million. During the period under review, the net loss rate was approximately 3.62%, representing a year-on-year increase in loss rate of 2.78 percentage points. Based on the 1,119.6 million shares issued by the Group, the basic loss per share was approximately RMB0.71.

Liquidity and Financial Resources

As at 31 December 2023, the Group's cash and balance at the bank amounted to approximately RMB7,656 million. During the period under review, the net increase of the Group's cash and balance at the bank amounted to approximately RMB66 million.

For the year ended 31 December 2023, the trade payable turnover period of the Group was 57 days, and the inventory turnover period was approximately 44 days.

During the period under review, the Group did not use any financial instrument for hedging purposes. As at 31 December 2023, there were no arbitrage financial instruments in issue by the Group.

Gearing Ratio

As at 31 December 2023, 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 2022: 0.0%).

Growth of Each Retail Business

Hypermarkets

During the period under review, the revenue of the hypermarket segment amounted to approximately RMB9,646 million, representing a year-on-year decrease of approximately RMB2,750 million, or 22.2%, and accounting for approximately 44.2% of the Group's revenue. During the period under review, the number of store visitors was affected, along with the slow recovery in consumer confidence, more rational and cautious spending and the reduction of stockpiling after the pandemic, which resulted in a significant decrease in customer orders and weaker performance on the overall sales.

During the period under review, the hypermarket segment recorded a gross profit of approximately RMB1,343 million, representing a year-on-year decrease of approximately RMB416 million. Gross profit margin decreased by 0.27 percentage point year on year to 13.92%. During the period under review, benefiting from the increase in the store occupancy rate due to the adjustment of outlets and the layout of stores, the rental income of hypermarkets was approximately RMB379 million, representing a year-on-year increase of approximately RMB27 million. During the period under review, the hypermarkets recorded a comprehensive income of approximately RMB2,793 million, representing a year-on-year decrease of approximately RMB517 million, and the consolidated income margin increased by 2.25 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 RMB2,569 million, representing a year-on-year decrease of approximately RMB376 million. The rationalization of outlets and the whole-process standardized process helped to effectively reduce operating expenses. The hypermarket segment recorded an operating loss of approximately RMB41 million, representing a year-on-year decrease in profit of approximately RMB184 million. Operating profit margin decreased by 1.57 percentage points year on year to -0.42%.

	As at 31 December	
	2023	2022
Gross Profit Margin (%)	**13.92**	14.19
Consolidated Income Margin (%)	**28.95**	26.70
Operating Profit Margin (%)	**–0.42**	1.15

Supermarkets

During the period under review, the supermarket segment recorded a revenue of approximately RMB10,514 million, representing a decrease of approximately RMB177 million or approximately 1.7% year on year, and accounting for approximately 48.2% of the Group's revenue. During the period under review, the supermarket segment targeted fresh produce supermarkets in selected communities, and strived to increase customer adhesion by focusing on community services and enriching marketing activities in line with consumer needs.

During the period under review, the supermarket segment recorded a gross profit of approximately RMB1,242 million, representing a year-on-year decrease of approximately RMB205 million or 14.2%. During the period under review, the loss of fresh produce in the supermarket segment increased while the efforts made in marketing and promotion activities were stepped up, and the gross profit margin decreased by 1.73 percentage points year on year to 11.81%. The Group developed the merchant solicitation business in the supermarket segment to reduce the vacancy rate, and the rental income was approximately RMB102 million, an increase of approximately RMB19 million or 23.0% year on year. During the period under review, the supermarket segment recorded a consolidated income of approximately RMB2,097 million, representing a decrease of approximately RMB199 million year on year. The consolidated income margin decreased by 1.52 percentage points year on year.

During the period under review, the supermarket segment recorded an operating profit of approximately RMB48 million, representing a decrease of approximately RMB116 million year on year. The operating profit margin decreased by 1.09 percentage points to approximately 0.45%.

	As at 31 December	
	2023	2022
Gross Profit Margin (%)	**11.81**	13.54
Consolidated Income Margin (%)	**19.95**	21.47
Operating Profit Margin (%)	**0.45**	1.54

Convenience stores

During the period under review, the convenience store segment recorded a revenue of approximately RMB1,587 million, representing an increase of approximately RMB91 million or approximately 6.0% year on year, and accounting for approximately 7.3% of the Group's revenue. During the period under review, the convenience store segment focused on strengthening the fresh produce function of stores and opening up the circulation link of cold chain products to speed up the refresh rate, leading to a gradual recovery of customer visits and customer orders.

During the period under review, the convenience store segment recorded a gross profit of approximately RMB177 million, representing an increase of approximately RMB7 million or approximately 4.4% year on year. Affected by the lower gross profit of fresh produce and the increase in marketing and promotional activities, the gross profit margin decreased by 0.18 percentage point to 11.16%. The convenience store segment recorded a consolidated income of approximately RMB241 million, representing a year-on-year increase of approximately RMB7 million, and the consolidated income margin decreased by 0.44 percentage point year on year to 15.22%.

During the period under review, due to the impact of the pandemic, the operating loss of the convenience store segment was approximately RMB18 million, representing a year-on-year decrease in losses of approximately RMB7 million from the same period of last year, and the operating profit margin increased by 0.57 percentage point to -1.12%.

	As at 31 December	
	2023	2022
Gross Profit Margin (%)	**11.16**	11.34
Consolidated Income Margin (%)	**15.22**	15.66
Operating Profit Margin (%)	**–1.12**	–1.69

Financial Performance Analysis

	Twelve months ended 31 December		
	RMB million		
	2023	2022	YoY change (%)
Revenue	**21,836**	24,681	–11.5
Gross profit	**2,781**	3,382	–17.8
Consolidated income	**5,192**	5,912	–12.2
Operating (loss) profit	**–228**	88	–359.2
Income tax expense	**125**	102	23.0
Loss for the period attributed to owners of the Company	**–791**	–207	283.2
Basic loss per share (RMB)	**–0.71**	–0.18	283.2
Dividend per share (RMB)	**Nil**	Nil	N/A

Capital Structure

As at 31 December 2023, 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 RMB863 million to approximately RMB72 million, which was primarily due to the loss of approximately RMB791 million recorded in the period.

Details of the Group's Pledged Assets

As at 31 December 2023, 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 2023, 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 2023, the Group did not have any material contingent liabilities.

Outlet Development – Segment Integration and Improvement

During the period under review, the Group focused on the "15-minute community living circle" to build small-scale, community-based stores. Through the construction of life services and ancillary facilities, the Group commenced joint construction with the community and neighborhood to grow customer base and achieve the functional transformation of supermarkets to enter the community. For the supermarket segment, we accelerated the iteration of store types, explored the models of selected stores and fresh produce stores, optimized store categories, enhanced the self-operating capability in fresh produce, deepened the transformation results, and continued its upgrading. Regarding the franchisee, the Group carried out in-depth cultivation in three aspects of outlet expansion, product supply chain and management empowerment, and strengthened the exploration of a closely-franchised model to promote positive development. In terms of convenience stores, we enriched the functions of directly-operated stores, accelerated the updating of product categories, and increased revenue.

During the period under review, the Group strived to maintain the scale of its outlets by horizontal and vertical integration. We opened a total of 337 new stores, including 107 directly-operated stores and 230 new franchised stores. 247 of the new stores were located in the Yangtze River Delta region, accounting for 73% 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, 333 stores were closed, of which 76 were directly-operated stores and 257 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	3,127.00	15	64,979.00
	Supermarkets	241	105,363.43	200	62,894.57
	Convenience stores	35	2,159.39	88	4,744.45
North China	Supermarkets	7	3,760.00	0	0.00
	Convenience stores	0	0.00	6	442.76
Northeast China	Convenience stores	1	46.50	10	520.00
Central China	Supermarkets	7	13,830.00	0	0.00
South China	Hypermarkets	0	0.00	1	9,630.00
	Supermarkets	29	10,790.00	13	4,447.51
Southwest China	Supermarkets	3	5,790.00	0	0.00
Northwest China	Supermarkets	12	23,000.00	0	0.00
Total		337	167,866.32	333	147,658.29

Note: The above information is as at 31 December 2023.

During the period under review, the Group focused on the development of key cities and optimized the outlet deployment in Jiangsu, Anhui and other regions based on its overall strategic adjustments. It opened two new stores for the hypermarket segment in Shanghai, and closed sixteen stores for the segment, including two in Shanghai, one in Zhejiang Province, 10 in Jiangsu Province, two in Anhui Province and one in external area. The Group continued to iterate the 2.0 selected supermarket model for the hypermarket segment in an attempt to build small-scale and community-based stores around the 15-minute community living circle, with category breakthrough, merchant solicitation enrichment, online and offline integration as the three major focuses. Starting from the three aspects of store, home and private domain, the Group adopted a store-by-store, step-by-step transformation strategy. With convenience, freshness and neighborhood sharing centers as the key words, the Group tailored community neighborhood stores, community life center stores and community-based quality life selected stores, realizing the transformation and iteration from "traditional hypermarkets" to community-based life centers.

During the period under review, the Group accelerated segment optimization through in-depth results transformation and iteration for supermarkets, the core segment of the Group. For the supermarket segment, a total of 299 new stores were opened, including 93 directly-operated stores and 206 franchised stores. 213 stores were closed, including 39 directly-operated stores and 174 franchised stores. The number of stores recorded a net increase of 86 stores. During the period under review, the Group completed transformation and upgrading of community-based fresh produce stores and attempted the new 1+N model for the supermarket segment. At present, the "supermarket + category" integrated model has been completed in 23 stores, combining community-based stores with the brand through layout adjustments, category optimization and other refined management methods to better complement each other and effectively enhance the service capacity of the transformed stores and revenue.

During the period under review, 36 new convenience stores were opened, including 12 directly-operated stores and 24 franchised stores. 104 stores were closed, including 21 directly-operated stores and 83 franchised stores. The number of stores recorded a net decrease of 68 stores. For the convenience store segment, the Group continued to upgrade its sub-new stores, while accelerating the development of quality outlets with a focus on schools, hospitals and other special business districts to enhance its development momentum. With respect to resources display and functional promotion, the Group enhanced its brand affinity, utilized internet buzzwords to attract the attention of young customers, improved the shopping experience of consumers, and diligently implemented the brand slogan of "Quik, My Happy Moment".

As at 31 December 2023, the Group had a total of 3,356 stores, representing a net increase of 4 stores as compared to the end of 2022. Approximately 84.06% of the Group's stores are located in Greater Eastern China.

	Hypermarkets	Supermarkets	Convenience Stores	Total
Directly-operated	123	823	342	1,288
Franchised	–	1,531	537	2,068
Total	123	2,354	879	3,356

Note: The above information is as at 31 December 2023.

Enhancement of Online Operation Capabilities

During the period under review, the Group achieved a double-digit growth in online sales by strengthening online traffic conversion, enhancing product power, optimizing user experience, empowering innovative businesses and other means and strategies. To capture traffic, the Group employed resource exchanges with third-party platforms, precise coupon distribution and community promotions to effectively increase the traffic of the main website. At the same time, the Group seized market hot spots and increased the output of innovative contents for public domain traffic to attract target fans and realize traffic feedback. The Group also focused on customer experience by synchronizing the launch of new products both online and offline, securing the quality of fulfillment, optimizing the after-sale process, and optimizing the display of quality activities on the homepage in order to improve consumer satisfaction and enhance consumer loyalty. Product improvement was another priority, involving enhancements to product descriptions, increasing the exposure of Lianhua's selected products and increasing the replacement rate of products in order to improve the core competitiveness of products. Fourthly, we paid attention to the incremental volume and launched new businesses, such as the home delivery Alipay applet, smart selection and the B2C third-party platform project, etc. to optimize customer experience, expand the coverage area, and empower the business with the aim to increasing sales.

Consumer Experience and Overall Marketing

During the period under review, the Group created seasonal and festive marketing themes based on consumer demand along with supply chain advantages and strengthened content marketing by utilizing digital tools and empowering innovative campaigns. We continued to cultivate Lianhua's thematic IP campaigns, organizing the 2nd Lianhua Spark Festival (聯華第二屆燃動節), integrating the hot spot of the Shanghai Masters Tennis Tournament, and promoting the overall marketing through home-based, community-based, Xiaohongshu, TikTok and other self media, offline materials and external communication to reach out to different customer groups. The exchange of traffic on platforms also realized effective reach and consumer insights, achieving high-quality improvement in both brand reputation and brand influence. The Group refined the membership management system, strengthened the refined operation of the private sector, integrated resources, attracted traffic through multiple channels, and utilized a variety of methods to achieve a whole-chain and closed-loop interaction between the brand and consumers, thus realizing consumer-oriented online and offline cross-scenario interactions and over marketing.

Focus on Changes in Product Categories and Development of Proprietary Brands

During the period under review, the Group achieve initial results in the launch of product categories that can increase brand awareness and the development of proprietary brands. On the one hand, the Group accelerated the changes in product categories to fill the category gaps and enhance its market competitiveness. On the other hand, the Group focused on new product innovation and creativity, responded to the changes in consumers' shopping mindset, explored co-branding operational model and new product launch model, and launched its proprietary brand products that meet the needs of consumers with benchmarking value. With the 3 LOVE strategy, the Group integrated Lianhua's concept of quality, healthier, and high value-for-money products into supply chain and product adjustments, and fully defined Lianhua's products as "quality in manufacturing, sense and price" with the five major brand products. At the same time, the Group also combined the proprietary product plan to create co-branded products. We optimized the supply chain by direct procurement from the source to lower the end prices, enabling customers to truly experience value for money. Keeping abreast with the new consumer trends, the Group promoted its proprietary brands on the self-media such as TikTok, Meituan and Xiaohongshu to achieve more penetration, strengthen its proprietary brands and build up Lianhua's unique competitiveness.

Supply Chain Layout Optimization

During the period under review, the Group continued to optimize its supply chain management, explored the parallel implementation of various supply chain business models, conducted a comprehensive assessment of the "profitability and efficiency" of the ambient supply chain optimization, and replaced inefficient suppliers to enhance the competitive edge of its supply chain. The Group deepened its cooperation with JBP suppliers, focused on the introduction of new brands and new suppliers, and carried out in-depth practices of the JBP national joint work model to create greater benefits together. We promoted the internal and external development of the fresh produce supply chain. For the external supply chain, we adopted strategies such as direct sourcing, introduction of new products and development of proprietary brands to better control the source of goods, reduce the procurement costs and enhance the competitiveness of product differentiation. Regarding the internal supply chain, we optimized the distribution of large warehouses and the collection process of goods in stores to improve logistics efficiency, reduce losses and lower operating costs, as well as provide strong protection for the promotion of fresh produce cold chain products. The Group strengthened its base construction and the development of proprietary brands to better control the product quality and provide consumers with better quality fresh produce. We developed digitalization and visibility technologies in the supply chain to establish an efficient, convenient, economical, reliable and dynamic supply chain network system in order to enhance operational efficiency and accuracy towards sustainable development.

Digital Transformation

During the period under review, the Group fully activated the digitization project and launched the display and procurement digitization systems, significantly optimizing the operation model and streamlining the business processes. The Group re-activated the logistics WMS system integration project and completed the system upgrade of the financial Jindie EAS system, while promoting the optimization of integrated business and financial processes. In terms of the internal supply chain system, we realized the centralized return function, automatic replenishment function, visualization of requisition and inventory data at the headquarters, as well as the construction of LHWIN supply chain board, which improved the synergetic efficiency and data management of the internal supply chain. Our digital store system has been constructed based on stable system operation. We continued to improve the stability and reliability of the system through product iteration. The advancement of digital transformation has enhanced the accuracy and traceability of system data, which has significantly improved the intelligence, standardization and management efficiency of the Group's overall business and laid a solid foundation for the Group's further digital reform and transformation.

Employment, Training and Development

As at 31 December 2023, the Group had a total of 25,735 employees. The total labor costs amounted to approximately RMB2,171,162 thousand.

During the period under review, the Group further consolidated the overall organizational structure of the headquarters, continued to focus on operations, optimized internal core business processes and continuously enhanced the efficiency of operations and management. The Group strengthened the centralized advantages of the headquarters by integrating the regional merchant solicitation, finance and other functions into the unified management at the headquarters; optimized the management structure by adjusting the segment departments and clarifying their functions; strengthened the staffing by leveraging on the measures of ongoing transformation of digital stores, further streamlining the frontline processes, optimizing the staffing standards of the hypermarket and the supermarket stores, and enhancing the operational efficiency of the stores, with the aim of improving labor efficiency and reducing the labor costs.

During the period under review, the Group introduced the contract-based management for core positions which featured dynamic adjustments to the staffing level, and set up the Company's key project assessment program to encourage our managers and employees to share and achieve their goals together. We optimized the incentive system for superior performance to create and share value, thereby improving the income of front-line employees. At the same time, on the one hand, we activated multi-modal iteration of stores to deepen the partnership mechanism. We introduced new partners in the fresh produce category while expanding the scope of partnership, aiming to strengthen our ability to open up new sources of income and cut down on expenses. On the other hand, we also tried out a new management mode known as store consignment, which helped us improve operating performance through the separation of ownership and operation rights.

During the period under review, the Group increased its investment in talent acquisition and cultivation. By leveraging its advantages in coordination, the Group established a platform for the exchange and sharing of talent recruitment information and gradually achieved a balanced allocation of surplus human resources to meet the shortfall among its subordinate enterprises. The Group insisted on recruitment of management trainees for our stores and headquarters, which has laid a solid foundation for the back-up of core positions at our headquarters and frontline stores; we selected young talents to participate in specialized training and development programs and projects, aiming to empower and cultivate them; we insisted on the post rotation mechanism, and determinedly appointed those who rendered outstanding performance in the appraisal, so as to accelerate the build-up of young managers; we conducted in-depth investigation into the reserve of management of our subordinate enterprises to overcome the challenges we faced together and gradually reshaped a new talent echelon, aiming to optimize our whole-chain cultivation approach covering "selection, cultivation, utilization, and retention".

Cost Control and Efficiency Improvement

During the period under review, the Group utilized digital tools to implement the annual budget control objectives, strengthened its awareness and capability in funds management, strictly examined the budget requirements, planned the use of funds in a rational manner, improved the return on funds, and achieved cost reduction and efficiency enhancement. We continued to promote the development of business and finance integration, using financial analysis tools to evaluate new and transformation projects. Through budget alerts, progress and performance analysis, we identified operational problems and put forward management and control proposals to provide strong support for operational decision-making. We fully implemented the requirements of "strong headquarters, strong support, strong enforcement", advanced the systematic construction of targeted, effective and enforceable systems and processes, standardized store operations, and enhanced the level of digital management, in order to achieve efficient operation and sustainable development of the enterprise.

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

As it still takes time to reflect the macroeconomic recovery in residents' employment and income, there is still room for further release of the consumption power of residents and consumer confidence. The sales of the supermarket retail industry declined due to the impact of intensified channel competition, and there is still room for improvement for the profitability model of the industry. The integration capacity of the supply chain remained weak, with a lack of competitive advantages in fresh produce. The insignificant effect of product introduction and replacement resulted in slow updating of the product structure and unsatisfactory improvement of the overall consolidated income. The Group's operations will face greater challenges.

Mitigating Measures

The Group, on the one hand, will actively carry out transformation, iteration and innovation for existing sectors, focus on core areas, deepen the transformation results, and adjust the product lists by considering the sales for the hypermarket sector and the supermarket sector to upgrade the scenarios of key categories. On the other hand, the Group will proactively step up the deployment of new stores by developing potential stores in the city, filling in the gaps in the high-quality vacant areas, fostering capable franchised stores in other provinces and cities, and transform the closely-franchised outlet network in an orderly manner. The Group will integrate marketing, strengthen the conversion of online traffic, and change user acquisition from "passive action" to "front interception"; reduce costs and increase efficiency through budget control; improve the quality of the supply chain, focus on product categories that can increase brand awareness, and focus on the development of proprietary brands; fully activate digitalization projects; enhance organizational capabilities and deepen assessment and incentives.

Risks of Development of Sales Network and Merchant Solicitation

In the post-pandemic era, the lack of sufficient momentum for revitalization and barely satisfactory performance of new stores resulted in a slowdown in expansion. The Group is still required to adjust the layout strategy of Lingang and the five major new cities, and optimize the assessment model of new stores. The merchant solicitation policy has been tightened, together with the increased control of merchant solicitation of the state-owned enterprises, which lead to an increase in the risks of uncertainty in lease renewal and a rise in rents.

Mitigating Measures

The Group will consider market changes to maintain scale, reduce costs and increase efficiency; optimize outlet layout and develop community-based fresh produce stores; accelerate the expansion of closely-franchised model and carry out in-depth cooperation with special channels; develop an assessment model for the selection of new store locations, starting from cities and developing the blank areas in order to improve the estimation accuracy of new stores.

The Group will formulate a merchant solicitation model, equip the model with comprehensive brands and product categories, promote the grid-like network development of merchant solicitation, increase the proportion of branded merchants, continuously optimize and adjust the layout of the classification of the merchant solicitation sector, enhance the stability of the customer base; and achieve the reform of double change and dual enhancement in revenue.

Risks of Organization and Incentive Plan

The organization and processes are required to be further improved. We are still facing difficulties such as ageing staff structure, overall low income of staff and insufficient incentives in remuneration. The talent shortage in key positions still exists. There is a challenge to strike a balance between talent reserve and labor control.

Mitigating Measures

The Group will strive to promote organizational reform, fully extend business decision-making; establish a self-driven and agile organization and management system to eliminate redundant staff; reshape the process and authorization decision-making system to enhance decision-making efficiency and strengthen the centralized advantages of the headquarters; optimize the structure of the core cadres, expand the channels for talent acquisition, diversify the forms of internal selection, and identify the direction of core talent introduction; strengthen the appraisal and incentives, complete the performance appraisal of all employees, implement contractual management; optimize and adjust the remuneration of employees, increase the percentage of flexible workers; and implement product category diversification, key store enhancement, 52-week merchandising, and the iteration of the super partnership model.

Digital Transformation and Process Recreation

The Group has fully activated the digitization project. However, there is still room for improvement for the business process and operational model supported by the new system. Business rules are required to be urgently improved. The business reform and model innovation have not been updated simultaneously.

Mitigating Measures

In line with the new system, the Group will optimize and iterate the new business rules under the support of the digital system, and establish digital SOP, while establishing supporting processes and systems; advance the optimization of integrated business and financial processes, integration of the logistics system, enhancement of product digitalization, and optimization of the internal supply chain. The business of Lianhua will adopt the online cloud platform management system, gradually abandon the paper and manual processes, and complete the centralized construction, so as to achieve business integration, sharing and centralized management. The system upgrade, process optimization and digital empowerment will drive the improvement in the overall business efficiency and contribute to high-quality development and sustainable growth.

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

2024 marks the 75th anniversary of the founding of the PRC and is a critical year for the implementation of the "14th Five-Year Plan". Although China's economic growth is faced with challenges such as heightened global geopolitical risks, insufficient effective demand and weak social expectations, the Group is confident that under the principle of "striving for progress while maintaining stability", along with the sustained reinforcement of various growth stabilization policies and a series of economic measures, the fundamental trend of China's long-term economic growth will remain unchanged, and the consumption potential is expected to continue to be released.

Looking forward to 2024, consumers will become increasingly savvy and rational, with healthy, good-value-for-money and differentiated products dominating the consumption decision-making. The rational mindset seeking for low-priced products will become the mainstream, and the lower-tier markets will become a blue ocean. There will be a continuous increase in online consumption with stratified and differentiated consumer groups. The health demands will also continue to evolve. In 2024, the Group will actively keep abreast with the trend of changes in the retail industry, and continue to adhere to the annual work focus of "3+1" and the five major support and guarantee systems. We will focus on revenue improvement, cost reduction and efficiency enhancement to achieve our goals on the basis of the following six key areas:

- (1) Segments and channel development. Starting from cities, we will develop underserved areas, improve the estimation accuracy of new stores, and optimize merchant solicitation. At the same time, we will explore the main models of segments, focus on the positioning of store types, and provide different consumer groups with more customized and differentiated services and a high-quality shopping experience.

- (2) Supply chain and product development. Starting from the five aspects of creating products, developing product categories that can increase brand awareness, building proprietary brands, optimizing product categories and improving the self-operating capability in fresh produce, the Group will create a product and supporting supply chain system that meets consumers' needs and mindset, with Lianhua's unique characteristics and differentiated competitive advantages, so as to enhance brand influence.

- (3) Omni-channel development. We will build an online and offline marketing system. Through interest-based e-commerce, payment platforms, and content communication, the Group will create a closed loop for overall marketing to exchange and introduce the traffic. From the integration of consumer insights and precise marketing, we will commence in-depth thematic brand marketing, in order to reshape the price system of Lianhua by linking with the JBP rights and benefits sharing. We will also create advantageous product categories to achieve a closed loop of the whole-chain brand consumers formed by the feedback of consumer insights, thereby upgrading the Lianhua brand.

- (4) Logistics efficiency improvement. Through the implementation of the logistics system integration project, the number of inventory turnover days, distribution quota and order fulfillment rate will be improved, thus realizing a reduction in logistics costs.

- (5) Digital efficiency enhancement. We will advance the overall online work by implementing the three key projects, namely, "merchandise digitization enhancement, internal supply chain optimization and logistics system integration", so as to truly realize visualization, online operations and integration in order to facilitate high-quality development and sustainable growth of the enterprise.

- (6) Organization and talent efficiency enhancement. We will strive to promote organizational reform and establish a self-driven and agile organization and management system; expand the channels for talent acquisition, diversify the forms of internal selection and strengthen the talent pool; control organizational details at all levels, introduce the contract-based management for core positions and enhance human resources efficiency of the enterprise; implement product category diversification, key store enhancement and iteration of the super partnership model for the partnership projects.

In 2024, the Group will continue to focus on high-quality development, leverage on its advantages, integrate market opportunities, center on the goal of sustainable development of its business, further carry out in-depth reform and innovation, and strive to advance the planning and implementation of key projects. The Group will exert every effort to achieve revenue growth!

Material Investments and Acquisitions

On 23 April 2021, the Company entered into the Investment and Wealth Management Cooperation Framework Agreement with Shanghai Securities Co.,Ltd. (上海證券有限責任公司,"Shanghai Securities"), pursuant to which, the Company and Shanghai Securities agreed on the investment and wealth management cooperation, for a term commencing from 23 April 2021 to 31 December 2023 (both days inclusive). Pursuant to the terms of the Investment and Wealth Management Cooperation Framework Agreement, Lianhua Huashang entered into the Single Asset Management Contract dated 8 July 2021 with Shanghai Securities and the Custodian Bank in relation to the setting up of the Scheme and the investment and management of Entrusted Assets by Shanghai Securities for the benefit of Lianhua Huashang.

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

Future Plans for Material Investments or Capital Assets

There were no plans for material investments or capital assets as at 31 December 2023. 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 2023 are set out in the Environmental, Social and Governance Report on page 232 to page 312 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 2024 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.

Communication


健康 HEALTH
品位 STATUS
生活 LIFE
南北干货
DRIED FOOD
番茄


NFC
椰树牌
35年坚持
鲜榨
椰子水

Profiles of Directors, Supervisors and Senior Management

Executive Directors

Mr. Chong Xiao-bing, aged 59, 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.

Ms. Zhang Hui-qin, aged 50, held a degree of master of Science in Quality Management of the Hong Kong Polytechnic University and a postgraduate degree, and is a professorate senior economist. Ms. Zhang Hui-qin has abundant operation and management experience in the retail commercial field. From August 1996 to June 2003, Ms. Zhang Hui-qin successively worked with Jiayou Supermarkets of Hangzhou Department Stores Company*（杭州百貨總公司家友超市）as deputy superintendent of operation department, deputy store manager of Wensan Store, chief of Qingchun Store and assistant to the manager of operation department. From June 2003 till now, Ms. Zhang Hui-qin worked with Lianhua Huashang as deputy manager of operation department, manager of operation department, assistant to the general manager, deputy general manager, executive deputy general manager, general manager, secretary of the Party Committee, vice chairman and chairman. From May 2016 to April 2021, Ms. Zhang Hui-qin had been deputy general manager of the Company, and served as executive deputy general manager of the Company since April 2021. Ms. Zhang Hui-qin has been an executive director of the Company and the vice chairman of the Board since 7 February 2024.

Non-executive Directors

Mr. Pu Shao-hua, aged 53, 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 47, graduate degree, doctor of economics, senior economist, is currently the vice president 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 and the deputy director of the secretary office of the board of directors of Bailian Group, the executive deputy director and the senior director of the economic operation department of Bailian Group, the senior director of the planning and development department of Bailian Group and other positions. Mr. Shi has been a director of Shanghai First Pharmaceutical Co., Ltd. ("First Pharmaceutical", a company listed on the Shanghai Stock Exchange, stock code: 600833) since June 2016. Mr. Shi has been a non-executive director of the Company and the vice chairman of the Board since 12 November 2021. Mr. Shi has resigned as a non-executive director of the Company and the vice chairman of the Board on 7 February 2024.

Mr. Xu Pan-hua, aged 46, graduated from Shanghai Jiao Tong University with bachelor's degree in engineering and Emory University with MBA degree. He is currently the general manager in the strategic investment department of FRESHIPPO. He joined Alibaba Group Holding Ltd. (阿里巴巴集團控股有限公司) ("Alibaba Group", a company listed on the New York Stock Exchange under the stock code of BABA, and on The Stock Exchange of Hong Kong Limited under the stock code of HK.9988) 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. 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), Sanjiang Shopping Club Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 601116), New Huadu Technology Co., Ltd. (formerly known as "New Huadu Supercenter Co., Ltd.", a company listed on the Shenzhen Stock Exchange, stock code: 002264), Wuhan Wushang Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000501) and Zhejiang Quzhou Oriental Group Co., Ltd. (a company listed on the NEEQ, stock code: 833374). Mr Xu Pan-hua has been appointed as a non-executive director of the Company on 28 March 2022 and retired as a non-executive director of the Company on 15 June 2023.

Ms. Hu Xiao, aged 44, graduated from The Hong Kong University of Science and Technology with a master degree in business administration in April 2008, serves as a director and managing director of the strategic investment department of Alibaba Group consecutively since March 2017. Ms. Hu served as an accountant of KPMG Huazhen LLP (畢馬威華振會計師事務所) from September 2002 to July 2003, a research assistant of the stock research department of China International Capital Corporation Limited (中國國際金融股份有限公司) (a company listed on the Shanghai Stock Exchange under the stock code of 601995, and on The Stock Exchange of Hong Kong Limited under the stock code of HK.3908) from July 2003 to July 2006, an associate and vice president of Citigroup Global Markets Asia Limited consecutively from July 2008 to July 2012, a vice president and director of Merrill Lynch (Asia Pacific) Limited consecutively from July 2012 to March 2017. She has been a non-independent director of YTO Express Group Co., Ltd. (圓通速遞股份有限公司) (a company listed on the Shanghai Stock Exchange under the stock code of 600233) since February 2021, a director of BEST Inc. (百世集團) (a company listed on the New York Stock Exchange, stock code: BEST) since February 2022, and a non-independent director of Suning.com Co., Ltd. (蘇寧易購集團股份有限公司) (a company listed on the Shenzhen Stock Exchange under the stock code of 002024) since April 2023. Meanwhile, Ms. Hu has severed as non-executive director of Huatai Securities Co., Ltd. (華泰證券股份有限公司) (a company listed on the Shanghai Stock Exchange under the stock code of 601688, and on The Stock Exchange of Hong Kong Limited under the stock code of HK.6886), Red Star Macalline Group Corporation Ltd. (紅星美凱龍家居集團股份有限公司) (a company listed on the Shanghai Stock Exchange under the stock code of 601828, and on The Stock Exchange of Hong Kong Limited under the stock code of HK.1528) and XPeng Inc. (a company listed on the New York Stock Exchange under the stock code of XPEV, and on The Stock Exchange of Hong Kong Limited under the stock code of HK.9868). Ms Hu has been appointed as a non-executive director of the Company on 15 June 2023.

Ms. Zhang Shen-yu, aged 51, 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 Shen-yu 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 Shen-yu was appointed as a non-executive director of the Company on 22 June 2020.

Mr. Dong Xiao-chun, aged 59, senior accountant, holds a master's degree in Business Administration from Shanghai Jiaotong University. 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 Incorporated Company (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 from May 2020 to June 2023, the secretary of the board of directors of Shanghai Bailian from June 2020 to June 2023 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 71, 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 71, 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 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 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 of Hong Kong Limited with stock code 601211 and HK.2611, respectively) from May 2016 to May 2023, 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 66, 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 of Hong Kong Limited with stock code HK.0592), Want Want China Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code HK.0151) and Tam Jai International Co. Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code HK.2217). Before his retirement in April 2020, Mr. Lee Kwok Ming, Don 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 of Hong Kong Limited with stock code HK.1836). Mr. Lee Kwok Ming, Don has held the position of financial director in various listed companies of The Stock Exchange of Hong Kong Limited 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 61, is the Professor of Management Practice at Peking University HSBC Business School (PHBS), Director of Centre of Innovation and Entrepreneurship at PHBS and the vice chairman of CGL. Mr. Chen has served as an independent director of linklogis Inc (聯易融科技集團) (a company listed on The Stock Exchange of Hong Kong Limited, 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 49, is a Charted Professional Accountant (CPA) of Canada and Certified Information System Auditor (CISA). Mr. Zhao 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. Mr. Zhao 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 53, 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 First Pharmaceutical 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 53, 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 August 1991 to March 2003, Ms. Tang worked in the second chemical supply company of Shanghai Chemical Industry Corporation, serving as the statistician, planner and clerk of manager's office. From March 2003 to January 2007, 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 rubber and plastic branch company. From January 2007 to September 2014, Ms. Tang worked in Shanghai Jingtong Chemical Development Co., Ltd., serving as the director of general office from January 2007 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 May 2010 to May 2012, the secretary of the Party branch, the deputy general manager and the secretary of the Discipline Commission from May 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. From October 2017 to October 2019, Ms. Tang served as the deputy secretary of the Party Committee, the secretary of the Disciplinary Committee and president of labour union of the Company. Since October 2017, she also served as the secretary of the Party Committee of Shanghai Lianhua Quik Convenience Co., Ltd., and from October 2019 to March 2021, she served as the presiding deputy secretary of the Party Committee of the Company. Since March 2021, Ms. Tang has served as the secretary of the Party Committee of the Company. Ms. Tang was appointed as a supervisor of the Company on 11 December 2019.

Ms. Tian Ying-jie, aged 46, graduate degree, Chinese CPA, is currently the deputy general manager of Shanghai Bailian. Ms. Tian served as a senior auditor of Nanjing Branch of Deloitte Touche Tohmatsu, 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 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 and retired as a supervisor of the Company on 15 June 2023.

Mr. Luo Yang-hong, aged 43, holds an MBA from Hong Kong Baptist University. From July 2004 to April 2011, Mr. Luo served as senior audit manager of audit department of CIS Region of Huawei Technologies Co., Ltd.. From May 2011 to January 2014, he served as deputy general manager of the finance department of GCL (Group) Holdings Limited. From February 2014 to March 2017, he served as deputy general manager of regional financial cost of Shanghai Regional Company of Wanda Commercial Management Co., Ltd.. From April 2017 to June 2020, he served as the deputy general manager of Shenzhen Ping An Integrated Financial Services Co., Ltd.. From September 2020 to February 2021, he served as the chief financial officer of Hengtai Business Management Group Co., Ltd.. From April 2021 to September 2022, he served as the chief financial officer of Shanghai Eye Control Technology Co., Ltd.. Since October 2022, he has served as the deputy general manager of finance of Shanghai Bailian. Mr. Luo has been appointed as a supervisor of the Company on 15 June 2023.

Joint Company Secretaries

Ms. Xu Xiao-yi, aged 46, 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 currently serves as the chief financial officer, the secretary of the Board, company secretary, 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. Ms. Xu 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 June 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 served as the deputy chief financial officer of the Company from June 2020 to July 2022. Ms. Xu was appointed as the Secretary of the Board of Directors and authorized representative of the Company on 10 June 2020, served as a joint company secretary of the Company from 2 July 2020 to 1 July 2023, was appointed as the chief financial officer of the Company on 8 July 2022 and was appointed as the company secretary of the Company on 2 July 2023.

Ms. Leung Shui Bing, aged 47, 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 and resigned as a joint company secretary of the Company on 2 July 2023.

Senior Management

Mr. Liang Bao-long, aged 59, is a senior operator and a logistician, holds a master's degree in business administration from the Arizona State University in the United States. Mr. Liang studied at Tongji University majoring in Management Engineering and at Shanghai Polytechnic University in computer applications. From July 1984 to February 2003, Mr. Liang was a deputy section chief of the catering department, a deputy section chief, section chief of the general affairs office, general manager of service operations company and general 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 Hualian Distribution Industrial Co., Ltd. (上海華聯配送實業有限公司).He has been the deputy general manager of the Company from March 2012 to March 2021, and served as deputy secretary of the Party Committee, secretary of the Commission for Discipline Inspection and head of the trade union of the Company since March 2021.

Mr. Dong Gang, aged 45, 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 director of procurement and store general manager in Dalian; from March 2006 to November 2008, he was the store general manager in Shenyang; from November 2008 to May 2010, he was chief operating officer of Shandong Region; from May 2010 to July 2012, he served as chief operating officer of North China Region; from July2012 to July 2015, he served as chief operating officer of Northeast Region. From November 2015 to August 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. Gu Feng-min, aged 53, 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

25.87%

BAILIAN GROUP CO., LTD.

20.03%

SHANGHAI BAILIAN GROUP CO., LIMITED

33.28%
H SHARES

18.00%
ALIBABA (CHINA) TECHNOLOGY CO., LTD

2.82%
WONG SUN HING INVESTMENT CO., LTD


本月
新年糖
三只松鼠
沃隆
65.00元
99.00元
82.80元
26.50元
26.50元

Response

Report of the Directors

The Board is pleased to present to the Shareholders the report of the Company for the year ended 31 December 2023.

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 49 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 18 to 37 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:

	2023 percentage	2022 percentage
Purchases		
Largest supplier	**2.59**	1.88
Five largest suppliers	**9.08**	6.69
Sales		
Largest customer	**0.24**	0.10
Five largest customers	**0.64**	0.40

During the year ended 31 December 2023, 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 232 to 312 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 16 to 17 of the annual report.

Accounts

The audited results of the Group for the year ended 31 December 2023 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 2023 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 2023 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 2023.

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 RMB316,165.

Bank Loans, Overdrafts and Other Borrowings

As at 31 December 2023, 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 2023:

Highest trading price per H share during the year	HK$0.610
Lowest trading price per H share during the year	HK$0.295
Total turnover volume of H shares during the year	29.5 million shares
Closing price per H share as at 31 December 2023	HK$0.355

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 2023, the classes and number of shares of the Company are as follows:

	Number of issued shares	
Class of 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 Co., Ltd.	**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 2023, details of Shareholders as recorded in the register of members of the Company are as follows:

Total number of Shareholders	33
Shareholders of domestic shares	3
Shareholders of unlisted foreign shares	1
Shareholders of H shares	29

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"). 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. 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 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.

According to the requirements under the Articles of Association of the Company (the "Articles of Association"), in general, disputes among the Shareholders 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 and disputes between holders of Unlisted Foreign Shares and holders of Domestic 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) documents regarding the conversion of Unlisted Foreign Shares having been filed with the CSRC by the Company;

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

(d) approval granted by the Shareholders of the Company at a general meeting for the conversion of Unlisted Foreign Shares into new H Shares in accordance with the Articles of Association; and

(e) 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 2023, 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 2023, 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 2023, 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 2023, 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 2023, (i) Mr. Pu Shao-hua, the chairman of the Board of the Company and a non-executive Director, is a director, the president and deputy secretary of the Party Committee of Bailian Group; (ii) Mr. Shi Xiao-long, the vice chairman of the Company and a non-executive Director, is the vice president of Bailian Group, a director of Bailian Financial Services Co., Ltd. ("Bailian Financial Services") and a director of Shanghai Modern Logistics Investment and Development Co., Ltd.; (iii) Mr. Chong Xiao-bing, the general manager of the Company and an executive Director, is the chairman of the board of directors of Hualian GMS Shopping Center Co., Ltd, a director of Bailian Financial Services and a director of Bailian Omni-channel E-commerce Co., Ltd. ("Bailian Omni-channel"); (iv) Ms. Zhang Shen-yu, a non-executive Director, is a director and the general manager of Shanghai Bailian and a director of Bailian Omni-channel; (v) Mr. Dong Xiao-chun, a non-executive Director, is a director of Shanghai Bailian; (vi) Mr. Li Feng, a Supervisor and the chairman of the supervisory committee of the Company, is the senior director of audit and risk control center of Bailian Group, a supervisor of Shanghai Bailian and the chairman of the supervisory committee of Shanghai First Pharmaceutical Co., Ltd.; and (vii) Mr. Luo Yang-hong, a Supervisor, is the deputy general manager of finance 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 Holding 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 2023.

Competing Interests

As at 31 December 2023, 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
Hu Xiao	Suning.com Co., Ltd.	Online retail sale, specialized home appliance stores, hypermarkets, membership stores, selected store	Non-independent director

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 2023.

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 2023.

Material Acquisition and Disposals of Subsidiaries and Affiliated Companies

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 Directors:

Mr. Chong Xiao-bing
Ms. Zhang Hui-qin *(Vice Chairman)* (Note 1)

Non-executive Directors:

Mr. Pu Shao-hua *(Chairman)*
Mr. Shi Xiao-long (Note 2)
Mr. Xu Pan-hua (Note 3)
Ms. Hu Xiao (Note 4)
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 (Note 5)
Mr. Luo Yang-hong (Note 6)

Notes:

1. Ms. Zhang Hui-qin was appointed as an executive Director and the vice chairman of the Company on 7 February 2024.

2. Mr. Shi Xiao-long resigned as a non-executive Director and the vice chairman of the Company on 7 February 2024.

3. Mr. Xu Pan-hua retired as a non-executive Director of the Company on 15 June 2023.

4. Ms. Hu Xiao was appointed as a non-executive Director of the Company on 15 June 2023.

5. Ms. Tian Ying-jie retired as a supervisor of the Company on 15 June 2023.

6. Mr. Luo Yang-hong was appointed as a supervisor of the Company on 15 June 2023.

Details of the profiles of the Directors, Supervisors and senior management of the Company are set out on pages 40 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 2023, 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 Transactions, Arrangements or 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 41 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 48 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 31/12/2023 RMB'000	Year Ended 31/12/2022 RMB'000
Sales to fellow subsidiaries	**917,195**	568,994
Purchases from an ultimate holding company and fellow subsidiaries	**161,342**	211,834
Sales to other related parties	**839**	1,610
Rental income from fellow subsidiaries	**55,515**	46,319
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	**5,900**	5,242
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	**6,832**	7,119
Service and platform usage fee charged by other related parties	**26,260**	30,243
Property management fee charged by fellow subsidiaries	**12,294**	13,820
Interest expenses on lease liabilities charged by fellow subsidiaries	**3,127**	5,550
Interest income earned from a fellow subsidiary	**1,763**	12,470
Interest expenses charged by a fellow subsidiary	**–**	10,522
Platform usage fee charged by fellow subsidiaries	**41,483**	45,523
Logistics resources leasing fee charged by fellow subsidiaries	**2,085**	2,373
Logistics and delivery service fee charged by fellow subsidiaries	**176**	176
Logistics and delivery service income from fellow subsidiaries	**4,815**	4,585
Logistics and delivery service fee charged by the other related parties	**3,217**	1,303
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account	**15,713**	19,361
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account upon redemption of membership points by the customers	**11,515**	11,196
Cash and cash equivalents in a fellow subsidiary	**405,729**	713,666
Investment and wealth management cooperation with a fellow subsidiary	**995,628**	865,170

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

	2023 RMB'000	2022 RMB'000
Purchases from associates – Shanghai Gude Business Cooperation Company and Shanghai Sanming Taige Information Technology Co., Ltd.	**3,140**	3,991

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 2023, the actual transaction amount of annual rent payable under the Shanghai Qingpu Leasing Agreement is approximately RMB1,846 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 2023, the actual transaction amount under the Goods Supply Framework Agreement is approximately RMB839 thousand.

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 › Single Asset Management Contract and Supplemental 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 2023, 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 RMB995.628 million.

Pursuant to the terms of the Investment and Wealth Management Cooperation Framework Agreement, Hangzhou Lianhua Huashang Group Co.,Ltd. ("Lianhua Huashang"), a subsidiary of the Company, entered into the Single Asset Management Contract dated 8 July 2021 with Shanghai Securities and the Custodian Bank in relation to the setting up of the Scheme and the investment and management of Entrusted Assets by Shanghai Securities for the benefit of Lianhua Huashang.

As the Single Asset Management Contract is expiring on 31 December 2023, Lianhua Huashang, entered into the Supplemental Agreement (the "Supplemental Agreement") with Shanghai Securities and the Custodian Bank, on 27 September 2023, to renew the Single Asset Management Contract in relation to the provision of the asset management and investment services for the Entrusted Assets by Shanghai Securities and the Custodian Bank and make certain amendments to the Single Asset Management Contract, for an extended term of 3 years commencing from 1 January 2024 and ending on 31 December 2026 (both days inclusive), pursuant to which, Shanghai Securities will invest and manage the Entrusted Assets that have been entrusted to it by Lianhua Huashang, on a discretionary basis, in accordance with the requirements of the applicable laws and regulations, regulatory requirements and investment guidelines provided under the Single Asset Management Contract (as supplemented). As at 30 October 2023, the balance of net assets of the Scheme in the escrow account maintained by the Custodian Bank is RMB951.674276 million. Under the Supplemental Agreement, Lianhua Huashang agreed to increase the total amount of Entrusted Assets to RMB1,350 million, which shall be paid in full by no later than 29 February 2024.

The annual caps in respect of the management fees payable by Lianhua Huashang to Shanghai Securities under the Single Asset Management Contract (as supplemented) for each of the financial years ending 31 December 2024, 31 December 2025 and 31 December 2026 is RMB4,200 thousand, and the annual caps in respect of the performance fees payable by Lianhua Huashang to Shanghai Securities under the Single Asset Management Contract (as supplemented) for each of the financial years ending 31 December 2024, 31 December 2025 and 31 December 2026 is RMB11,200 thousand.

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

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

The independent shareholders of the Company have approved the Supplemental Agreement at the 2023 Extraordinary General Meeting held on 21 December 2023.

Please refer to the announcements of the Company dated 23 April 2021 and dated 27 September 2023 and the Circulars of the Company dated 27 May 2021 and dated 6 November 2023 for relevant details of the transaction.

Continuing Connected Transactions – Alipay Services Agreements, Software Services Framework Agreement and Business Cooperation 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 had expired or were about to 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 2023 is approximately RMB26,260 thousand.

As the Existing Software Services Framework Agreement was expiring on 31 December 2023, the Company entered into the Business Cooperation Framework Agreement (the "Business Cooperation Framework Agreement") with Alipay on 18 October 2023 to renew and continue the transactions under the Existing Software Services Framework Agreement, pursuant to which, Alipay and its associates agreed to provide payment services and related services including, among other things, platform information services, software services, use of brand, operation assistance, management consultant and technical support, to the Company and its subsidiaries for a term of three years commencing from 1 January 2024 to 31 December 2026 (both days inclusive).

The maximum annual transaction amounts payable by the Group for each of the financial years ending 31 December 2024, 31 December 2025 and 31 December 2026 under the Business Cooperation Framework Agreement is RMB18,000 thousand.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the highest proposed annual cap under the Business Cooperation Framework Agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the Business Cooperation 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.

Please refer to the announcements of the Company dated 24 December 2020 and dated 18 October 2023 for relevant details of the transaction.

Continuing Connected Transactions – Goods Supply Framework Agreement

On 30 September 2022, the Company entered into the Goods Supply Framework Agreement (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 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 Group to Bailian Group and/or its subsidiaries 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 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 each of the financial years ending 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.

The actual transaction amount under the Goods Supply Framework Agreement for the year ended 31 December 2023 is approximately RMB29,703 thousand.

Please refer to the announcement of the Company 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 refer 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 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 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 2023 is approximately RMB4,815 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 subsidiary 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 2023 is approximately RMB3,217 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 (as defined under the Listing Rules) 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 2023 is approximately RMB176 thousand.

As the Existing Logistics and Delivery Services Framework Agreement was expiring on 31 December 2023, the Company entered into the Logistics and Delivery Services Framework Agreement with Bailian Group on 22 December 2023 to renew the related transactions under the Existing Logistics and Delivery Services Framework Agreement. Pursuant to which, Bailian Group agreed to provide logistics and delivery services to the Group, for a term commencing from 1 January 2024 to 31 December 2026 (both days inclusive).

The respective maximum annual transaction amounts payable by the Group for the financial years ending 31 December 2024, 31 December 2025 and 31 December 2026 under the Logistics and Delivery Services Framework Agreement are RMB8 million, RMB9 million and RMB10 million.

As the highest applicable percentage ratio (as defined under the Listing Rules) for the transactions contemplated under the Logistics and Delivery 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.

Please refer to the announcements of the Company dated 24 December 2020 and dated 22 December 2023 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 Resources Leasing 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-Lease 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 2023 is approximately RMB2,085 thousand.

Please refer to the announcement of the Company dated 24 September 2021 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 Services Agreement for the year ended 31 December 2023 is approximately RMB943,214 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 2023 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 –Procurement of Goods Framework Agreement

On 30 September 2022, the Company entered into the Procurement of Goods Framework Agreement (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 Group and Bailian Group and/or its associates will enter into individual procurement of goods contracts setting out specific terms. Such terms will be consistent with the principles and the terms of the Procurement of Goods Framework Agreement. If there is any discrepancy between the terms of an individual procurement of goods contract and the Procurement of Goods Framework Agreement, the latter shall prevail.

The pricing for the goods procured under the Procurement 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 procurement of goods under the Procurement of Goods Framework Agreement are to be made as agreed in the agreement (which shall be determined by the market practice of the payment period of such particular type of goods procured and shall not be less favourable than those available from independent third parties). Details of the payment terms shall be set out in the individual procurement 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.

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

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 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 extraordinary general meeting on 1 December 2022.

The actual transaction amount under the Procurement of Goods Framework Agreement for the year ended 31 December 2023 is approximately RMB160,092 thousand.

Please refer to the announcement of the Company dated 30 September 2022, and the circular of the Company 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 2023 is RMB5,900 thousand, whereas the actual fees paid by the Company to Bailian Group for the year ended 31 December 2023 is RMB6,832 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 than those available 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 2023 is RMB3,185 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 2023 is RMB12,294 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 30 September 2022, the Company entered into the Sales Agency Framework Agreement (the "Sales Agency Framework Agreement") with Bailian Omni-channel, pursuant to which, Bailian Omni-channel agreed to sell the Goods (as defined below) 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.

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 as agreed in the agreement. 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 e-commerce 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. Besides, the Company shall also pay Bailian Omni-channel the payment handling fees which shall be charged at actual cost 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, and the third party platform usage fees paid by Bailian Omni-channel on behalf of the Group at actual cost.

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 e-commerce platforms, the Company agrees to 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 at actual cost 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 usage fees paid by Bailian Omni-channel on behalf of the Group at actual cost.

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 as agreed in the agreement 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 receive an order from the end customer on its e-commerce platform, it 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. 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 as agreed in the agreement. 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 at actual cost 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 are equivalent to the total transaction amount of Goods sold through the third-party platforms as agreed in the agreement. 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 usage fees paid by Bailian Omni-channel on behalf of the Group at actual cost.

Bailian Group is a substantial Shareholder of the Company, Bailian Omni-channel is a 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 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 ended 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 ended 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.

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 2023 is approximately RMB887,492 thousand. The actual platform usage fee paid by the Group under the Sales Agency Framework Agreement for the year ended 31 December 2023 is approximately RMB41,483 thousand.

As the Existing Sales Agency Framework Agreement was expiring on 31 December 2023, the Company entered into the Sales Agency Framework Agreement with Bailian Omni-channel on 27 September 2023 to renew and continue the transactions under the Existing Sales Agency Framework Agreement, 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 three years commencing from 1 January 2024 to 31 December 2026 (both days inclusive).

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 three financial years ending 31 December 2026 under the Sales Agency Framework Agreement is RMB1,400 million, RMB1,500 million and RMB1,600 million respectively.

The maximum platform usage fee payable by the Group for the three financial years ending 31 December 2026 under the Sales Agency Framework Agreement is RMB95,000 thousand, RMB107,000 thousand and RMB120,000 thousand respectively. Amongst which, Bailian Omni-channel Platform Fees shall not exceed RMB31,000 thousand, RMB32,000 thousand and RMB33,000 thousand respectively.

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of 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 21 December 2023.

Please refer to the announcements of the Company 30 September 2022 and dated 27 September 2023 and the circulars of the Company 16 November 2022 and dated 6 November 2023, 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 2023 is approximately RMB15,713 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 2023 is approximately RMB11,515 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 individual lease transactions under the Property Leasing Framework Agreement for the year ended 31 December 2023 is approximately RMB11,581 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 30 September 2022, the Company entered into the Warehouse Leasing Framework Agreement (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).

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 Group to Bailian Group and/or its subsidiaries 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 each of the financial years ending 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.

The actual transaction amount paid by Bailian Group under the Warehouse Leasing Framework Agreement for the year ended 31 December 2023 is approximately RMB16,407 thousand.

Please refer to the announcement of the Company dated 30 September 2022 for relevant details of the transaction.

Continuing Connected Transactions – Leasing Agreements

Bailian Xijiao

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 ("Shanghai Xianxia Leasing Agreement"). 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.

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.

The actual rental paid by Century Lianhua under the lease agreement for the year ended 31 December 2023 are approximately RMB0.

Given the transformation and upgrading needs of Bailian Xijiao (being the Landlord), all tenants are required to cease operation and withdraw from business, therefore, the hypermarket of the Company located in the Premise also ceased operation. On 30 January 2024, Shanghai Century Lianhua Changning Co., Ltd.（上海世紀聯華超市長寧有限公司）("Century Lianhua Changning"), a subsidiary of the Company, entered into the Termination Agreement with Bailian Xijiao, in relation to, among others, the early termination of the Shanghai Xianxia Leasing Agreement after arms' length negotiation. Under the Termination Agreement, Century Lianhua Changning will be compensated for the early termination of the Shanghai Xianxia Leasing Agreement as requested by Bailian Xijiao. The principle terms of the Termination Agreement are as follows:

(1) Date of Termination: 27 June 2022.

(2) A total sum of RMB10 million is payable by Bailian Xijiao to Century Lianhua Changning as compensation payment for the early termination of the Shanghai Xianxia Leasing Agreement. The sum represents the entire sum payable by Bailian Xijiao to Century Lianhua Changning in connection to the early termination of the Shanghai Xianxia Leasing Agreement and covers compensation for all losses to be incurred by Century Lianhua Changning, including, among others, staff redundancy payment payable by Century Lianhua Changning, the loss on the fixed assets and the loss on inventory of goods.

(3) The compensation payment will be payable by Bailian Xijiao to Century Lianhua Changning no later than 31 January 2024 in one go.

(4) Both parties shall not be liable to each other for any breach of contract or compensation other than the compensation set out above.

Please refer to the announcements of the Company dated 28 November 2017, 24 December 2020 and 30 January 2024 for relevant details.

Bailian Central

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 transactions constitute 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 2023 is approximately RMB14,559 thousand.

Bailian Nanqiao

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 2023 is approximately RMB3,893 thousand.

Bailian Jinshan

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 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.

In 2022, Shanghai Bailian Department Store Management Co., Ltd. ("Bailian Department Store", a wholly-owned subsidiary of Shanghai Bailian) disposed of its equity interests and claims in Bailian Jinshan and other companies through public listing and transfer and carried out asset-backed securitization, and in November 2022, the special scheme was formally established. Upon completion of the aforesaid transaction, Bailian Jinshan is no longer a subsidiary of Bailian Group, and its financial statement ceased to be consolidated into the accounts of Bailian Group. Accordingly, the Company no longer considers Bailian Jinshan as a connected person of the Company under Chapter 14A of the Listing Rules and the transactions between the Company and Bailian Jinshan therefore no longer constitute connected transactions.

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

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 Bailian (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 2023 is approximately RMB27,527 thousand.

Given the store located at the Premises recorded operating losses for successive years, Shanghai Bailian Dongjiao Shopping Centre Co., Ltd. (上海百聯東郊購物中心有限公司) ("Bailian Dongjiao"), a subsidiary of Shanghai Bailian, has decided to early terminate the Shanghai Yuqiao Leasing Agreement to close the store accordingly. On 30 January 2024, Century Lianhua Yuqiao entered into the Termination Agreement with Bailian Dongjiao after arms' length negotiation, in relation to, among others, the early termination of the Shanghai Yuqiao Leasing Agreement. Under the Termination Agreement, Lianhua Yuqiao will be compensated for the early termination of the Shanghai Yuqiao Leasing Agreement as requested by Bailian Dongjiao. The principle terms of the Termination Agreement are as follows:

(1) Date of Termination: 30 November 2023.

(2) A total sum of RMB8.25 million is payable by Bailian Dongjiao to Century Lianhua Yuqiao as compensation payment for the early termination of the Shanghai Yuqiao Leasing Agreement. The sum represents the entire sum payable by Bailian Dongjiao to Century Lianhua Yuqiao in connection to the early termination of the Shanghai Yuqiao Leasing Agreement, which also takes into account factors such as the operating costs and the loss of revenue from merchant solicitation of Century Lianhua Yuqiao.

(3) The compensation will be payable by Bailian Dongjiao to Century Lianhua Yuqiao no later than 31 January 2024 in one go.

(4) Both parties shall not be liable to each other for any breach of contract or compensation other than the compensation set out above.

The relevant details are set out in the announcements of the Company dated 15 July 2011 and 30 January 2024.

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

27 March 2024
Shanghai, the PRC

The Company focuses on the brand vision of "Increasing our customers' loyalty to us", establishes the brand mission of "Good commodities and good experience to build a good life ", and the brand values of "Staying customer-oriented, pursuing excellence, leading by innovation, upholding integrity, devoting to retail industry ". We adhere to the brand characteristics of "Integrity and reliability, sharing of favors, life inspiration, and family enjoyment", and use a strong brand matrix to assist consumers in pursuing high-quality life.

The Company believes that a healthy corporate culture is the core of good corporate governance and is crucial for achieving our vision and strategy. All Directors of the Company lead by example, uphold integrity, set a good example of business ethics, and promote corporate culture throughout the Company through various means, so that all employees understand the core values and behaviors of corporate culture, and continuously strengthen the concept of "acting in accordance with the law, ethics, and responsibility". In 2024, the Company will continue to strengthen emotional communication with consumers, enhance their impression and favorability towards the brand, and enable them to "Living wholeheartedly".

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 C1 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 C1 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.

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.

Ms. Hu Xiao, a non-executive Director, was unable to attend the second meeting of the eighth session of the Board convened on 29 August 2023 by the Company due to her other business commitments.

Mr. Pu Shao-hua, a non-executive Director, and Mr. Xia Da-wei, an independent non-executive Director, were unable to attend the third meeting of the eighth session of the Board convened on 21 December 2023 by the Company due to their other business commitments.

Mr. Xu Pan-hua, the then non-executive Director, was unable to attend the 2022 annual general meeting of the Company convened on 15 June 2023 (the "2022 AGM") due to his other business commitments.

Mr. Pu Shao-hua, a non-executive Director, and Mr. Xia Da-wei, an independent non-executive Director, were unable to attend the 2023 extraordinary general meeting of the Company convened on 21 December 2023 (the "2023 EGM") due to their other business commitments.

Mr. Pu Shao-hua, a non-executive Director, and Mr. Xia Da-wei, an independent non-executive Director, were unable to attend the 2023 Class Meeting of Holders of Domestic Shares and Unlisted Foreign Shares of the Company convened on 21 December 2023 (the "2023 Class Meeting of Holders of Domestic Shares and Unlisted Foreign Shares") due to their other business commitments.

Mr. Pu Shao-hua, a non-executive Director, and Mr. Xia Da-wei, an independent non-executive Director, were unable to attend the 2023 Class Meeting of Holders of H Shares of the Company convened on 21 December 2023 (the "2023 Class Meeting of Holders of H Shares") due to their other business commitments.

Ms. Hu Xiao, a non-executive Director, Mr. Wong Tak Hung, a non-executive Director, and Mr. Chen Wei, an independent non-executive Director, were unable to attend the fourth meeting of the eighth session of the Board convened on 27 March 2024 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 or special 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 2022 AGM, 2023 EGM, 2023 Class Meeting of Holders of Domestic Shares and Unlisted Foreign Shares and 2023 Class Meeting of Holders of H Shares (collectively referred to as the "2023 General Meetings") to all members of the Board before the 2023 General Meeting. Save as the special resolution in relation to the proposed amendments to the Articles of Association was not passed at the 2023 Class Meeting of Holders of H Shares, all ordinary resolutions and special resolutions considered at the 2023 General Meetings were passed smoothly. The Company sent the related minutes of the 2023 General Meetings to all members of the Board after the 2023 General Meetings 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. The Board comprises a balanced mix of executive Directors and non-executive Directors (including independent non-executive Directors), which provides the Board with strong independence and enables it to exercise independent judgement effectively.

As approved at the 2022 AGM held on 15 June 2023, the eighth 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 2025. 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 2025, and such term is renewable subject to the laws and regulations. The names of the Directors referred herein are members of the eighth 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 operation 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 four Board meetings, one 2022 AGM, one 2023 EGM, one 2023 Class Meeting of Holders of Domestic Shares and Unlisted Foreign Shares and one 2023 Class Meeting of Holders of H Shares during the year. Attendance record of the Directors is as follows:

	Meetings Attended/Held				
Directors	**Board Meetings**	**2022 AGM**	**2023 EGM**	**2023 Class Meeting of Holders of Domestic Shares and Unlisted Foreign Shares**	**2023 Class Meeting of Holders of H Shares**
Executive Directors					
Mr. Chong Xiao-bing	4/4	1/1	1/1	1/1	1/1
Ms. Zhang Hui-qin *(vice chairman)*(Note 1)	–	–	–	–	–
Non-executive Directors					
Mr. Pu Shao-hua *(chairman)*	3/4	1/1	0/1	0/1	0/1
Mr. Shi Xiao-long (Note 2)	4/4	1/1	1/1	1/1	1/1
Mr. Xu Pan-hua (Note 3)	1/1	0/1	-	-	-
Ms. Hu Xiao (Note 4)	2/3	-	1/1	1/1	1/1
Ms. Zhang Shen-yu	3/4	1/1	1/1	1/1	1/1
Mr. Dong Xiao-chun	4/4	1/1	1/1	1/1	1/1
Mr. Wong Tak Hung	4/4	1/1	1/1	1/1	1/1
Independent Non-executive Directors					
Mr. Xia Da-wei	2/4	1/1	0/1	0/1	0/1
Mr. Lee Kwok Ming, Don	4/4	1/1	1/1	1/1	1/1
Mr. Chen Wei	4/4	1/1	1/1	1/1	1/1
Mr. Zhao Xin-sheng	4/4	1/1	1/1	1/1	1/1

Notes:

1. Ms. Zhang Hui-qin was appointed as executive Director of the Company on 7 February 2024.

2. Mr. Shi Xiao-long resigned from the office of non-executive Director of the Company on 7 February 2024.

3. Mr. Xu Pan-hua retired from the office of non-executive Director of the Company on 15 June 2023.

4. Ms. Hu Xiao was appointed as non-executive Director of the Company on 15 June 2023.

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	✓		
Ms. Hu Xiao	✓		
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 27% and the proportion of female employees on the Company's entire workforce is 68%. The Company will also take measures to maintain a diversified and balanced portfolio level for all employees.

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.

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 approved by ordinary resolutions at the annual general meeting on 15 June 2023, the eighth session of the Board was established. On the same day, the Board established the eighth session of the Board Committees in accordance with the requirements of the Code. As at the date of publication of this annual report, members of each of the eighth session of the Board Committees are as follows:

Board Committees	Members				
The Audit Committee	Mr. Lee Kwok Ming, Don *(Chairman)*	Mr. Xia Da-wei	Mr. Zhao Xin-sheng	Mr. Dong Xiao-chun	–
The Remuneration and Appraisal Committee	Mr. Xia Da-wei *(Chairman)*	Ms. Zhang Hui-qin	Mr. Chen Wei	Mr. Zhao Xin-sheng	–
The Strategic Committee	Mr. Pu Shao-hua *(Chairman)*	Ms. Zhang Hui-qin	Mr. Chong Xiao-bing	Ms. Hu Xiao	Ms. Zhang Shen-yu
The Nomination Committee	Mr. Pu Shao-hua *(Chairman)*	Mr. Chen Wei	Mr. Xia Da-wei	Mr. Zhao Xin-sheng	–
The 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 2025 annual general meeting of the Company.

(2) Mr. Xu Pan-hua retired from the office of a non-executive Director and a member of the Strategic Committee of the Company on 15 June 2023. Ms. Hu Xiao was appointed as a non-executive Director and a member of the Strategic Committee of the Company on 15 June 2023. Ms. Zhang Hui-qin was appointed as an executive Director, a member of the Remuneration and Appraisal Committee and a member of the Strategic Committee of the Company on 7 February 2024. Mr. Shi Xiao-long resigned from the office of a non-executive Director, a member of the Remuneration and Appraisal Committee and a member of the Strategic Committee of the Company on 7 February 2024.

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

Audit Committee

The Board passed a resolution on 15 June 2023 to establish the eighth 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 provide 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 2023, the Audit Committee held five 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 18 January 2023, and after listening to the report of the management of the Company on the 2022 performance statement, risk investigation and response plan, and income tax planning consultation, the Audit Committee put forward relevant opinions and suggestions.

The Audit Committee held a meeting on 16 March 2023 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 2022, 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 2022 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 2022 and suggested to re-appoint the domestic and international auditors for 2023. The Audit Committee confirmed that the continuing connected transactions of the Company in 2022 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 15 June 2023 and elected Mr. Lee Kwok Ming, Don as the Chairman of the eighth Audit Committee.

The Audit Committee held a meeting on 17 August 2023 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 2023 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.

The Audit Committee held a meeting on 16 November 2023 to consider and approve the proposal of the recognition of share of loss in relation to an associate of the Company.

Set out below is the attendance records of the members of the Audit Committee in 2023:

Name	18 January 2023	16 March 2023	15 June 2023	17 August 2023	16 November 2023
Independent Non-executive Directors					
Mr. Lee Kwok Ming, Don *(Chairman)*	Present	Present	Present	Present	Present
Mr. Xia Da-wei	Present	Present	Present	Present	Present
Mr. Zhao Xin-sheng	Present	Present	Present	Present	Present
Non-executive Director					
Mr. Dong Xiao-chun	Present	Present	Present	Present	Present

Remuneration and Appraisal Committee

On 15 June 2023, the Board passed a resolution to establish the eighth 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 executive Director. The primary duties, roles and functions of the Remuneration and Appraisal Committee are:

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

(c) review the fulfillment of duties of directors (non-independent directors) and senior management and appraise their annual performance;

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

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

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

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

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

(j) 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) 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) ensure that no director or any of his associates is involved in deciding his own remuneration;

(m) have access to independent professional advice if necessary;

(n) handle specific matters related to employee equity incentives, report and make proposals to the Board (including reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules);

(o) consider other responsibilities authorized by the Board.

During the year ended 31 December 2023, the Remuneration and Appraisal Committee held two meetings 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 2023. 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 manager and deputy general managers for 2022.

The Remuneration and Appraisal Committee held a meeting on 15 June 2023, and elected Mr. Xia Da-wei as the chairman of the eighth Remuneration and Appraisal Committee.

Set out below is the attendance records of the members of the Remuneration and Appraisal Committee in 2023:

Name	28 March 2023	15 June 2023
Independent Non-executive Directors		
Mr. Xia Da-wei *(Chairman)*	Present	Present
Mr. Chen Wei	Present	Present
Mr. Zhao Xin-sheng	Present	Present
Non-Executive Director		
Mr. Shi Xiao-long (Note)	Present	Present
Executive Director		
Ms. Zhang Hui-qin (Note)	–	–

Note: Mr. Shi Xiao-long resigned from the office of a member of the Remuneration and Appraisal Committee on 7 February 2024; Ms. Zhang Hui-qin was appointed as a member of the Remuneration and Appraisal Committee on 7 February 2024.

Strategic Committee

On 15 June 2023, the Board passed a resolution to establish the eighth session of the Strategic Committee. The Strategic Committee currently comprises five members, including two executive Directors and three non-executive Directors (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 2023, the Strategy Committee held two meetings. The main tasks performed include a review of the implementation of the Company's strategy in 2022 and the election of Mr. Pu Shao-hua as the chairman of the eighth session of the Strategic Committee.

Set out below is the attendance record of the members of the Strategy Committee in 2023:

Name	28 March 2023	15 June 2023
Executive Directors		
Mr. Chong Xiao-bing	Present	Present
Ms. Zhang Hui-qin (Note)	–	–
Non-executive Directors		
Mr. Pu Shao-hua *(Chairman)*	Present	Present
Mr. Shi Xiao-long (Note)	Present	Present
Mr. Xu Pan-hua (Note)	Present	–
Ms. Hu Xiao (Note)	–	Present
Ms. Zhang Shen-yu	Present	Present

Note: Ms. Zhang Hui-qin was appointed as a member of the Strategic Committee on 7 February 2024. Mr. Shi Xiao-long resigned from the office of a member of the Strategic Committee on 7 February 2024. Mr. Xu Pan-hua retired from the office of a member of the Strategic Committee on 15 June 2023, Ms. Hu Xiao was appointed as a member of the Strategic Committee on 15 June 2023.

Nomination Committee

On 15 June 2023, the Board passed a resolution to establish the eighth 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 2023, the Nomination Committee held three 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 eighth session of the Board and on the candidates for the members of the eighth session of the Board Committees etc., which were approved and passed by way of resolutions at these meetings, and elected Mr. Pu Shao-hua as the chairman of the eighth session of the Nomination Committee.

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 2023:

Name	28 March 2023	21 April 2023	15 June 2023
Independent Non-executive Directors			
Mr. Chen Wei	Present	Present	Present
Mr. Xia Da-wei	Present	Present	Present
Mr. Zhao Xin-sheng	Present	Present	Present
Non-Executive Director			
Mr. Pu Shao-hua *(chairman)*	Present	Present	Present

Environmental, Social and Governance Committee

On 15 June 2023, the Board passed a resolution to establish the eighth 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 2023, the Environmental, Social and Governance (ESG) Committee held two meetings. These meetings have reviewed and approved the 2022 ESG Report of the Company and elected Mr. Chong Xiao-bing as the chairman of the eighth session of the Environmental, Social and Governance (ESG) Committee.

Set out below is the attendance record of the members of the Environmental, Social and Governance Committee in 2023:

Name	28 March 2023	15 June 2023
Independent Non-executive Directors		
Mr. Lee Kwok Ming, Don	Present	Present
Mr. Chen Wei	Present	Present
Executive Director		
Mr. Chong Xiao-bing *(chairman)*	Present	Present
Non-Executive Director		
Ms. Zhang Shen-yu	Present	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 2023.

Remuneration of Auditors

The Audit Committee is responsible for considering the appointment of auditors and reviewing their remuneration. For the year under review, RMB4,085 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.

The Stock Exchange has confirmed that Ms. Xu Xiao-yi was qualified to act as the company secretary of the Company as required under Rule 3.28 of the Listing Rules. Accordingly, the Board announced that Ms. Xu Xiao-yi has been appointed by the Board as the company secretary of the Company with effect from 2 July 2023, and Ms. Leung Shui Bing has resigned as the joint company secretary of the Company with effect from 2 July 2023.

In compliance with Rule 3.29 of the Listing Rules, during the year ended 31 December 2023, Ms. Xu Xiao-yi 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 2023, 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 2023, 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 all executive Directors. 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 2022 annual report and 2023 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 18 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. During the period under review, through the above measures of communication with investors, the Company has reviewed and examined the implementation and effectiveness of the Shareholders' Communication Policy and is of the view that the Shareholders' Communication Policy of the Company was implemented fully and effectively.

Changes in Company's Constitutional Document

On 14 February 2023, the State Council of the PRC (the "State Council") issued the Decision of the State Council to Repeal Certain Administrative Regulations and Documents (《國務院關於廢止部分行政法規和文件的決定》) (the "Decision"), which includes the repeal of the Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) issued by the State Council on 4 August 1994. On 17 February 2023, the CSRC issued the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the "Trial Measures") and relevant guidelines, which includes the repeal of the Notice on the Implementation of the Mandatory Provisions for Companies Listing Overseas (《關於執行〈到境外上市公司章程必備條款〉的通知》). The Decision and the Trial Measures have been effective since 31 March 2023 (the "PRC Regulation Changes"). From the effective date of the Decision and the Trial Measures, PRC issuers shall formulate their articles of association with reference to the Guidelines on Articles of Association of Listed Companies (《上市公司章程指引》) instead of the Mandatory Provisions for Companies Listing Overseas. Furthermore, domestic Shareholders and unlisted foreign Shareholders and H Shareholders are no longer deemed to be different classes of shareholders, thus the class meeting requirement applicable to domestic Shareholders and unlisted foreign Shareholders and H Shareholders are no longer necessary and removed.

In view of the above PRC Regulation Changes, the Stock Exchange also released a consultation paper "Rule Amendments Following Mainland China Regulation Updates and Other Proposed Rule Amendments Relating to PRC Issuers" (the "Consultation Paper") on 24 February 2023, stipulating the consequential Listing Rules Amendments. On 21 July 2023, the Stock Exchange published conclusions to the Consultation Paper. In particular, the Stock Exchange has made consequential amendments to the Listing Rules which have come into effect since 1 August 2023 to, amongst others, reflect the PRC Regulation Changes. Accordingly, the Company is required to amend its existing Articles of Association to comply with the requirements of the Listing Rules and the applicable laws and regulations of the PRC (the "Proposed Amendments"). Upon adoption of the Proposed Amendments, the numbers of the articles of the Articles of Association will be accordingly carried forward and the numbers of the articles quoted in the Articles of Association will be adjusted accordingly.

As domestic Shares, unlisted foreign Shares and H Shares are regarded as one class of ordinary shares under PRC law following the PRC Regulation Changes and holders of the domestic Shares, unlisted foreign Shares and H Shares are no longer deemed to be different classes of shareholders, the substantive rights attached to such shares (including rights on voting, dividend and asset distribution upon liquidation) are the same, thus the Proposed Amendments (including the removal of the class meeting requirement from the Articles of Association following the repeal of the Mandatory Provisions for Companies Listing Overseas) will not compromise protection of the H Shareholders and will not have material impact on measures relating to shareholder protection.

In view of the above, the Board proposed to amend its existing Articles of Association. The Proposed Amendments are set out in Appendix I of the announcement of the Company dated 28 September 2023 and Appendix II of the circular of the Company dated 6 November 2023. According to the existing Articles of Association and the relevant laws and regulations, the amendments to the Articles of Association will take effect subject to the approval of the Shareholders by way of a special resolution at each of the general meeting, the Class Meeting of Holders of H Shares and the Class Meeting of Holders of Domestic Shares and Unlisted Foreign Shares. The Articles of Association are prepared in Chinese with no official English version. Any English translation is for reference only. In the event of any inconsistency, the Chinese version shall prevail.

The Company convened 2023 EGM, 2023 Class Meeting of Holders of Domestic Shares and Unlisted Foreign Shares and 2023 Class Meeting of Holders of H Shares on 21 December 2023 to review and approve the special resolution to approve the Proposed Amendments to the Articles of Association the Company. The special resolution to approve the Proposed Amendments to the Articles of Association of the Company was approved by 2023 EGM and 2023 Class Meeting of Holders of Domestic Shares and Unlisted Foreign Shares, but was not approved by 2023 Class Meeting of Holders of H Shares. Therefore, according to the provisions Articles of Association of the Company, the special resolution to amend the Articles of Association Company was not approved.

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 eight meetings. On 28 March 2023, the Supervisory Committee held a meeting, at which the Supervisory Committee objectively evaluated the Group's business operation for the year of 2022, and was fully satisfied with the work done by the Group in 2022, 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 2022 and discussed and adopted the report of the Supervisory Committee for 2022. The Supervisory Committee reviewed and approved the Company's 2022 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 2022 profit distribution. The Supervisory Committee reviewed and approved the proposal on the Company applying for financing line and credit line from the bank for 2023, and authorized the General Manager's Office of the Company to sign various legal documents related to the above credit line.

On 21 April 2023, the Supervisory Committee convened a meeting to review and approve the proposal on nominating candidates for the eighth session of the Supervisory Committee. The Supervisory Committee reviewed and approved the proposal on Shanghai Century Lianhua Supermarket Jinshan Co., Ltd. and Shanghai Yibai Group Real Estate Co., Ltd. entering into the related transaction of Shanghai Jinshan lease agreement, and confirmed that the above transactions were ordinary businesses of the Company and 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 15 June 2023, the Supervisory Committee convened a meeting to review and approve the proposal to elect the Chairman of the eighth session of the Supervisory Committee of the Company.

On 29 August 2023, the Supervisory Committee convened a meeting regarding the operating conditions of the first half of the year ended 30 June 2023 and received reports from the management of the Group relating to the financial condition of the first half of 2023. The Supervisory Committee reviewed and approved the proposal on the Company entering into the connected transaction of the 2024-2026 sales agency framework agreement with Bailian Omni-Channel, and confirmed that the above transactions were ordinary business of the Company and 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 Hangzhou Lianhua Huashang Group Co.,Ltd.(the "Lianhua Huashang") entering into the connected transaction of the 2024-2026 asset management agreement with Shanghai Securities Co., Ltd.(the "Shanghai Securities"), 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 entering into the connected transaction of the 2024-2026 Alipay business cooperation framework agreement with Alipay.com Co., Ltd., and confirmed that the above transactions were ordinary business of the Company and 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 18 September 2023, the Supervisory Committee convened a meeting to review and approve the proposal on the Company providing special loans for entrusted loan litigation to Shanghai Carhua Supermarket Co., Ltd. (the "Shanghai Carhua").

On 25 September 2023, the Supervisory Committee convened a meeting to review and approve the proposal on adding connected transaction clauses in the 2024-2026 asset management agreement between Lianhua Huashang and Shanghai Securities, 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 16 November 2023, the Supervisory Committee convened a meeting to review and approve the proposal on recognition of share of loss of Shanghai Carhua, an associate of the Company, and were of the view that the share of loss of Shanghai Carhua were recognised in accordance with the Hong Kong Financial Reporting Standards and the relevant requirements of the Company and are in line with the actual conditions of the Company's assets. After recognition of the share of loss of Shanghai Carhua, the financial statements of the Company for the year ending 31 December 2023 will more fairly reflect the financial position and operating results of the Group.

On 21 December 2023, the Supervisory Committee convened a meeting to review and approve the proposal on the Company entering into the connected transaction of the 2024-2026 Logistics and Delivery Services Framework Agreement with Bailian Group, and confirmed that the above transactions were ordinary business of the Company and 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 eighth 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 231, which comprise the consolidated statement of financial position as at 31 December 2023, 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 2023, 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 2023, the Group has recognised impairment losses of RMB14,380,000 on property, plant and equipment.	Our audit procedures in relation to the impairment assessment on certain identified 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 OF THE COMPANY 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 of the Company 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 of the Company 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 of the Company 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 of the Company.

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

- Conclude on the appropriateness of the directors of the Company's 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
27 March 2024

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

	notes	Year ended 31/12/2023 RMB'000 (audited)	Year ended 31/12/2022 RMB'000 (audited and restated)
Revenue	5	**21,835,879**	24,681,396
Cost of sales		**(19,054,807)**	(21,299,101)
Gross profit		**2,781,072**	3,382,295
Other revenue	5	**1,903,566**	2,058,711
Other income and other gains and losses	7	**507,769**	471,145
Impairment recognised under expected credit loss ("ECL") model, net of reversal	9	**(128)**	(1,132)
Distribution and selling expenses		**(4,286,547)**	(4,715,290)
Administrative expenses		**(782,154)**	(788,724)
Other expenses	10	**(118,928)**	(42,185)
Share of results of associates		**(361,398)**	(111,526)
Finance costs	8	**(232,641)**	(276,866)
Loss before tax	11	**(589,389)**	(23,572)
Income tax expense	12	**(124,837)**	(101,503)
Loss and total comprehensive expense for the year		**(714,226)**	(125,075)
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(791,317)**	(206,527)
Non-controlling interests		**77,091**	81,452
		(714,226)	(125,075)
Loss per share – basic	15	**RMB0.71**	RMB0.18

Consolidated Statement of Financial Position

At 31 December 2023

	notes	31/12/2023 RMB'000	31/12/2022 RMB'000 (restated)
Non-current assets			
Property, plant and equipment	16	**3,221,869**	3,463,791
Construction in progress	17	**14,339**	4,330
Right-of-use assets	18	**5,022,128**	5,738,461
Intangible assets	19	**126,477**	123,005
Goodwill	21	**146,096**	148,017
Interests in associates	22	**231,382**	592,814
Financial assets at fair value through profit or loss ("FVTPL")	23	**53,851**	42,319
Finance lease receivables-non-current	25	**57,441**	188,758
Term deposits	24	**4,278,060**	2,605,420
Deferred tax assets	27	**77,712**	69,380
Other non-current assets	28	**157,090**	82,115
		13,386,445	13,058,410
Current assets			
Inventories	29	**2,431,542**	3,036,797
Finance lease receivables-current	25	**23,512**	47,895
Prepaid rental	26	**5,128**	4,727
Trade and bills receivables	30	**238,326**	242,853
Deposits, prepayments and other receivables	31	**486,561**	696,646
Financial assets at FVTPL	23	**996,485**	867,164
Amount due from an ultimate holding company	32	**690**	8
Amounts due from fellow subsidiaries	32	**41,855**	48,633
Amounts due from an associate	33	**479**	363
Term deposits	24	**930,500**	1,786,265
Cash and cash equivalents	34	**2,447,620**	3,198,945
		7,602,698	9,930,296
Total assets		**20,989,143**	22,988,706

(Continued)

At 31 December 2023

	notes	31/12/2023 RMB'000	31/12/2022 RMB'000 (restated)
Capital and reserves			
Share capital	39	**1,119,600**	1,119,600
Reserves		**(1,047,474)**	(256,157)
Equity attributable to owners of the Company		**72,126**	863,443
Non-controlling interests	40	**376,221**	382,828
Total equity		**448,347**	1,246,271
Non-current liabilities			
Deferred tax liabilities	27	**127,613**	148,272
Lease liabilities	38	**4,305,173**	5,108,859
		4,432,786	5,257,131
Current liabilities			
Trade and bills payables	35	**4,402,499**	4,525,669
Tax payable		**203,460**	149,412
Other payables and accruals	36	**1,756,847**	1,963,901
Lease liabilities	38	**833,025**	896,096
Contract liabilities	37	**8,899,355**	8,928,208
Amount due to an ultimate holding company	32	**–**	6,814
Amounts due to fellow subsidiaries	32	**12,074**	14,051
Amounts due to associates	33	**750**	1,153
		16,108,010	16,485,304
Total liabilities		**20,540,796**	21,742,435
Net current liabilities		**(8,505,312)**	(6,555,008)
Total equity and liabilities		**20,989,143**	22,988,706
Total assets less current liabilities		**4,881,133**	6,503,402

The consolidated financial statements on pages 133 to 231 were approved and authorised for issue by the board of directors of the Company on 27 March 2024 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 2023

	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 40)	**Total** RMB'000
At 1 January 2022 (audited)	1,119,600	258,353	(235,497)	559,800	(672,368)	1,029,888	224,509	1,254,397
Adjustments	–	–	–	–	40,082	40,082	13,089	53,171
At 1 January 2022 (restated)	1,119,600	258,353	(235,497)	559,800	(632,286)	1,069,970	237,598	1,307,568
(Loss) profit and total comprehensive (expense) income for the year (restated)	–	–	–	–	(206,527)	(206,527)	81,452	(125,075)
Dividends to non-controlling interests	–	–	–	–	–	–	(41,565)	(41,565)
Acquisition of a new subsidiary	–	–	–	–	–	–	105,343	105,343
At 31 December 2022 (restated)	1,119,600	258,353	(235,497)	559,800	(838,813)	863,443	382,828	1,246,271
(Loss) profit and total comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**(791,317)**	**(791,317)**	**77,091**	**(714,226)**
Dividends to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(83,698)**	**(83,698)**
At 31 December 2023	**1,119,600**	**258,353**	**(235,497)**	**559,800**	**(1,630,130)**	**72,126**	**376,221**	**448,347**

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 net 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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
OPERATING ACTIVTIES		
Loss before tax	**(589,389)**	(23,572)
Adjustments for:		
Depreciation of property, plant and equipment	**331,043**	343,049
Depreciation of right-of-use assets	**983,734**	1,034,319
Amortisation of intangible assets	**21,930**	22,474
Gain on disposal of interests in associates	**–**	(598)
Loss on disposal of property, plant and equipment	**19,701**	8,702
Net gain on termination of right-of-use assets and lease liabilities	**(29,563)**	(28,173)
Impairment loss on property, plant and equipment	**14,380**	–
Impairment loss on goodwill	**1,921**	1,921
Write-down of inventories	**650**	2,152
Impairment recognised under ECL model, net of reversal	**128**	1,132
(Gain) loss on change in fair value of financial assets at FVTPL	**(35,858)**	3,067
Dividends from financial assets at FVTPL	**(960)**	(1,471)
Share of results of associates	**361,398**	111,526
Interest income on bank balances and term deposits	**(276,999)**	(261,120)
Finance lease income	**(15,999)**	(9,543)
Finance costs	**232,641**	276,866
Operating profit before movements in working capital	**1,018,758**	1,480,731
Decrease (increase) in inventories	**604,605**	(116,431)
Decrease (increase) in trade and bills receivables	**4,601**	(94,253)
Decrease in deposits, prepayments and other receivables	**37,550**	158,861
Increase in prepaid rental	**(401)**	(4,286)
(Increase) decrease in restricted term deposits	**(202,160)**	285
Decrease in finance lease receivables	**171,699**	56,706
Increase in amounts due from an associate	**(116)**	(112)
Decrease in amounts due from fellow subsidiaries and an ultimate holding company	**6,096**	4,320
(Decrease) increase in amounts due to an ultimate holding company	**(6,814)**	6,814
Decrease in amounts due to fellow subsidiaries	**(1,977)**	(12,358)
Decrease in amounts due to associates	**(403)**	(698)
Decrease in deferred income	**–**	(1,475)
Decrease in trade and bills payables	**(573,170)**	(51,781)
Decrease in other payables and accruals	**(257,401)**	(9,738)
(Decrease) increase in contract liabilities	**(28,853)**	382,366
Cash generated from operations	**772,014**	1,798,951
Income taxes paid	**(99,780)**	(74,145)
Interest received	**375,243**	268,711
Interest paid	**(215,495)**	(248,976)
Net cash from operating activities	**831,982**	1,744,541

(Continued)

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
INVESTING ACTIVITIES		
Payments for purchase of property, plant and equipment and construction in progress	**(177,928)**	(241,474)
Proceeds from disposal of property, plant and equipment and intangible assets	**18,659**	53,307
Payments for purchase of intangible assets	**(25,402)**	(9,464)
Payment for rental deposits	**(4,148)**	(9,039)
Refund of rental deposits	**3,262**	10,302
Dividends from financial assets at FVTPL	**960**	1,471
Purchase of financial assets at FVTPL	**(490,000)**	(200,000)
Proceeds from disposal of financial assets at FVTPL	**385,005**	337,297
Placement of unrestricted term deposits	**(1,310,015)**	(2,765,000)
Withdrawal of unrestricted term deposits	**695,300**	2,931,000
Payment for acquisition of a subsidiary	**–**	(75,577)
Proceeds from disposal of associates	**–**	1,725
Net cash (used in) from investing activities	**(904,307)**	34,548
FINANCING ACTIVITIES		
Interest of borrowings paid	**–**	(10,522)
Repayments of borrowings to fellow subsidiaries	**–**	(600,000)
New bank borrowing raised	**–**	400,000
Repayment of bank borrowing	**–**	(400,000)
Proceeds from notes financing	**2,182,854**	982,632
Payments for notes financing	**(1,750,000)**	–
Dividends paid to non-controlling shareholders	**(7,259)**	(139,720)
Repayments of leases liabilities	**(1,104,595)**	(1,005,990)
Net cash from used in financial activities	**(679,000)**	(773,600)
Net (decrease) increase in cash and cash equivalents	**(751,325)**	1,005,489
Cash and cash equivalents at 1 January	**3,198,945**	2,193,456
Cash and cash equivalents at 31 December	**2,447,620**	3,198,945
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**2,447,620**	3,198,945

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 2023, the Group had net current liabilities of RMB8,505,312,000 (2022: RMB6,555,008,000). 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 RMB2,955,015,000 (2022: RMB1,885,000,000), 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")

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and 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 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the June 2020 and December 2021 Amendments to HKFRS 17)	*Insurance Contracts*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform-Pillar Two model Rules*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*

Except as described below, the application of these new and 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.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.1 Impacts and changes in accounting policies on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The Group has applied the amendments for the first time in the current year. The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 *Income Taxes* ("HKAS 12") so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

In accordance with the transition provision:

(i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after January 1, 2022;

(ii) the Group also, at January 1, 2022, recognised a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use-assets and lease liabilities.

The details of the impacts on each financial statement line item and loss per share arising from the application of the amendments are set out under "Impacts of application of amendments to HKFRSs on the consolidated financial statements" in this Note. Comparative figures have been restated.

2.2 Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

The Group has applied the amendments for the first time in the current year. HKAS 1 *Presentation of Financial Statements* is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in Note 3 to the consolidated financial statements.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.2 Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies (Continued)

Impacts of application of amendments to HKFRSs on the consolidated financial statements

The effects of the changes in accounting policies as a result of application of amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* on the consolidated statement of profit or loss and other comprehensive income and earnings/(loss) per share, are as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Impact on loss and other comprehensive expense for the year		
Decrease in income tax expense	**7,113**	7,689
Impact in loss and total comprehensive expense for the year attributable to:		
Owners of the Company	**4,989**	5,220
Non-controlling interests	**2,124**	2,469

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Impact on basic loss per share		
Basic loss per share before adjustments	**(0.711)**	(0.189)
Net adjustments arising from change in accounting policy in relation to deferred tax impact on leasing transactions	**0.004**	0.005
Reported basic loss per share	**(0.707)**	(0.184)

The effects of the changes in accounting policy as a result of application of amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* on the consolidated statement of financial position as at the end of the immediately preceding financial year, i.e. 31 December 2022 and the beginning of the comparative period, i.e. 1 January 2022, are as follows:

	31 December 2022 (Original stated)	Adjustment	31 December 2022 (Restated)
Deferred tax assets	8,520	60,860	69,380
Non-controlling interests	367,270	15,558	382,828
Reserves	(301,459)	45,302	(256,157)
Total effects on equity	1,185,411	60,860	1,246,271

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.2 *Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies (Continued)*

Impacts of application of amendments to HKFRSs on the consolidated financial statements (Continued)

	1 January 2022 (Original stated)	Adjustment	1 January 2022 (Restated)
Deferred tax assets	8,045	53,171	61,216
Non-controlling interests	224,509	13,089	237,598
Reserves	(89,712)	40,082	(49,630)
Total effects on equity	1,254,397	53,171	1,307,568

Amendments to HKFRSs in issue but not yet effective

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

Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[2]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[2]
Amendments to HKAS 1	*Non-current Liabilities with Covenants*[2]
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangement*[2]
Amendments to HKAS 21	*Lack of Exchangeability*[3]

1 Effective for annual periods beginning on or after a date to be determined.

2 Effective for annual periods beginning on or after January 1, 2024.

3 Effective for annual periods beginning on or after January 1, 2025.

The directors of the Company anticipate that the application of all these 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 MATERIAL ACCOUNTING POLICY INFORMATION

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.

3.2 Material accounting policy information

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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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

Information about the Group's accounting policies relating to contracts with customers is provided in Notes 5 and 37.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Leases (Continued)

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.

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.

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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Taxation

Income tax expense represents the sum current and deferred income tax expense.

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 and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. 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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (Continued)

Taxation (Continued)

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the lease liabilities and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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 and bills 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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Material accounting policy information (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 judgments, 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 judgments in applying accounting policies

The following are the critical judgments, 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 2023, the carrying amount of goodwill was RMB146,096,000 (2022: RMB148,017,000) (net of accumulated impairment loss of RMB27,830,000 (2022: RMB25,909,000)). 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 2023, the carrying amounts of those identified property, plant and equipment and right-of-use assets with impairment indicator are RMB77,954,000 (2022: RMB98,419,000) and RMB301,804,000 (2022: RMB625,552,000) respectively, after taking into account the impairment losses of RMB3,430,000 (2022: nil) and RMB29,980,000 (2022: RMB47,030,000) 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 2023, no deferred tax asset has been recognised in respect of the tax losses of RMB3,181,486,000 (2022: RMB3,219,278,000) 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 2023, the carrying amount of property, plant and equipment was RMB3,221,869,000 (net of accumulated depreciation and impairment losses of RMB3,480,585,000 (2022: RMB3,463,791,000 (net of accumulated depreciation and impairment losses of RMB3,669,404,000)).

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 2023, the carrying amount of store closure provision was RMB181,697,000 (2022: RMB147,676,000).

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 2023, the income from breakage amounted to RMB8,015,000 (2022: RMB15,127,000).

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 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Revenue		
Sales of merchandise	**21,835,879**	24,681,396
Services		
Income from suppliers (service income)	**1,379,217**	1,570,291
Franchising income from franchised stores	**39,026**	39,261
Commission income on coupon redemption at other retail shops	**1,856**	10,902
	1,420,099	1,620,454
Total	**23,255,978**	26,301,850

Timing of revenue recognition

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
At a point in time	**21,837,735**	24,692,298
Over time	**1,418,243**	1,609,552
Total	**23,255,978**	26,301,850

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Revenue from contracts with customers – sales of merchandise	**21,835,879**	24,681,396
Other revenue from contracts with customers – services	**1,420,099**	1,620,454
Rental income from leasing of shop premises	**483,467**	438,257
	1,903,566	2,058,711
Total revenue and other revenue	**23,739,445**	26,740,107

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 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
For operating leases:		
Fixed lease payments	**467,468**	428,714
For finance leases:		
Finance income on the net investment in the lease	**15,999**	9,543
Total revenue arising from leases	**483,467**	438,257

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.

5. REVENUE AND OTHER REVENUE (Continued)

(iii) Leases (Continued)

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.

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.

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.

5. REVENUE AND OTHER REVENUE (Continued)

(iii) Leases (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.

5. REVENUE AND OTHER REVENUE (Continued)

(iii) Leases (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.

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.

6. SEGMENT INFORMATION (Continued)

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 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000	**Year ended 31/12/2023 RMB'000**	Year ended 31/12/2022 RMB'000
Hypermarket	**10,777,339**	13,650,205	**(40,953)**	143,081
Supermarket	**11,232,233**	11,430,017	**47,609**	164,185
Convenience store	**1,638,780**	1,548,627	**(17,782)**	(25,349)
Other operations	**91,093**	111,258	**(23,593)**	(6,817)
	23,739,445	26,740,107	**(34,719)**	275,100

The reconciliation of the total segment results to consolidated loss before tax is as follows:

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Segment results	**(34,719)**	275,100
Share of results of associates	**(361,398)**	(111,526)
Gain on disposal of interests in associates	**–**	598
Unallocated interest income	**19,848**	38,046
Unallocated expenses	**(224,685)**	(217,064)
Unallocated gain (loss) on change in fair value of financial assets at FVTPL	**11,565**	(8,726)
Consolidated loss before tax	**(589,389)**	(23,572)

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 gain (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 31/12/2023	Year ended 31/12/2022 (restated)
	RMB'000	RMB'000
– Hypermarket	**11,673,099**	12,746,305
– Supermarket	**6,610,379**	6,652,162
– Convenience store	**419,873**	495,596
– Other operations	**180,321**	320,422
Total segment assets	**18,883,672**	20,214,485
Interests in associates	**231,382**	592,814
Deferred tax assets	**77,712**	69,380
Other unallocated assets	**1,796,377**	2,112,027
Total assets	**20,989,143**	22,988,706

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
31/12/2023

	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)	**335,098**	**379,813**	**65,119**	**65**	**780,095**
Depreciation and amortisation	**684,567**	**574,979**	**65,356**	**11,805**	**1,336,707**
Loss (gain) on disposal of property, plant and equipment	**19,095**	**385**	**(990)**	**1,211**	**19,701**
Net gain on termination of right-of-use assets and lease liabilities	**(23,173)**	**(5,901)**	**(489)**	**–**	**(29,563)**
Interest income on bank balances and term deposits	**(182,520)**	**(73,855)**	**(297)**	**(479)**	**(257,151)**
Interest income on finance lease receivables (Note 5)	**(15,999)**	**–**	**–**	**–**	**(15,999)**
Finance costs	**152,433**	**76,518**	**3,690**	**–**	**232,641**

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
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

note: Addition to non-current assets include the additions of RMB130,655,000 to property, plant and equipment (2022: RMB234,476,000), RMB21,215,000 to construction in progress (2022: RMB11,476,000), RMB602,823,000 to right-of-use assets (2022: RMB783,673,000) and RMB25,402,000 to intangible assets (2022: RMB9,464,000).

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 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Interest income on bank balances and term deposits	**276,999**	261,120
Government grants (note i)	**64,495**	85,172
Gain (loss) on change in fair value of financial assets at FVTPL	**35,858**	(3,067)
Dividends from financial assets at FVTPL	**960**	1,471
Net gain on termination of right-of-use assets and lease liabilities	**29,563**	28,173
Salvage sales	**15,758**	24,295
Income from breakage (note ii)	**8,015**	15,127
Coupon charges	**11,765**	11,400
Penalty income	**29,276**	12,000
Gain on disposal of interests in associates	**–**	598
Others	**35,080**	34,856
Total	**507,769**	471,145

notes:

i. The Group received unconditional government grants of RMB64,495,000 (2022: RMB83,697,000) from the PRC local government (the "Authorities") as an encouragement for the operation of subsidiaries in certain jurisdictions. In addition, an amount of nil (2022: RMB1,475,000) has been released from deferred income regarding the asset related government grants during the current year.

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 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Interest expense on lease liabilities	**215,495**	248,976
Interest expense on a bank borrowing and loan from a fellow subsidiary	**–**	10,522
Interest expense on discounting of bill receivables	**17,146**	17,368
	232,641	276,866

9. IMPAIRMENT RECOGNISED UNDER ECL MODEL, NET OF REVERSAL

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Impairment loss (reversed) recognised on:		
– trade receivables	**(74)**	2,315
– deposits and other receivables	**202**	(1,183)
	128	1,132

Details of impairment assessment are set out in Note 45b.

10. OTHER EXPENSES

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Store closure expenses	**74,844**	28,676
Loss on disposal of property, plant and equipment	**19,701**	8,702
Impairment losses on property, plant and equipment (Note 20)	**14,380**	–
Impairment losses on goodwill (Note 21)	**1,921**	1,921
Others	**8,082**	2,886
	118,928	42,185

11. LOSS BEFORE TAX

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Loss before tax has been arrived at after charging:		
Amortisation and depreciation		
Depreciation of property, plant and equipment (Note 16)	**331,043**	343,049
Depreciation of right-of-use assets (Note 18)	**983,734**	1,034,319
Amortisation of intangible assets (Note 19)	**21,930**	22,474
Total amortisation and depreciation	**1,336,707**	1,399,842
Share of results of associates		
Share of results before tax	**330,286**	110,045
Share of income tax expense	**31,112**	1,481
	361,398	111,526
Auditors' remuneration	**6,149**	6,472
Directors' remuneration (Note 13)	**2,532**	2,642
Salaries, wages and other employee benefits of other staff	**1,975,211**	2,139,840
Retirement benefits scheme contribution of other staff	**193,419**	204,835
Total staff costs	**2,171,162**	2,347,317
Impairment losses recognised under ECL model, net of reversal	**128**	1,132
Write-down of inventories	**650**	2,152
Cost of inventories recognised as expenses	**19,054,157**	21,299,101

12. INCOME TAX EXPENSE

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000 (restated)
Current tax on the PRC Enterprise Income Tax ("EIT")	**161,207**	118,833
Over provision of PRC EIT in prior years	**(7,379)**	(437)
Deferred tax credit (Note 27)	**(28,991)**	(16,893)
	124,837	101,503

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 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000 (restated)
Loss before tax	**(589,389)**	(23,572)
Tax at PRC EIT tax rate of 25% (2022: 25%)	**(147,347)**	(5,893)
Tax effect of share of results of associates	**90,350**	27,882
Tax effect of expenses not deductible for tax purpose	**725**	331
Tax effect of income not taxable for tax purpose	**(2,635)**	(4,946)
Tax effect of tax losses not recognised	**192,565**	117,584
Tax effect of deductible temporary differences not recognised	**14,225**	1,098
Utilisation of tax losses previously not recognised	**(14,764)**	(25,917)
Over provision of PRC EIT in prior years	**(7,379)**	(437)
Effect of different tax rates of subsidiaries	**(903)**	(510)
Recognition of deductible temporary differences previously not recognised	**–**	(7,689)
Income tax expense for the year	**124,837**	101,503

13. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION

(1) Directors' emoluments

The remuneration of each director for the year ended 31 December 2023 and 2022 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	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Executive/Non-executive Directors:												
Mr. Chong Xiao-bing	–	–	1,533	1,533	247	370	113	104	39	35	1,932	2,042
Mr. Pu Shao-hua	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Shi Xiao-long	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Dong Xiao-chun	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Wong Tak-Hung	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Zhang Shen-yu	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Xu Hong (note b)	–	–	–	–	–	–	–	–	–	–	–	–
Mr. Xu Pan-hua (note c)	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Hu Xiao (note d)	–	–	–	–	–	–	–	–	–	–	–	–
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	1,533	247	370	113	104	39	35	2,532	2,642

notes:

(a) The discretionary bonus is determined based on the Group's and personal performance.

(b) Mr. Xu Hong resigned from the non-executive director of the Company on 28 March 2022.

(c) Mr. Xu Pan-hua was elected as the the non-executive director of the Company on 28 March 2022 and retired from the non-executive director of the Company on 15 June 2023.

(d) Ms. Hu Xiao was elected as the non-executive director of the Company on 15 Jun 2023.

13. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(1) Directors' emoluments (Continued)

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 2023 and 2022.

(2) Supervisory committee members' emoluments

The remuneration of each supervisor for the year ended 31 December 2023 and 2022 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	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Mr. Li Feng	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Tian Ying-jie (note b)	–	–	–	–	–	–	–	–	–	–	–	–
Ms. Tang Hao	–	–	619	619	309	269	100	93	42	41	1,070	1,022
Mr. Luo Yang-hong (note c)	–	–	–	–	–	–	–	–	–	–	–	–
Total	–	–	619	619	309	269	100	93	42	41	1,070	1,022

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) Ms. Tian Ying-jie retired from the supervisor of the Company on 15 June 2023.

(c) Mr. Luo Yang-hong was elected as the supervisory of the Company on 15 June 2023.

13. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(3) Senior management's emoluments

The remuneration of each senior management for the year ended 31 December 2023 and 2022 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	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Mr. Liang Bao-long	–	–	560	560	280	261	100	93	42	41	982	955
Ms. Zhang Hui-qin	–	–	294	294	3,580	3,915	94	90	25	27	3,993	4,326
Mr. Dong Gang	–	–	1,199	1,200	255	272	100	93	42	41	1,596	1,606
Mr. Wang Song (note c)	–	–	–	377	–	102	–	44	–	20	–	543
Ms. Xu Xiao-yi (note d)	–	–	682	682	204	210	100	93	42	41	1,028	1,026
Mr. Gu Feng-min (note b)	–	–	766	315	38	21	100	41	42	17	946	394
Total	–	–	3,501	3,428	4,357	4,781	494	454	193	187	8,545	8,850

notes:

(a) The discretionary bonus is determined based on the Group's and personal performance.

(b) Mr. Gu Feng-min was appointed as the deputy general manager of the Company in 26 July 2022.

(c) Mr. Wang Song resigned from the chief financial officer of the Company on 8 July 2022.

(d) Ms. Xu Xiao-yi was appointed as the chief financial officer of the Company on 8 July 2022 and was appointed as the Company Secretary on 2 July 2023.

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 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Salaries, allowances and benefits in kind	**1,185**	1,183
Discretionary bonuses	**14,009**	15,661
Retirement benefits	**397**	450
Medical benefits	**108**	133
	15,699	17,427

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 31/12/2023	Year ended 31/12/2022
HK$2,500,001—HK$3,000,000	**1**	–
HK$3,000,001—HK$3,500,000	**2**	–
HK$3,500,001—HK$4,000,000	**1**	3
HK$4,000,001—HK$4,500,000	**1**	–
HK$4,500,001—HK$5,000,000	**–**	1
HK$5,000,001—HK$5,500,000	**–**	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 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Loss for the year attributable to owners of the Company	**(791,317)**	(206,527)

	Year ended 31/12/2023	Year ended 31/12/2022
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 2022	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	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
Additions	3,801	56,374	10,425	60,055	130,655
Transfer from construction – in progress (Note 17)	–	11,206	–	–	11,206
Disposals	–	(277,069)	(32,925)	(262,608)	(572,602)
At 31 December 2023	**3,447,015**	**1,898,063**	**232,142**	**1,125,234**	**6,702,454**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2022	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
Provided for the year	102,158	127,917	16,984	98,364	345,423
Eliminated on disposals	–	(257,166)	(30,370)	(246,706)	(534,242)
At 31 December 2023	**1,149,831**	**1,293,706**	**181,889**	**855,159**	**3,480,585**
CARRYING VALUES					
At 31 December 2023	**2,297,184**	**604,357**	**50,253**	**270,075**	**3,221,869**
At 31 December 2022	2,395,541	684,597	59,367	324,286	3,463,791

Notes:

(a) The depreciation expense for the year amongst which RMB291,221,000 and RMB39,822,000 (2022: RMB301,973,000 and RMB41,076,000) were included in distribution and selling expenses and administrative expenses, respectively.

(b) As at 31 December 2023, the carrying amount of certain buildings without building ownership certificates is RMB966,000 (2022: RMB966,000).

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 2022	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
Additions	**21,215**
Transfer to property, plant and equipment (Note 16)	**(11,206)**
At 31 December 2023	**14,339**

18. RIGHT-OF-USE ASSETS

	Land use rights RMB'000	Buildings RMB'000	Total RMB'000
At 31 December 2023			
Carrying amount	701,467	4,320,661	5,022,128
At 31 December 2022			
Carrying amount	726,256	5,012,205	5,738,461
For the year ended 31 December 2023			
Depreciation charge	(24,789)	(958,945)	(983,734)
New lease entered	–	602,823	602,823
Lease modification	–	(157,229)	(157,229)
Lease termination	–	(178,193)	(178,193)
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)

Note:

Details of the impairment assessment are set out in note 20.

18. RIGHT-OF-USE ASSETS (Continued)

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Expense relating to short-term leases	**43,300**	8,424
Variable lease payments not included in the measurement of lease liabilities	**9,146**	9,299
Total cash outflow for leases	**1,372,536**	1,272,689
Addition to right-of-use assets	**602,823**	783,673

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.

The Group regularly enters into short-term leases for convenience stores. As at 31 December 2023 and 2022, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense is immaterial.

18. RIGHT-OF-USE ASSETS (Continued)

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 8% (2022: 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 2023

	Number of stores	Fixed payments RMB'000	Variable payments RMB'000	Total payments RMB'000
Retail stores without variable lease payments	**1,236**	**1,310,456**	**–**	**1,310,456**
Retail stores with variable lease payments	**52**	**9,634**	**9,146**	**18,780**
	1,288	**1,320,090**	**9,146**	**1,329,236**

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

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 RMB5,138,198,000 are recognised with related right-of-use assets of RMB4,320,661,000 as at 31 December 2023 (2022: lease liabilities of RMB6,004,955,000 are recognised with related right-of-use assets of RMB5,012,205,000). 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.

19. INTANGIBLE ASSETS

	Software RMB'000
COST	
At 1 January 2022	326,011
Additions	9,464
Transfer from construction in progress (Note 17)	8,679
Write-off	(10,579)
At 31 December 2022	333,575
Additions	25,402
Write-off	(8,055)
At 31 December 2023	**350,922**
AMORTISATION	
At 1 January 2022	198,675
Charge for the year	22,474
Eliminated on disposals	(10,579)
At 31 December 2022	210,570
Charge for the year	21,930
Eliminated on disposals	(8,055)
At 31 December 2023	**224,445**
CARRYING VALUES	
At 31 December 2023	**126,477**
At 31 December 2022	123,005

notes:

(a) The amortisation expense for the year amongst which RMB4,482,000 and RMB17,448,000 (2022: RMB4,318,000 and RMB18,156,000) 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 RMB77,954,000 and RMB301,804,000, respectively (2022: RMB98,419,000 and RMB625,552,000). 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 10.4% as at 31 December 2023 (2022: 10.1%). The annual growth rate used is ranging from 2.5% to 2.9% (2022: from 2.5% to 4.5%), 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.

Based on the result of the assessment, 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 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 and its value in use. Based on the value in use calculation and the allocation, impairment of RMB14,380,000 (2022: nil) and nil (2022: nil) has been recognised against the carrying amount of 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 2021	151,941
Arising on acquisition of a subsidiary	21,985
At 31 December 2022 and 2023	**173,926**
IMPAIRMENT	
At 31 December 2021	(23,988)
Impairment loss recognised in the year	(1,921)
At 31 December 2022	(25,909)
Impairment loss recognised in the year	(1,921)
At 31 December 2023	**(27,830)**
CARRYING VALUE	
At 31 December 2023	**146,096**
At 31 December 2022	148,017

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:

	31/12/2023 RMB'000	31/12/2022 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)	**18,143**	20,064
Others	**10,781**	10,781
	146,096	148,017

* English name is for the identification purpose.

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% (2022: 0%). The annual growth rates are 0.2% and 8.4% (2022: 2.0% and 6.5%), which are Consumer Price Index and growth rate of online retail sales, as appropriate, and a discount rate at 10.4% (2022: 10.1%). 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

	31/12/2023 RMB'000	31/12/2022 RMB'000
Unlisted equity investments	**470,118**	470,118
Share of post-acquisition profits and other comprehensive income net of dividends received	**(238,736)**	122,696
	231,382	592,814

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
		31/12/2023 %	31/12/2022 %	
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.* (上海三明泰格信息技術有限公司)	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
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 49.00 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

* English name is for the identification purpose.

Note:

i. The Group is able to exercise significant influence over Bailian Financial Services because it has appointed two out of the six directors of Bailian Financial Services.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

22. INTERESTS IN ASSOCIATES (Continued)

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

	31/12/2023 **RMB'000**	31/12/2022 RMB'000
Current assets	**1,140,216**	1,840,914
Non-current assets	**164,337**	1,409,639
Current liabilities	**1,832,358**	1,406,080
Non-current liabilities	**22,019**	1,029,326

	Year ended **31/12/2023** **RMB'000**	Year ended 31/12/2022 RMB'000
Revenue	**1,029,683**	3,066,943
Loss and total comprehensive expense for the year	**(1,364,971)**	(248,745)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2023 **RMB'000**	31/12/2022 RMB'000
Net (liabilities) assets of Carhua	**(549,824)**	815,147
Proportion of the Group's ownership interest in Carhua	**45%**	45%
The Group's interest in Carhua	**(247,421)**	366,816
Carrying amount of the Group's interest in Carhua (note)	**–**	366,816

22. INTERESTS IN ASSOCIATES (Continued)

Carhua (Continued)

The Group has unrecognised share of losses of the associate:

	Year end 31/12/2023 RMB'000	Year end 31/12/2022 RMB'000
The unrecognised share of loss of the associate for the year	**(247,421)**	–

	31/12/2023 RMB'000	31/12/2022 RMB'000
Cumulative unrecognised share of loss of the associate	**(247,421)**	–

Note:

Shanghai Carhua recognised significant amount of expected credit loss to certain of its financial assets which is mainly non-trade nature to its related parties. The financial assets are credit-impaired as those related parties of Shanghai Carhua have financial difficulties and there is no realistic prospect of recovery. Therefore, the Group recognised share of loss of Shanghai Carhua amounting to approximately RMB367,000,000 in profit and loss under the equity method during the year ended 31 December 2023 and the Group's interest in Shanghai Carhua 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)

Tianjin Yishang

	31/12/2023 RMB'000	31/12/2022 RMB'000
Current assets	**84,884**	501,456
Non-current assets	**818,342**	772,916
Current liabilities	**2,123,562**	2,127,493
Non-current liabilities	**38,180**	37,049

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Revenue	**246,951**	361,044
Loss and total comprehensive expense for the year	**(368,346)**	(26,093)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2023 RMB'000	31/12/2022 RMB'000
Net liabilities of Tianjin Yishang	**1,258,516**	890,170
Proportion of the Group's ownership interest in Tianjin Yishang	**20%**	20%
The Group's interest in Tianjin Yishang	**(251,703)**	(178,034)
Goodwill	**6,787**	6,787
Carrying amount of the Group's interest in Tianjin Yishang (note)	**–**	–

22. INTERESTS IN ASSOCIATES (Continued)

Tianjin Yishang (Continued)

The Group has unrecognised share of losses of the associate:

	Year end 31/12/2023 RMB'000	Year end 31/12/2022 RMB'000
The unrecognised share of loss of the associate for the year	**(73,669)**	(5,219)

	31/12/2023 RMB'000	31/12/2022 RMB'000
Cumulative unrecognised share of loss of the associate	**(244,916)**	(171,247)

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

	31/12/2023 RMB'000	31/12/2022 RMB'000
Current assets	**8,627,276**	9,000,604
Non-current assets	**38,179**	43,212
Current liabilities	**6,734,974**	7,165,803
Non-current liabilities	**3,496**	2,886

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Revenue	**112,458**	99,319
Profit and total comprehensive income for the year	**51,858**	38,833

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2023 RMB'000	31/12/2022 RMB'000
Net assets of Bailian Financial Services	**1,926,985**	1,875,127
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	**226,710**	220,609

Aggregate information of associates that are not individually material:

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
The Group's share of loss	**(683)**	(4,160)

	31/12/2023 RMB'000	31/12/2022 RMB'000
Aggregate carrying amount of the Group's interests in these associates	**4,672**	5,389

23. FINANCIAL ASSETS AT FVTPL

	31/12/2023 RMB'000	31/12/2022 RMB'000
Non-current		
Unlisted equity instruments	**797**	797
Equity securities listed in Shanghai Stock Exchange	**53,054**	41,522
Total	**53,851**	42,319
Current		
Equity securities listed in Shanghai Stock Exchange	**857**	1,994
Unlisted financial products (note)	**995,628**	865,170
Total	**996,485**	867,164

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 RMB25,458,000 (2022: RMB3,758,000) is credited to "other income and other gains and losses" in the current year.

24. TERM DEPOSITS

	31/12/2023 RMB'000	31/12/2022 RMB'000
Non-current		
Restricted term deposits	**1,323,045**	720,420
Other non-current unrestricted term deposits	**2,955,015**	1,885,000
Total	**4,278,060**	2,605,420
Current		
Restricted term deposits	**700,500**	1,100,965
Other current unrestricted term deposits	**230,000**	685,300
Total	**930,500**	1,786,265

24. TERM DEPOSITS (Continued)

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 1.40% to 4.99% (2022: 1.50% 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 (2022: 4 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 31/12/2023 RMB'000	**Present value of minimum lease payment 31/12/2023 RMB'000**	Minimum lease payment 31/12/2022 RMB'000	Present value of minimum lease payment 31/12/2022 RMB'000
Finance lease receivable comprise:				
Within one year	**29,094**	**23,512**	65,066	47,895
In the second year	**24,230**	**20,438**	63,438	50,102
In the third year	**15,005**	**12,500**	67,625	58,720
In the fourth year	**15,021**	**13,553**	58,415	53,977
In the fifth year	**8,951**	**8,390**	16,460	14,925
After five years	**2,641**	**2,560**	11,675	11,034
	94,942	**80,953**	282,679	236,653
Unguaranteed residual values	**–**	**–**	–	–
Gross investment in the lease	**94,942**	**N/A**	282,679	N/A
Less: unearned finance income	**(13,989)**	**N/A**	(46,026)	N/A
Present value of minimum lease payment	**80,953**	**N/A**	236,653	N/A
Analysed as:				
Current	**29,094**	**23,512**	65,066	47,895
Non-current	**65,848**	**57,441**	217,613	188,758
	94,942	**80,953**	282,679	236,653

25. FINANCE LEASE RECEIVABLES (Continued)

Weighted average interest rates implicit in the above finance leases is 8% (2022: 8%).

There is no accumulated impairment loss in the carrying amount of the above finance lease receivables as at 31 December 2023 and 2022.

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 45b.

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:

	31/12/2023 RMB'000	31/12/2022 RMB'000 (restated)
Deferred tax assets	**77,712**	69,380
Deferred tax liabilities	**(127,613)**	(148,272)
	(49,901)	(78,892)

27. DEFERRED TAX ASSETS/LIABILITIES (Continued)

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	Lease liabilities RMB'000	Right-of-use assets RMB'000	Total RMB'000
As at 1 January 2022 (audited)	(33,023)	2,228	817	(82,336)	–	–	(112,314)
Adjustments	–	–	–	–	1,426,012	(1,372,841)	53,171
As at 1 January 2022 (restated)	(33,023)	2,228	817	(82,336)	1,426,012	(1,372,841)	(59,143)
Acquisition of a subsidiary	(36,642)	–	–	–	–	–	(36,642)
Credit (charge) to profit or loss (restated)	6,831	166	310	1,897	(142,791)	150,480	16,893
As at 31 December 2022 (restated)	(62,834)	2,394	1,127	(80,439)	1,283,221	(1,222,361)	(78,892)
(Charge) credit to profit or loss	(3,703)	92	930	24,559	(156,991)	164,104	28,991
As at 31 December 2023	**(66,537)**	**2,486**	**2,057**	**(55,880)**	**1,126,230**	**(1,058,257)**	**(49,901)**

The unrecognised tax losses and deductible temporary differences are as follows:

	31/12/2023 RMB'000	31/12/2022 RMB'000
Unrecognised unused tax losses	**3,181,486**	3,219,278
Unrecognised deductible temporary differences	**1,070,908**	1,014,008
	4,252,394	4,233,286

27. DEFERRED TAX ASSETS/LIABILITIES (Continued)

At the end of the reporting period, the Group had unused tax losses of RMB3,181,486,000 (2022: RMB3,219,278,000) 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.

The unrecognised unused tax losses will expire as follows:

	31/12/2023	31/12/2022
	RMB'000	RMB'000
Year of expiring		
2023	**–**	696,194
2024	**653,816**	679,033
2025	**642,632**	669,914
2026	**662,573**	703,801
2027	**452,205**	470,336
2028	**770,260**	–
	3,181,486	3,219,278

28. OTHER NON-CURRENT ASSETS

	31/12/2023	31/12/2022
	RMB'000	RMB'000
Interest receivable on term deposits	**157,090**	82,115

29. INVENTORIES

	31/12/2023 RMB'000	31/12/2022 RMB'000
Merchandise for resale	**2,413,314**	3,021,650
Write-down for obsolescence	**(3,864)**	(3,214)
	2,409,450	3,018,436
Low value consumables	**22,092**	18,361
	2,431,542	3,036,797

During the year 2023, the management assessed that there was write-down of inventories amounting to RMB650,000 (2022: RMB2,152,000).

30A. TRADE AND BILLS RECEIVABLES

	31/12/2023 RMB'000	31/12/2022 RMB'000
Trade receivables – contracts with customers	**239,429**	250,030
Bills receivables	**6,000**	–
Less: allowance for credit losses (Note 45b)	**(7,103)**	(7,177)
	238,326	242,853

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 (2022: 30 to 60 days), presented as follows:

	31/12/2023 RMB'000	31/12/2022 RMB'000
0 – 30 days	**220,292**	229,386
31 – 60 days	**2,968**	3,554
61 – 90 days	**811**	3,468
Over 90 days	**8,255**	6,445
	232,326	242,853

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.

30A. TRADE AND BILLS RECEIVABLES (Continued)

The following is an ageing analysis of bills receivables, net of allowance for credit losses, presented based on the issue dates of bills receivables.

	31/12/2023	31/12/2022
	RMB'000	RMB'000
0 – 180 days	**6,000**	–

The following is a maturity analysis of bills receivables, net of allowance for credit losses, presented based on the remaining dates to maturity of bills receivables at the end of each reporting period.

	31/12/2023	31/12/2022
	RMB'000	RMB'000
0 – 180 days	**6,000**	–

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:

	31/12/2023	31/12/2022
	RMB'000	RMB'000
1 – 30 days past due	**811**	3,468
More than 30 days past due	**8,255**	6,445
	9,066	9,913

30B. TRANSFER OF FINANCIAL ASSETS

As at 31 December 2023, the Group has discounted bills receivables amounted to RMB2,200,000,000 (2022: 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

	31/12/2023 RMB'000	31/12/2022 RMB'000
Deposits and prepayments	**295,803**	312,315
VAT recoverable	**23,153**	49,948
Interest receivables	**66,409**	239,628
Other receivables	**106,143**	99,500
Less: allowance for credit loss (Note 45b)	**(4,947)**	(4,745)
	486,561	696,646

Details of impairment assessment of trade and other receivables are set out in Note 45b.

32. AMOUNTS DUE FROM/TO AN ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES

The 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 (2022: 30 to 60 days). As at 31 December 2023, balances of both amounts due from/to an ultimate holding company/fellow subsidiaries are all aged within 90 days (2022: 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 (2022: 90 days) and the credit terms of the trade balances aged from 30 to 90 days (2022: 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% to 4.99% (2022: 0.25% to 4.99%) per annum as at 31 December 2023.

Details of impairment assessment of bank balances are set out in Note 45b.

35. TRADE AND BILLS PAYABLES

	31/12/2023 RMB'000	31/12/2022 RMB'000
Trade payables	**2,952,499**	3,525,669
Bills payables	**1,450,000**	1,000,000
	4,402,499	4,525,669

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 (2022: 30 to 60 days), is as follows:

	31/12/2023 RMB'000	31/12/2022 RMB'000
0 – 30 days	**957,899**	1,342,254
31 – 60 days	**623,032**	704,211
61 – 90 days	**349,075**	427,381
Over 90 days	**1,022,493**	1,051,823
	2,952,499	3,525,669

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.

The following is an aging analysis of bills payables presented based on issue dates at the end of each reporting period:

	31/12/2023 RMB'000	31/12/2022 RMB'000
0 – 180 days	**1,350,000**	600,000
Over 180 days	**100,000**	400,000
	1,450,000	1,000,000

35. TRADE AND BILLS PAYABLES (Continued)

The following is an aged analysis of bills payables presented based on maturity date at the end of each reporting period:

	31/12/2023 RMB'000	31/12/2022 RMB'000
0 – 180 days	**1,450,000**	200,000
Over 180 days	**–**	800,000
	1,450,000	1,000,000

36. OTHER PAYABLES AND ACCRUALS

	31/12/2023 RMB'000	31/12/2022 RMB'000
Payroll, staff welfare and other staff cost payable	**258,945**	334,645
Value added tax and other tax payables	**82,908**	92,593
Deposits from lessees, franchisees and other third parties	**307,206**	318,352
Dividend payable to non-controlling interests	**76,559**	120
Amount payable to other retailers upon customers' redemption of coupon issued by the Group	**4,452**	5,341
Prepayments received from franchisees and other third parties	**649,031**	734,136
Payables for acquisition of property, plant and equipment and low value consumables	**91,740**	115,345
Store closure provision (note)	**181,697**	147,676
Accruals	**78,445**	206,214
Other miscellaneous payables	**25,864**	9,479
	1,756,847	1,963,901

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 RMB40,835,000 (2022: RMB20,953,000) during the year end of 2023.

37. CONTRACT LIABILITIES

	31/12/2023 RMB'000	31/12/2022 RMB'000
Coupon liabilities (note)	**8,698,814**	8,727,640
Advance from customers	**200,541**	200,568
Total	**8,899,355**	8,928,208

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.

As at 1 January 2023, contract liabilities amounted to RMB8,928,208,000.

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 31/12/2023 RMB '000	Year ended 31/12/2022 RMB '000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**6,390,938**	6,186,990

38. LEASE LIABILITIES

	31/12/2023 RMB'000	31/12/2022 RMB'000
Lease liabilities payable:		
Within one year	**833,025**	896,096
Within a period of more than one year but not more than two years	**885,859**	939,315
Within a period of more than two years but not more than five years	**1,791,204**	2,102,655
Within a period of more than five years	**1,628,110**	2,066,889
	5,138,198	6,004,955
Less: Amount due for settlement within 12 months shown under current liabilities	**(833,025)**	(896,096)
Amount due for settlement after 12 months shown under non-current liabilities	**4,305,173**	5,108,859

The weighted average incremental borrowing rates applied to lease liabilities is 3.42-3.84% (2022: 3.42-3.84%) per annum.

39. SHARE CAPITAL

	Number of shares	Nominal value RMB '000
Ordinary shares of RMB1.00 each		
Registered, issued and fully paid:		
At 1 January 2022, 31 December 2022 and 31 December 2023	1,119,600,000	1,119,600

The share capital of the Company as at 31 December 2023 and 2022 comprises:

	Number of shares of RMB1 each		Nominal value	
	31/12/2023	31/12/2022	31/12/2023 RMB'000	31/12/2022 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

39. SHARE CAPITAL (Continued)

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.

40. NON-CONTROLLING INTERESTS

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 (restated) RMB'000
Balance at beginning of year (restated)	**382,828**	224,509
Adjustments	**–**	13,089
Non-controlling interests arising on acquisition of a subsidiary	**–**	105,343
Share of profit for the year	**77,091**	81,452
Dividends to non-controlling interest during the year	**(83,698)**	(41,565)
Balance at end of year	**376,221**	382,828

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

	31/12/2023 RMB'000	31/12/2022 RMB'000
Current assets	**9,144,942**	8,888,957
Non-current assets	**6,038,395**	6,576,344
Current liabilities	**10,906,929**	10,729,295
Non-current liabilities	**3,365,673**	3,779,897
Equity attributable to owners of the Company	**592,342**	627,647
Non-controlling interests	**318,393**	328,462

40. NON-CONTROLLING INTERESTS (Continued)

Lianhua Huashang Group (Continued)

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Revenue	**10,942,551**	12,273,830
Total cost of sales, expense and other income	**(10,685,795)**	(11,899,261)
Profit and total comprehensive income for the year	**256,756**	374,569
Profit and total comprehensive income attributable to owner of the Company	**184,426**	305,099
Profit and total comprehensive income attributable to non-controlling interests	**72,330**	69,470
Dividends paid to the Group	**219,731**	50,927
Dividends paid to non-controlling shareholders	**82,399**	23,867
Non-controlling interests arising on acquisition of a subsidiary	**–**	105,343
Net cash from operating activities	**867,321**	2,012,948
Net cash from investing activities	**51,517**	1,084,775
Net cash used in financing activities	**(263,276)**	(563,699)
Net increase in cash and cash equivalents	**655,562**	2,534,024

41. 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 RMB193,532,000 represents contributions payable to these scheme by the Group in respect of the current accounting period.

42. OPERATING LEASE ARRANGEMENT

The Group as lessor

Minimum lease payments receivable on leases are as follows:

	31/12/2023 RMB'000	31/12/2022 RMB'000
Within one year	**303,644**	310,662
In the second year	**218,738**	201,184
In the third year	**107,967**	120,681
In the fourth year	**61,613**	69,996
In the fifth year	**38,661**	41,760
After five years	**51,256**	57,007
	781,879	801,290

43. CAPITAL COMMITMENTS

	31/12/2023 RMB'000	31/12/2022 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
– contracted for but not provided in the consolidated financial statements	**50,348**	43,878

44. 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.

45. FINANCIAL INSTRUMENTS

45a. CATEGORIES OF FINANCIAL INSTRUMENTS

Financial assets

	31/12/2023 RMB'000	31/12/2022 RMB'000
Financial assets at FVTPL	**1,050,336**	909,483
Financial assets at amortised cost	**8,376,426**	8,636,538
	9,426,762	9,546,021

Financial liabilities

	31/12/2023 RMB'000	31/12/2022 RMB'000
Financial liabilities at amortised cost	**4,613,938**	4,677,972

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bills receivables, 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.

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.

45. FINANCIAL INSTRUMENTS (Continued)

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

Total interest income from financial assets and finance lease income is as follows:

	Year ended 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Interest income		
– Financial assets at amortised cost	**276,999**	261,120

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 (2022: 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 (2022: 10-basis point) higher/lower and all other variables were held constant, the Group's post-tax loss for the years ended 31 December 2023 and 2022 would have decreased/increased by approximately RMB5,746,000 and RMB5,697,000 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% (2022: 5%) higher/lower, post-tax loss for the year ended 31 December 2023 would decrease/increase by RMB2,052,000 (2022: decrease/increase by RMB1,662,000) as a result of the changes in fair value of the financial assets at FVTPL.

45. FINANCIAL INSTRUMENTS (Continued)

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment

As at 31 December 2023, 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 bills receivables, 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 2023 and 2022, 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 2023 and 2022, 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.

45. FINANCIAL INSTRUMENTS (Continued)

45b. 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 2023

	Expected loss rate %	Trade Receivables RMB'000	Loss allowance RMB'000
Current (not past due)	2	228,523	(5,263)
1 – 30 days past due	2	828	(17)
More than 30 days past due	18	10,078	(1,823)
		239,429	(7,103)

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)

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 2023, ECL on other receivables amounting to RMB202,000 was recognised (2022: RMB1,183,000 was reversed) 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 2023 and 2022, the Group assessed the ECL for deposits were insignificant and thus no loss allowance was recognised.

45. FINANCIAL INSTRUMENTS (Continued)

45b. 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 2023, the Group's bank balances and term deposits deposited in the major five banks in the PRC accounted for 59.1% (2022: 60.1%) 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

45. FINANCIAL INSTRUMENTS (Continued)

45b. 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:

2023	notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount RMB'000
Amounts due from an associate	33	Low risk	12m ECL	479
Amounts due from fellow subsidiaries	32	Low risk	12m ECL	41,855
Amount due from an ultimate holding company	32	Low risk	12m ECL	690
Trade receivables	30	Low risk	Lifetime ECL (not credit-impaired)	228,523
		Watch list	Lifetime ECL (not credit-impaired)	828
		Doubtful	Lifetime ECL (not credit-impaired)	8,535
		Loss	Lifetime ECL (credit-impaired)	1,543
			Total	239,429
Other receivables	31	Low risk or watch list	12m ECL	122,828
		Doubtful	Lifetime ECL (not credit-impaired)	49,181
		Loss	Lifetime ECL (credit-impaired)	543
			Total	172,552
Deposits	31	Low risk	12m ECL	100,347
Finance lease receivables	25	Low risk	12m ECL	80,953
Term deposits	24	Low risk	12m ECL	5,208,560
Cash and cash equivalents	34	Low risk	12m ECL	2,447,620
Other non-current assets	28	Low risk	12m ECL	157,090

45. FINANCIAL INSTRUMENTS (Continued)

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk and impairment assessment (Continued)

Bank balances, term deposits and financial assets at FVTPL (Continued)

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

45. FINANCIAL INSTRUMENTS (Continued)

45b. 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.

2023

	Past due RMB'000	Not past due/ No fixed repayment terms RMB'000	Total RMB'000
Amounts due from an associate	–	479	479
Amounts due from fellow subsidiaries	–	41,855	41,855
Amount due from an ultimate holding company	–	690	690
Trade receivables	10,906	228,523	239,429
Other receivables	49,724	122,828	172,552
Deposits	–	100,347	100,347
Finance lease receivables	–	80,953	80,953

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

45. FINANCIAL INSTRUMENTS (Continued)

45b. 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 2023, the Group has net current liabilities of RMB8,505,312,000 (2022: RMB6,555,008,000). 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 RMB2,955,015,000 (2022: RMB1,885,000,000) 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.

45. FINANCIAL INSTRUMENTS (Continued)

45b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	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 2023						
Trade and bills payables	–	4,402,499	–	–	4,402,499	4,402,499
Other payables and accruals	–	198,615	–	–	198,615	198,615
Lease liabilities	3.42-3.84	1,177,273	3,129,113	1,861,408	6,167,794	5,138,198
Amount due to an ultimate holding company	–	–	–	–	–	–
Amounts due to fellow subsidiaries	–	12,074	–	–	12,074	12,074
Amounts due to associates	–	750	–	–	750	750
		5,791,211	3,129,113	1,861,408	10,781,732	9,752,136
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

45. FINANCIAL INSTRUMENTS (Continued)

45c. 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)
	31/12/2023 RMB'000	31/12/2022 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	**995,628**	865,170	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	**53,911**	43,516	Level 1	Quoted bid prices in an active market	Not applicable
3) Unquoted equity investments classified as financial assets at FVTPL	**797**	797	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

46. RECONCILIATION OF ASSETS AND 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. Assets and 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	Amounts due to fellow subsidiaries	Lease liabilities	Bills receivables	Bills payables	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 36		Note 38			
At 1 January 2022	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
Issuance of bills payables	–	–	–	(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	–	1,000,000	7,005,075
Financing cash flows	**(7,259)**	**–**	**(1,104,595)**	**2,182,854**	**(1,750,000)**	**(679,000)**
Interest paid included in operating cash flows	**–**	**–**	**(215,495)**	**–**	**–**	**(215,495)**
Interest expense	**–**	**–**	**215,495**	**17,146**	**–**	**232,641**
Dividends to non-controlling shareholders	**83,698**	**–**	**–**	**–**	**–**	**83,698**
Issuance of bills payables	**–**	**–**	**–**	**(2,206,000)**	**2,200,000**	**(6,000)**
New lease entered	**–**	**–**	**602,823**	**–**	**–**	**602,823**
Lease modification	**–**	**–**	**(157,229)**	**–**	**–**	**(157,229)**
Lease termination	**–**	**–**	**(207,756)**	**–**	**–**	**(207,756)**
At 31 December 2023	**76,559**	**–**	**5,138,198**	**(6,000)**	**1,450,000**	**6,658,757**

47. 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 RMB602,823,000 and lease liabilities of RMB602,823,000 (2022: right-of-use assets of RMB783,673,000 and lease liabilities of RMB783,673,000).

48. 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 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Sales to fellow subsidiaries	(a)	**917,195**	568,994
Purchases from associates	(a)	**3,140**	3,991
Purchases from an ultimate holding company and fellow subsidiaries	(a)	**161,342**	211,834
Sales to other related parties	(l)	**839**	1,610
Rental income from fellow subsidiaries	(b)	**55,515**	46,319
Commission income arising from the redemption of coupon liabilities with a fellow subsidiary	(c)	**5,900**	5,242
Commission charges arising from the redemption of coupon liabilities with a fellow subsidiary	(c)	**6,832**	7,119
Service and platform usage fee charged by other related parties	(k)	**26,260**	30,243
Property management fee charged by fellow subsidiaries	(d)	**12,294**	13,820
Interest expenses on lease liabilities charged by fellow subsidiaries	(d)	**3,127**	5,550
Interest income earned from a fellow subsidiary	(e)	**1,763**	12,470
Interest expenses charged by a fellow subsidiary	(e)	**–**	10,522
Platform usage fee charged by fellow subsidiaries	(f)	**41,483**	45,523
Logistics resource leasing fee charged by fellow subsidiaries	(g)	**2,085**	2,373
Logistics and delivery service fee charged by fellow subsidiaries	(h)	**176**	176
Logistics and delivery services income from the other related parties	(h)	**4,815**	4,585
Logistics and delivery services fee charged by the other related parties	(i)	**3,217**	1,303
Transaction amounts transferred from the Group's relevant account into a fellow subsidiary's settlement account	(j)	**15,713**	19,361
Transaction amounts transferred from a fellow subsidiary's settlement account into the Group's relevant account upon redemption of membership points by the customers	(j)	**11,515**	11,196

48. 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) 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.

(c) 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% (2022: 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.

(d) 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.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

48. RELATED PARTY TRANSACTIONS (Continued)

(1) Related party transactions (Continued)

notes: (Continued)

(i) The logistics 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.

(j) 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 Group.

(k) This represents the service and platform usage fees paid by the Group to Alipay.com Co.,Ltd ("Alipay"), Hangzhou Rajax Information Technology Co., Ltd. ("Hangzhou Rajax"), Lazas Technology (Shanghai) Co., Ltd., ("Lazas")，Zhejiang Haochao Network Technology Co., Ltd ("Zhejiang Haochao"). Alipay, Hangzhou Rajax, Lazas and Zhejiang Haochao are fellow subsidiaries of Alibaba (China) Technology Co., Ltd. ("Alibaba China"), which is a substantial shareholder and therefore is a connected person of the Group.

(l) 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 2023, the Group entered into a supplemental agreement to the Investment and Wealth Management Cooperation Framework Agreement with the fellow subsidiary, pursuant to which, the fellow subsidiary agreed to invest and manage the entrusted assets in accordance with the requirements of the applicable laws and regulations, regulatory requirements and investment guidelines provided under the supplemental agreement.

48. 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:

	31/12/2023 RMB'000	31/12/2022 RMB'000
Cash and cash equivalents in a fellow subsidiary	**405,729**	713,666
Investment and wealth management cooperation with a fellow subsidiary	**995,628**	865,170

Summary of lease liabilities to related parties is as follows:

	31/12/2023 RMB'000	31/12/2022 RMB'000
Lease liabilities	**75,909**	121,879

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 not recognised any addition of right-of-use assets and lease liabilities in 2023 (2022: RMB1,229,000 and RMB1,229,000).

(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.

48. 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 31/12/2023 RMB'000	Year ended 31/12/2022 RMB'000
Salaries and other short-term employee benefits	11,166	11,601
Post-employment benefits	707	651
Other long-term benefits	274	261
	12,147	12,513

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.

49. 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
				2023 %	2022 %	2023 %	2022 %	
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.

50. 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:

	31/12/2023 RMB'000	31/12/2022 RMB'000
Non-current assets		
Property, plant and equipment	**156,169**	157,124
Construction in progress	**5,053**	–
Intangible assets	**13,841**	15,337
Investments in subsidiaries	**1,706,220**	1,706,220
Interests in associates	**172,779**	354,876
Financial assets at FVTPL	**5,165**	4,674
Term deposits	**200,000**	200,000
Deferred tax assets	**321**	174
Other non-current assets	**1,607**	1,730
Amounts due from subsidiaries	**1,539,459**	1,316,040
	3,800,614	3,756,175
Current assets		
Inventories	**484,134**	599,618
Deposits, prepayments and other receivables	**44,180**	13,876
Amounts due from an ultimate holding company	**682**	–
Amounts due from fellow subsidiaries	**13,002**	16,332
Amounts due from subsidiaries	**5,438,209**	5,561,276
Amounts due from an associate	**479**	363
Term deposits	**150,000**	150,000
Cash and cash equivalents	**449,892**	894,864
	6,580,578	7,236,329
Total assets	**10,381,192**	10,992,504

50. 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)

	31/12/2023 RMB'000	31/12/2022 RMB'000
Capital and reserves		
Share capital	**1,119,600**	1,119,600
Reserves	**5,543,527**	5,594,518
Total equity	**6,663,127**	6,714,118
Non-current liability		
Deferred tax liabilities	**963**	840
Current liabilities		
Trade and bills payables	**1,440,331**	1,819,021
Tax payable	**6,601**	3,797
Other payables and accruals	**162,635**	173,120
Contract liabilities	**1,768,384**	1,898,515
Amounts due to an ultimate holding company	**–**	6,814
Amounts due to fellow subsidiaries	**4,729**	8,136
Amounts due to subsidiaries	**333,672**	366,990
Amounts due to associates	**750**	1,153
	3,717,102	4,277,546
Total liabilities	**3,718,065**	4,278,386
Total equity and liabilities	**10,381,192**	10,992,504
Net current assets	**2,863,476**	2,958,783
Total assets less current liabilities	**6,664,090**	6,714,958

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 2022	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
Loss and total comprehensive expense for the year	**–**	**–**	**–**	**–**	**(50,991)**	**(50,991)**
At 31 December 2023	**1,119,600**	**258,353**	**3,595**	**559,800**	**4,721,779**	**6,663,127**

Environmental, Social and Governance Report

CONTENTS

PREPARATION OF REPORT

This report is the eighth *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 ESG 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 (abbreviated as "Lianhua Supermarket", "the Company", "the Group"). Unless otherwise stated, the scope is consistent with that of the consolidated financial statements of Lianhua Supermarket (stock code: 0980.HK) for the same period.

Full Name	Abbreviation in this report
Lianhua Supermarket Holdings Co., Ltd.	Lianhua Supermarket, the Company
Lianhua Supermarket and its subsidiaries	the Group
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 2023 to 31 December 2023. 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 31 December 2023)* issued by The Stock Exchange of Hong Kong Limited.

Note for the Data

Data and cases in this report are from the formal record of the Company with respect to actual business operation.

The financial data in this report is presented in Renminbi. 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.

Contact Us

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Tel: 86(21)52629922

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.

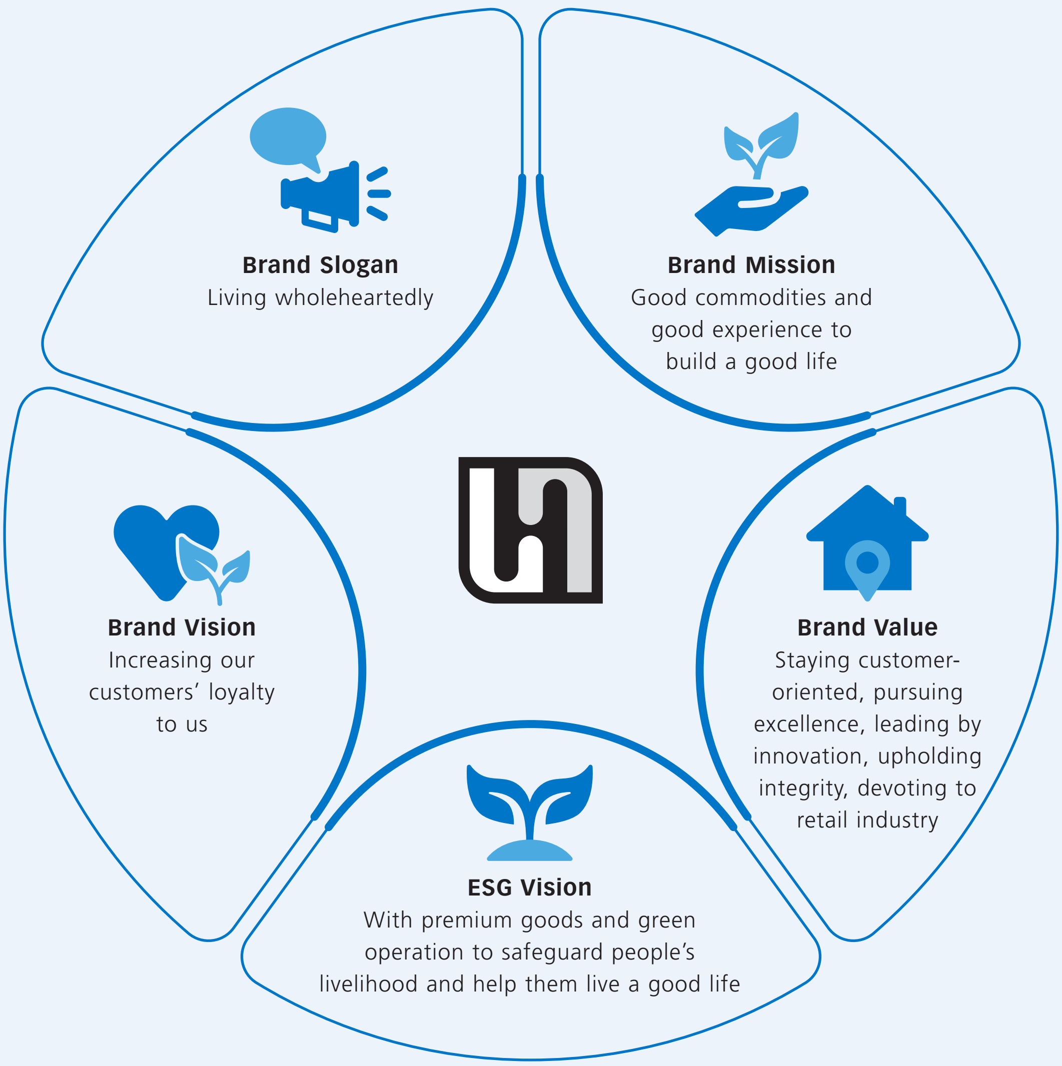
Materiality	The Company identifies material issues that investors and other stakeholders are interested in and are related to business operation and takes these issues as the focus of this report. The reporting of material issues also covers the characteristics of the industries with which the Company's operation is associated and the regions where the operation is conducted. The process of material issue analysis and the analysis results 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 the Company. For the entities covered by this report, the Company is not aware of any negative event that should be disclosed but has 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 a 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 and Practice

ESG Management Concept

In line with its brand 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

The Group has, after giving full consideration to its business and the appeals of its stakeholders, put forward the ESG management strategies covering four major aspects, i.e. goods and services, employee development, green operation, community and people's livelihood, and conducts the corresponding management practice in light of the strategy.

ESG Strategy and its Achievements in 2023

	Short to Mid-term Strategy (3-5 years)	Long-term Strategy (10 years)	Practice of Primary Responsibilities	Achievements in 2023
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.	• 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 • Continuously improve consumer satisfaction	• Anti-corruption trainings cover 100% of members of the Board; • Overseas lawyers were invited to provide special training on the Listing Rules for the Board, which was attended by a total of 11 members; • Food safety trainings were conducted, and manuals, training courses and examination databases were developed with respect to the operation of the new food safety information traceability platform for directly-operated supermarkets, and Bailian Group's food safety management standardization, with a total of 13,100 participations; • 2,708 emergency drills were conducted in stores with 77,997 participants; • The Group's supermarket online customer complaints decreased by 66% and offline customer complaints decreased by 18% as compared with that in 2022.

	Short to Mid-term Strategy (3-5 years)	Long-term Strategy (10 years)	Practice of Primary Responsibilities	Achievements in 2023
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.	• Ensure equal employment and democratic communication, and carry out employee care activities • Protect occupational health and safety of employees • Provide our employees with pieces of training and development opportunities	• Labour contract signing rate and social security contribution rate are 100%; • During the Reporting Period, the Group recorded zero work-related injuries or fatalities and zero occupational diseases; • Trainings to support employees' development cover a total of 64,628 participations.
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 the environment, and advocate sustainable consumption; • Advocate sustainable production and reduce the impact of suppliers' commodity production on the environment.	• Improve our environmental management system • Promote green stores • Improve green logistics and warehousing • Carry out green concept advocacy activities	• Electricity consumption of 2023 decreased by 30% compared with 2022, greenhouse gas emissions per unit area decreased by 38% compared with 2020, and water consumption per unit area of 2023 decreased by 17% compared with that in 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; • The Group created its first boutique supermarket, City Life, to advocate sustainable living.

	Short to Mid-term Strategy (3-5 years)	Long-term Strategy (10 years)	Practice of Primary Responsibilities	Achievements in 2023
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, and continue to participate in community and social welfare activities, to improve our social influence.	• Carry out public welfare activities in communities • Help farmers through purchase to revitalize rural development	• During the Reporting Period, a total of RMB562,000 was invested in community charity activities, and 2,681 employees are engaged in voluntary services, with 26,638 hours of service; • 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.

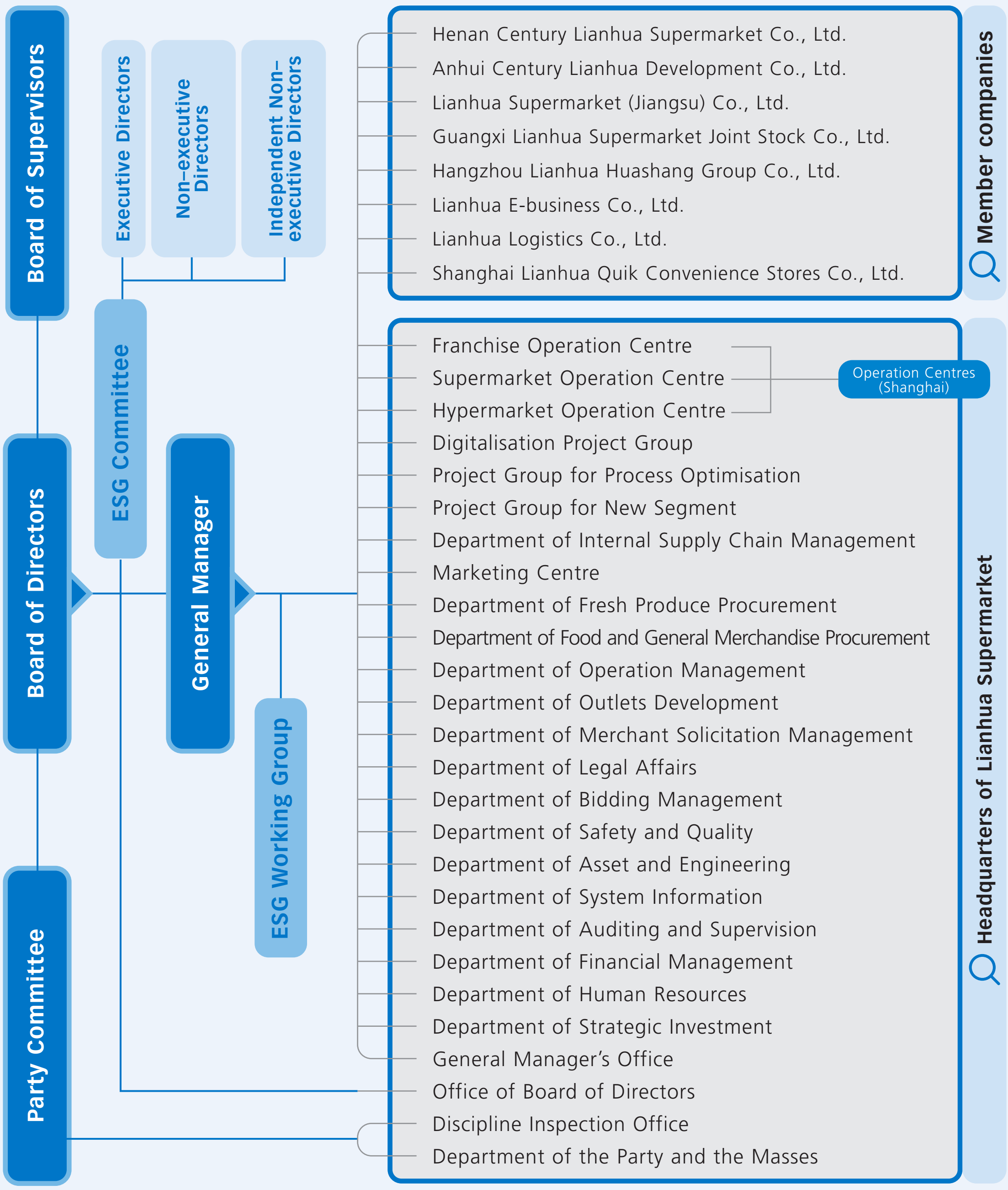
The Group has set the ESG Environmental management targets for energy use, greenhouse gas emissions and water use. In the first quarter of each year, the Board reviews the Group's ESG performance and achievement of the targets in the previous year, and ensures that the Group's ESG performance is disclosed in the ESG report, so as to promote the realisation of ESG performance targets. Refer to the subsection headed "Green Operations" for details and progress of the targets.

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 ESG Committee of the Board 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 1 Executive Director, 1 Non-executive Director and 2 Independent Non-executive Directors, and it is chaired by the Executive Director. The committee 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. At the same time, the Group incorporated ESG-related aspects such as major safety, social stability, energy conservation and carbon reduction into the performance appraisal of the management. In March 2023, the Company held the third meeting of the seventh session of the ESG Committee, at which the 2022 ESG Report was considered and approved to actively perform ESG supervision duties.

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 the 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	Issues of Interest	Communication and Response
Shareholder	• Corporate governance • Risk management and internal control • Anti-corruption	• Information disclosure of listed companies • Shareholders' meetings • Shareholder communication meetings • Roadshow • Answering calls from investors • Receiving emails from investors • Responding to questions raised by investors via WeChat
Government and regulators (including the Market Supervision Administration, the Food and Drug Administration, etc.)	• Corporate governance • Anti-corruption • Food safety • Green operation • Packaging reduction and recycling	• Policy implementation • Food safety management • Energy conservation and emission reduction actions • Actions for reduction of packaging materials • Information disclosure
Consumers	• Commodity quality assurance • Food safety • Responsible marketing • Consumer relationship management • Protection of consumers' information and privacy	• Food safety management • Publicity on WeChat official account • Consumer consultation and complaint platform • Consumer satisfaction survey • Consumer symposiums • Communication in consumer WeChat group
Suppliers	• Supply chain management	• Supplier review and evaluation • Supplier meetings • Communication and visits • Sustainable supply chain building

Key Stakeholders	Issues of Interest	Communication and Response
Employees	• Employees' benefits and welfare • Safe production • Employees' development and training	• Trade union and employee representative meetings • Activities • Fire drill • Employee training • Internal publications
Community and environment	• Rural revitalization and public welfare and charity • Green operation • Community communication and development	• Sales program for products based in remote areas • Community service activities • Communication through WeCom • Publicity through Official Accounts • Advocating by exhibition in stores • Energy conservation and emission reduction actions • Actions for reduction of packaging materials • Industry organisations

1.4 Analysis of Material Topics

The Group has established a material topic bank 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 and communicating with stakeholders, the Group identified 17 material ESG topics and ranked 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

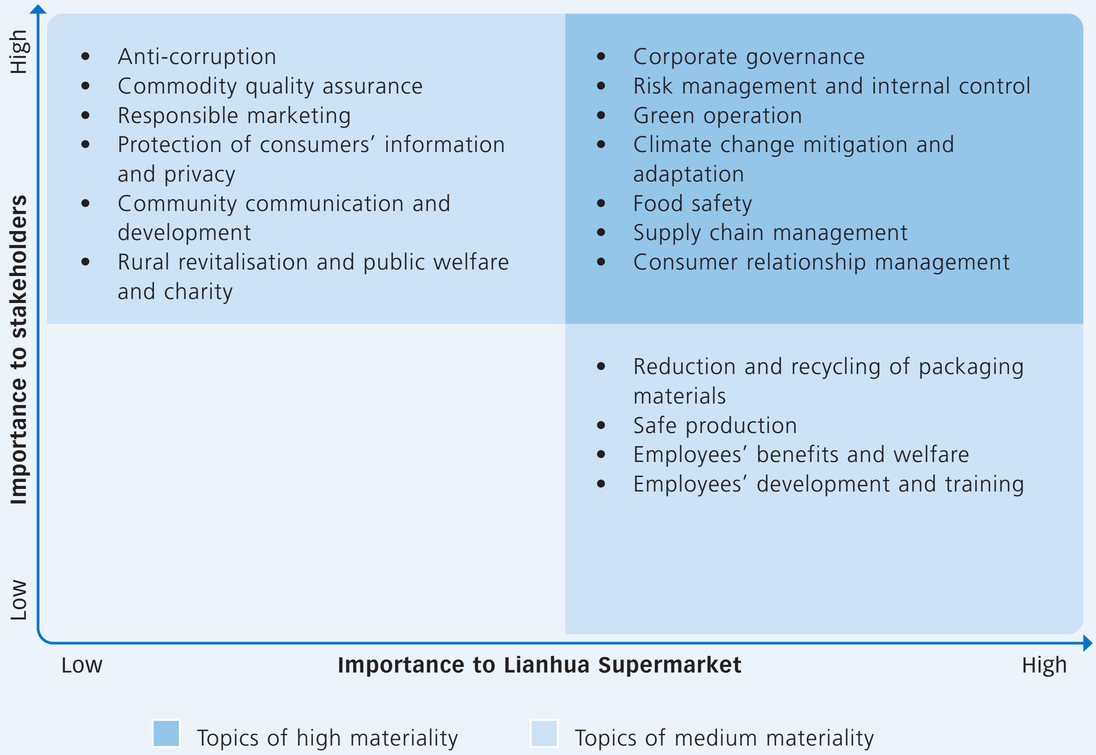
Identification	Evaluation	Ranking	Ranking and reporting
• Based on the characteristics of its own business and its industry, and considering factors such as policy trends, information disclosure requirements of the exchange, and peer comparison, the Company identifies impacts of topics and develops a topic bank.	• The Company continuously communicates with stakeholders and internal and external experts to evaluate the importance of impact of topics and identifies 17 key environmental, social and governance issues that need attention.	• The Company rank the topics from two dimensions: importance to stakeholders and importance to the Company.	• A matrix of material topics is constructed based on the ranking results of the topics, which is reviewed by the Board of the Company, and key disclosures are made in the report on high material topics.

In 2023, on the basis of the material topics for 2022, the Group, considering the material topics of policy concern issued by regulatory authorities and industry self-regulatory organisations and benchmarking against peers, identified 17 material topics through addition, expression revision and deletion. The changes in specific topics and the reasons are presented in the table below.

Table of Change in Material Topics for 2023

Material topics 2023	Material topics 2022	Changes	Reason for change
Reduction and recycling of packaging materials	Use of packaging materials	Expression improvement and optimisation	In the past two years, the "reduction and recycling of packaging materials" has received attention from peers and international and domestic policies, and the revisions increased the focus on the management of the topic.
Food safety	——	Addition	In the past two years, "food safety" has received attention from peers and international and domestic policies, and the addition of the topic increased the focus on the topic.
Community communication and development	Community public welfare	Expression improvement and optimisation	"Community communication and development" can better illustrate the relationship between the Company and the community
Rural revitalisation and public welfare and charity	——	Addition	In the past two years, the "rural revitalisation" has received attention from peers and domestic policies. The definition of "rural revitalisation and public welfare and charity " topic includes "community and public welfare".
——	Industry development	Deletion	No relevant topics are included in reports of peers.
——	Safeguard people's livelihood	Deletion	In 2023, the impact of the COVID-19 pandemic has basically been eliminated, "Safeguard people's livelihood" is no longer deliberately mentioned in the daily operation of Lianhua Supermarket.
Safe production	Employee health and safety	Expression improvement and optimisation	"Employee health and safety" in Lianhua Supermarket is mostly related to safe production. The expression of "safe production" is more in line with the current management situation of the Company, and the revision increased the focus on managing the topic.
Risk management and internal control	Risk management	Expression improvement and optimisation	The risk management covers a large number of internal control contents, and the revision increased coverage of management of the topic.

Matrix of Material Topics of Lianhua Supermarket



List of Material Topics of Lianhua Supermarket and Corresponding Sections

Area	Name of Material Topic	Corresponding Section
Governance	**Corporate governance**	2.1 Corporate Governance
	Risk management and internal control	2.2 Risk Management and Internal Control
	Anti-corruption	2.3 Anti-corruption
Environment	**Green operation**	3.1 Green Operations
	Climate change mitigation and adaptation	3.3 Climate Change Mitigation and Adaptation
	Reduction and recycling of packaging materials	3.2 Packaging Reduction and Recycling
Society	**Food safety**	4.1 Ensuring Product Quality
	Supply chain management	4.2 Supply Chain Management
	Consumer relationship management	4.3 Consumer Relationship Management
	Commodity quality assurance	4.1 Ensuring Product Quality
	Consumer information and privacy protection	4.4 Information and Privacy Protection of Consumers
	Responsible marketing	4.5 Responsible Marketing
	Employee rights and benefits	5.1 Rights and benefits of Staff
	Safe production	5.2 Safe Production
	Employees' development and training	5.3 Employee Development and Training
	Community communication and development	6.1 Community Communication and Development
	Rural revitalisation Charity	6.2 Rural Revitalisation and Public Charities

Note: Topics in bold are topics of high materiality

2. ROBUST GOVERNANCE TO LEAD HIGH-QUALITY DEVELOPMENT

2.1 Corporate Governance

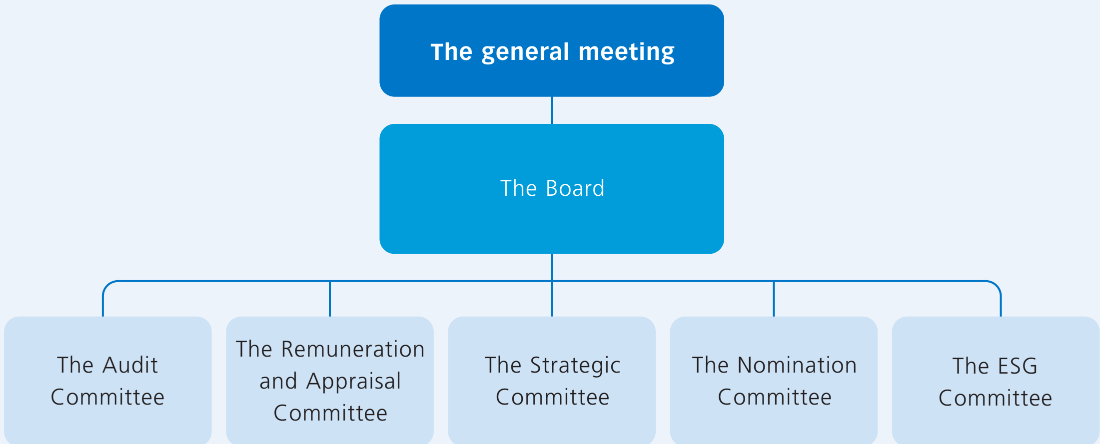
Corporate governance

The Company strictly abides by the *Company Law of the People's Republic of China, the Securities Law of the Peoples Republic of China*, the *Guidelines for the Articles of Association of Listed Companies*, the *Corporate Governance Code* set out in Appendix C1 to the Listing Rules of The Stock Exchange of Hong Kong Limited and other laws and regulations and relevant requirements. In 2023, in accordance with the changes in laws and regulations such as the *Trial Measures for the Administration of Overseas Issuance and Listing of Securities by Domestic Enterprises* of the China Securities Regulatory Commission and the Listing Rules of The Stock Exchange of Hong Kong Limited, the Company amended the *Articles of Association*, 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 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. In 2023, the Company revised the *Implementation Rules of the Remuneration and Evaluation Committee* and the *Rules of Procedure of the Board of Directors* to respond to the changes in the listing rules to ensure the efficient operation of corporate governance and compliant operation.

In 2023, the Company completed the election of the eighth session of the Board and the Board of Supervisors. The trade union elected employee supervisors, the Board elected the chairman of the new session of the Board, the vice chairman of the Board, members and chairman of various professional committees, and the Board of Supervisors has elected the chairman of the new session of the Committee of Supervisors. At the same time, the Company completed the registration of new directors and supervisors with the authority for industry and commerce.

Corporate Governance Structure



Committees' Responsibilities

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, priorities and the setting of ESG targets, and controlling ESG management risks

In 2023, all members of the Board of the Company 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, two serve as the executive Directors, five (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. As of the date of publication of the 2023 annual report of the Company, there were three female directors on the Board, accounting for 27% of total members of the Board, an increase of 18 pps from 9% last year.

For other relevant important information in this section, please refer to the sections headed "Report of the Directors" and "Report of Corporate Governance" in the 2023 annual report of the Company.

Protection of Investors' Rights

The Company attaches great importance to the protection of investors' rights, and protects the legitimate rights and interests of investors through information disclosure, active establishment of communication channels with investors, and standardisation of related-party transactions.

In terms of information disclosure, the Company has formulated internal regulations such as the *Management Regulations of Inside Information of Lianhua Supermarket Holdings Co., Ltd.* and issued *the Notice on Establishing and Improving the Supervision Mechanism for Reporting and Handling Major Events and Public Opinion of Lianhua Supermarket Holdings Co., Ltd.* to ensure that all shareholders have equal access to information. At the same time, the *Management Measures for Related-party Transactions of Lianhua Supermarket Holdings Co., Ltd.* was formulated to standardise the special approval process of related-party transaction agreements, summarise and compile the information of related-party transactions on a monthly basis, and disclose the information of related-party transactions on a semi-annual basis in interim reports and annual reports. In 2023, Lianhua Supermarket published a total of 27 announcements and notices and 10 circulars.

The Company attaches great importance to investor relations management, actively establishes smooth two-way communication channels with investors, and promptly conveys the Company's strategic planning, business performance and investment highlights to investors. At the same time, the Company promptly communicates the views and expectations of the capital market to the Board and the management to effectively enhance the communication and interaction with the capital market. The Company organises annual and semi-annual results roadshows for investors, and communicates with investors and responds to their demands through answering investors' calls, receiving investors' emails, and responding to investors' WeChat messages. In 2023, the Company completed 18 investor communication activities through telephone and WeChat.

2.2 Risk Management and Internal Control

Risk management is an important basis for the Group's sound operation. In 2023, the Group formulated the 2023 *Lianhua Supermarket Holdings Work Plan on Preventing and Resolving Major Risks in Economic Fields*, according to the *Notice of Municipal State-owned Assets Supervision and Administration Commission on Ensuring Prevention and Resolve of Major Risks in Economic Fields in 2023*, the *Notice of Municipal State-owned Assets Supervision and Administration Commission on Printing and Distributing the Review Results of Risk Investigation and Ensuring Rectification*, and the *2023 Bailian Group Work Plan on Preventing and Resolving Major Risks in Economic Fields*, and incorporated the construction of risk control system into its strategic planning and adopted measures to improve the risk control standard.

The Internal Audit Department regularly evaluates the risk points of each department and the executive management, analyzes and promptly follows up on the relevant risk control work, and the Board Audit Committee is responsible for supervising the Group's risk management implementation. The Group conducts internal control inspection and self-inspection every year, and prepares a "Report on Major Risk Investigation and Prevention and Control" every quarter. Meanwhile, the Internal Audit Department and the Audit Committee hold regular meetings to report and enhance the risk management work and identify potential risks, thereby promoting the Group's compliance and sound operation.

In terms of auditing, the Group has established the *Management Measures for Internal Auditing, Management Measures for Engineering Auditing* and other related auditing systems according to the relevant requirements of the *Internal Control Manual of Lianhua Supermarket Holdings Co., Ltd.*. As the responsible internal control department, the Department of Auditing and Supervision conducts routine supervision and inspection on the implementation of the internal control system, and also intensifies targeted and specialised supervision on important internal control aspects.

In terms of intellectual property protection, the Group formulated the *Trademark Management Measures Lianhua Supermarket Holdings Co., Ltd. (Trial)* in accordance with the *Trademark Law of the People's Republic of China*, the *Regulations on the Trademark Law Implementation of the People's Republic of China* and other laws and regulations and the *Bailian Group Trademark Management Measures* (2022 Revision), managing the approved registered commodity and service trademarks held by the Group, as well as the characters, graphics, letters, numbers, three-dimensional signs, colors, sounds and other elements and their combinations that have been applied for or used and have the function of identifying the source of goods or services, so that the Group could protect its exclusive trademark rights, ensure the quality of goods and services and safeguard its reputation.

2.3 Anti-corruption

In order to strengthen the Company's anti-corruption management, the Group has developed the *Accountability Mechanism of Clean and Honest Party Construction and Responsibility of Discipline Supervision of Lianhua Supermarket Holdings, Co., Ltd.* and the *Regulations on Management's Performance Wage and Business Expenses by Lianhua Supermarket Holdings, Co., Ltd.*, and other regulations, and signed the *Responsibility Agreement on Clean and Honest Party Construction*, the *Letter of Commitment of Party Members* with employees who are Party members and the *Letter of Undertaking on Clean and Honest Practices* with personnel of key positions such as procurement and operation to raise their anti-corruption awareness. The Group established the "2-5-8" supervision system in light of its own reality, under which 15 specific measures are in place to strictly regulate employees' behaviors to greatly reduce the corruption incidence.

"2-5-8" Supervision System

- **2-5-8 Supervision System**
  - **Two "Probes"**
    - Party discipline and industry behavior supervisor
    - Business cooperation declaration platform
  - **Five "Red Lights"**
    - Strictly prohibit misappropriating business funds and " freeloading "
    - Strictly prohibit private use of company vehicles
    - Strictly prohibit accepting kickbacks from suppliers and other partners
    - Strictly prohibit behaviors contrary to social morality, family virtue and professional ethics
    - Strictly prohibit violating the spirit of the eight regulations issued by the central government
  - **Eight "Markings"**
    - Do not ask and accept goods, gifts, cash, securities, payment vouchers and commercial prepaid cards from suppliers and other partners
    - Do not directly or indirectly have a loan relationship with competitors, suppliers or franchisees
    - Do not invest or entrust wealth management in economic entities that have businesses or competitive relations with the Company
    - Do not lavish the Company funds on wining and dining, travel and high-end entertainment activities during traveling, studying and training
    - Do not privately disclose the relevant information and data of the Company's business activities, or seek personal gain
    - Do not hold other enterprises' shares or relevant positions, or accept paid services from them
    - Do not conceal or falsely report personal matters, or fail to timely report and file relevant matters with the Company as required
    - Do not set up petty cash fund

The Group values feedback and reporting through various channels, and provides clear reporting channels such as Email, telephone and mailbox, and attaches great importance to employees' reporting of suspicious internal corruption violations. The Group checks the reported problems and clues one by one, and handles them in accordance with the relevant provisions of the *Disciplinary Regulations of the Chinese Communist Party*. Meanwhile, the Group made every effort to protect whistleblower safety and reported information, and kept the whistleblower name, contact information and reporting items strictly confidential, and strictly prohibited disclosure to the reported person. The Group gave disciplinary sanctions to those who violated the regulations, and investigated those who committed crimes for criminal responsibility. In 2023, the Company had no incidents of corruption, bribery, extortion, fraud, money laundering, or litigation cases caused by such matters.

In terms of anti-corruption publicity and training, the Group invited overseas lawyers in 2023 to conduct special training for the Board of Directors and senior executives on the relevant listing rules, with a total of 11 participating members and the training covering all directors. Meanwhile, the Group initiated the column "Lianhua Integrity Watch" on the Lianhua party building WeChat official account, and conducted anti-corruption education through tongue twisters, short videos, cartoons, etc., so as to continuously enhance party members and cadres' ideology and action consciousness in political integrity and power usage.

With regard to the supplier anti-corruption management, the Group conducted advanced inquiry about the bribery crime records of suppliers for key departments such as the Commodity Department and the Asset & Engineering Department. In 2023, the Group inquired about a total of 342 suppliers and refused three suppliers, and would include the organizations found to have bribery crime records in the "forbidden list".

3. SAVE ENERGY AND REDUCE CONSUMPTION, FOR OUR GREEN HOMELAND

3.1 Green Operations

The Group upholds the concept of eco-friendly development, and incorporates it into its daily operations in accordance with the *Environmental Protection Law of the People's Republic of China* and the *Environmental Protection Tax Law of the People's Republic of China*. Through the implementation of environmental management policies such as the *Operational Requirements for Energy Conservation and Consumption Reduction, the Manual Operations Standards* and the *Energy Conservation and Emission Reduction Implementation Plan*, the Group has standardized its green management processes, in an effort to reduce consumption of energy and natural resources, minimize waste while maximizing the use of eco-friendly products and services. During the Reporting Period, the Group did not experience any major environmental incidents or significant environmental pollution.

The Group has set clear environmental management targets and tracked the progress of their implementation by monitoring its annual performance.

Environmental targets and progress in 2023

Target	Description	Progress in 2023
Energy use	Reduce unnecessary energy consumption and gradually improve the proportion of renewable energy	• With a power consumption of 428,717.32 MWh in 2022, and 297,961.19 MWh in 2023, the Group's power consumption in 2023 **decreased by 30%** as compared with 2022 • The Group has commenced feasibility studies on photovoltaic projects
Water use	Decrease water consumption per unit of area in 2030, in comparison with 2020	• With a water consumption of 1.8 tons/m^2. in 2022, and 1.5 tons/m^2 In 2023, the Group's water consumption per unit area in 2023 **decreased by 17%** as compared with 2020
Greenhouse gas emissions	Decrease GHG emissions per unit of area in 2030, in comparison with 2020	• With greenhouse gas emissions per unit area of 152.63 kg CO_2e/m^2 in 2020 and 95.38 kg of CO_2e/m^2 in 2023, our greenhouse gas emissions per unit area in 2023 **decreased by 38%** as compared with 2020
Waste management	Carry out waste sorting across all our stores, and ensure that all recyclable materials are recycled and other wastes are appropriately disposed of	• Waste sorting was implemented across all our stores; all recyclable materials were recycled, and other wastes were appropriately disposed

Management of Energy and Water Resources

The Group utilized various types of energies in its operations, such as electricity, natural gas, gasoline, and diesel. Energy and water usage mainly stem from the operation of our stores, warehouses, logistics, and daily office activities.

Lianhua Supermarket's Sources of Energy and Their Utilization

Category	Main source	Main Utilization
Water	Water company	Domestic water
Electricity	State Grid	Lighting, air conditioning, power, and refrigeration systems
Natural gas (low pressure gas)	Gas company	Cafeteria
Gasoline	Sinopec, etc.	Business vehicles
Diesel	Sinopec, etc.	Cargo vehicles

The Group complies with the *Law on Energy Conservation of the People's Republic of China*, and strives to reduce energy and water consumption by all means based on the actual needs of its stores. In terms of energy consumption, the Group strives for efficient energy management by developing practicable environmental protection policies and guidelines, establishing environmental protection targets, and optimizing its annual budget for the energy consumption efforts.

During its daily, warehousing and logistic operations, the Group adheres to its energy saving and emission reduction commitments in these 3 key areas: green stores, green warehousing and logistics, and green office. First of all, the Group requires its stores to record relevant environmental data, review and monitor their environmental performance on regular basis, check their annual energy consumption and review the effectiveness of their energy conservation measures. The logistics subsidiary of the Group has also developed and implemented the *Measures of Lianhua Logistics for Energy Management* to strengthen its energy-saving efforts.

Energy Conservation Actions in 2023

Category	Main action
Green stores	• The Group developed and implemented the *Energy-saving Measures and Standards for Operational Centers*, aiming to reduce electricity consumption by shifting from spot light sources to surface light sources, meticulously setting different illumination standards for various areas, aiming to lower the overall average illumination. • When purchasing equipment and facilities, we opted for those with Grade I-II energy consumption ratings. • We adjusted the balance of three-phase electrical loads for optimal energy efficiency. • We adopted an intelligent control system to control the compressor of our cold chain system and the anti-condensation system of our freezers, to rationalize the startup frequency of compressors and thus reduce energy consumption. • We upgraded the cooling system, replaced the long-distance air-cooled condenser with a water-cooled system, to further improve efficiency and reduce energy consumption. • Magnetic door curtains were installed to block the cold or hot air from getting into the shopping mall. • Our staff were required to turn off half an hour before closing and to maintain a room temperature of around 26 degrees Celsius in the summer. • During the off-season, certain underperforming stores were required to accelerate the turnover of frozen goods inventory and close some of their cold storage. • At the end of business hours, the horizontal freezers would be closed, and the air cabinets would be isolated with a night curtain.

Category	Main action
Green warehousing and logistics	• We adopted the energy-saving compressors to control energy consumption with frequency converters and the power regulating modules, and upgraded the re-steam room and the air curtain machine at the inlets and outlets of the cold storage, to reduce condensation and energy consumption. • We adopted automatic sorting lines with an active energy conservation mode, to reduce equipment wear and tear. • We shifted to energy-saving LED lights for the lightening systems in our industrial parks and warehousing areas, with sound-activated and radar lighting systems installed in certain less frequently visited areas, such as the corridors. • We regularly inspected the high-voltage distributor rooms and promptly replaced any damaged capacitors to ensure a stable power factor of 0.98 or above, so as to reduce reactive power, and lower electricity costs. • We have issued the *Feasibility Report on Lianhua Logistics' Photovoltaic Power Generation Project*, in preparation for the launch of our rooftop distributed photovoltaic project. • The land where Lianhua Logistics' warehouse is located in Shanghai was originally designated for residential use and has been demolished for an upgrade. The construction process had gone through an environmental assessment by the Environmental Protection Bureau.
Green office	• We monitored electricity and water consumption in real-time, and promptly analyzed and fixed any abnormalities. • We managed performance-related costs by analyzing them to identify opportunities for savings and refining our cost-control efforts. • We demanded the ordering and use of store supplies to be in strict accordance with the corporate policies. The section manager is in charge of requesting and confirming receipt of store supplies, while the store managers and staff on duty oversee the process to ensure orders are based on actual needs. • Stickers were put beside the light switches to remind our staff to turn off the lights when they finish work. • We have established the Customer Service Department to monitor energy consumption on a daily basis, and raise our staff's awareness of energy conservation, in addition to circulating the *Energy Management System of Lianhua Logistics* which was devised to reduce our overall energy consumption.

With regard to water usage, the Group regularly inspects and maintains its waterconsuming equipment, repairs and replaces damaged components in a timely manner, especially the condenser fan, which has been upgraded to enhance water cooling efficiency for better water conservation effect. We strive to raise awareness of water conservation among our employees through periodic publicity on environmental protection. In addition, the Group gathers data on resource (such as water and office supplies) consumption, analyzes the reasons for excessive consumption, devises plans to reduce it, and monitors the implementation and effectiveness of these plans. The Group has obtained a water utilization permit in compliance with the regulations and has been paying water fees on time. Our practices to secure water sources have had no significant impact on the environment.

Discharge and Waste Management

The Group needs to deal with certain types of non-hazardous waste during its operations, which mainly consists of wasted packaging materials, paper for printing shopping receipts, and expired perishable food items; we also have to handle some kinds of hazardous waste, which mainly consists of waste LED lights, toner cartridges, batteries, discarded air cabinets, and conductive cabinets with built-in electronic thermometers. The waste we produce in our office operation mainly includes domestic wastewater from our office staff, as well as waste generated during the logistic operation and oily wastewater discharged during vehicle maintenance process. With regard to waste management, the Group has constructed a secondary sewage treatment tank to process the oily wastewater produced prior to discharge. The Group exercises tight control of fuel consumption of its vehicles to indirectly reduce waste discharge. Furthermore, we put urea in our vehicles to decrease hazardous exhaust when performing vehicle maintenance. The waste oil and wastewater from our cafeterias are separated using an oil-water separator before being discharged into the drainage.

For waste management, the Group categorizes primary wastes into wet garbage, dry garbage, and recyclable waste. Recyclable waste such as packaging cartons, KT boards, wrapping film, and thermal containers are packaged and collected by designated waste packaging disposal companies.

Waste Categorization and Management Methods of the Group

<table>
<tr><th>Category</th><th>Type</th><th>Management methods</th></tr>
<tr><td>Wet garbage</td><td>Expired fresh produce, etc.</td><td rowspan="2">• Our employees are required to 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 centralized disposal and management
• We engage local waste disposal companies to dispose of the wastes</td></tr>
<tr><td>Dry garbage</td><td>Waste packaging materials, shopping receipts, posters, waste LED lights, etc.</td></tr>
<tr><td>Recyclable waste</td><td>Packaging cartons, KT boards, wrapping film, thermal containers, etc.</td><td>• Recyclable waste is collected and recycled by the designated waste packaging disposal companies
• Expired food is recycled and repurposed by qualified companies</td></tr>
<tr><td>Obsolete assets</td><td>Idle furniture and equipment</td><td>• We disposed of idle equipment and assets in an efficient and beneficial manner
• In 2023, at the closing of Century Lianhua Dongbao Xinglu Store and Songnan Store, we negotiated with property owners and managed to sell some of our idle assets to either the owners or third parties. This strategy not only protected the Company's interests but also ensured the assets were recycled for further use. In 2023, the Group capitalized on the value of obsolete equipment, amounting to RMB2.08 million</td></tr>
</table>

3.2 Packaging Reduction and Recycling

The Group uses a large amount of packaging materials which include recyclable transit containers required for the warehousing and logistics process, as well as the shopping bags used by customers in our stores. We are committed to reducing the use of packaging materials to protect our environment, for which we have established and implemented the *Standards for the Use of Vegetable Packaging and the Standards for the Use of Fruit Packaging*. We exercise tight control of the use of packaging materials in both the warehousing and retail sales processes. Through active approaches such as reducing the use of packaging materials, promoting recycling, and advocating for sustainable activities, we have contributed to the societal tendency towards low-carbon operation.

Major Actions for Package Material Reduction and Recycling in 2023

Green store	Green warehousing and logistics
• Our stores maintained inventory based on sales and customer traffic, and centrally collected and recycled recyclable packaging materials after shelving the products. • We display friendly reminders in the designated store areas where plastic shopping bag rolls are available, encouraging our customers to opt for reusable cloth bags and bring their own grocery baskets, thus decreasing the reliance on single-use plastic bags. • National standards were strictly implemented across all our stores, dissuading our customers from taking plastic shopping bags at checkout counters and offering non-woven shopping bags instead, for a small amount of charge. • We strove to increase sales and reduce waste for fresh produce, thereby minimizing the generation of wet waste in our stores. • We standardized and unified the packaging methods for vegetables and fruits, provided training and on-site demonstrations for our employees to reduce unnecessary packaging waste. • We promoted rational recycling of plastic products and reuse of eco-friendly materials with our official account on the social media, in an effort to encourage more people to engage in a green and low-carbon lifestyle.	• We used pallets and transit boxes of standard size to save space during cargo transportation. • We used recyclable cold-chain transit boxes, vegetable baskets, room-temperature transit boxes, and those specialized for production lines as well as thermal containers for different types of goods, and reuse them afterwards.

Case Study A "Self-service Bag Dispenser" is being tested with the aim of reducing the waste of produce bag rolls in our stores.

On October 15, 2023, the fresh produce (vegetables, fruits, fresh meat) area of the Wusong Store of Lianhua Supermarket began testing their self-service bag dispensing machines. Three of such machines were placed in the designated area of the store, with which the customers can scan a QR code with WeChat in their mobile phones to get a shopping bag, and one scan allows for one bag to be dispensed. Store employees will assist customers who are not familiar with the process, and for elderly customers without smartphones, our employees will use their own phones to help them retrieve the bags.

Implementing self-service bag dispensers has curbed the tendency of some customers to intentionally and excessively acquire extra bags, thus reducing the waste of packaging materials.

3.3 Climate Change Mitigation and Adaptation

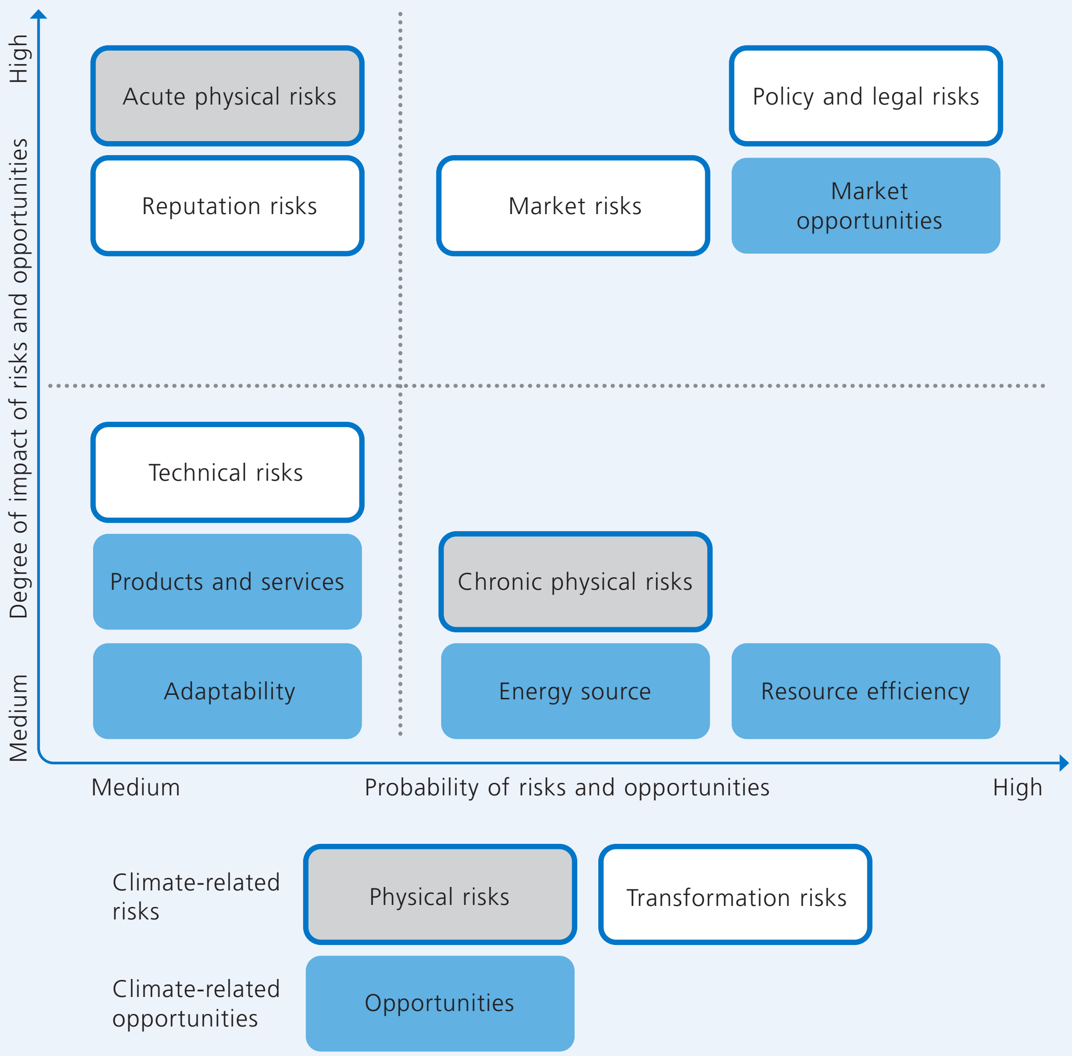
The consumption of energy and resources is strongly correlated with climate change. Global climate change not only triggers diverse extreme weather events but also significantly impacts our economic and social activities. The Group proactively responds to the concerns of the government, our investors and stakeholders in addressing climate change, identifies risks and opportunities related thereto with reference to the recommendations of the International Financial Reporting Sustainability Standard 2 - Climate-related Disclosures (IFRS S2) released by the International Sustainability Standards Board (ISSB), and continuously improves its management based on the results, so as to minimize the carbon footprint generated by its operating activities.

In order to address the potential risks and opportunities associated with climate change more effectively, the Group identifies climate change-related risks and opportunities linked to its own operations through policy research while referring to the practices of industry peers and expert opinions, aiming to accurately evaluate the impact of these 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.

Climate-related Risk and Opportunity Matrix



Analysis of the Financial Impact of Climate-related Risks

Identification results of main climate change-related risks and opportunities				Potential financial impact
Risks	High	Policy and legal risks	The Group 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.	Operating income↓ Operating costs↑ Credit risk↑
		Market risks	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.	Operating income↓ Credit risk↑
	Medium	Acute physical risks	Severe climate changes such as typhoons and floods will cause extreme weather or natural disasters, which may affect the normal operation of the Company's stores, thereby affecting the Company's business.	Operating income↓ Operating costs↑ Value of fixed assets↓
		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
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↓
	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 are an appropriate response to consumers' requirements for eco-friendly products, which can strengthen the competitiveness of products and services.	Operating income↑ Credit risk↓

Counter Measures for Climate-related Risks

Daily management	• Improve environmental management and climate change-related management system; • Uphold green development concept, focusing on green, low-carbon products procurement and sales; • Publish energy-saving measures and green products involved in store operations promptly to enhance their impact; • Replace energy-consuming materials in our stores with low energy-consuming materials; • Install LED lamps in the workplace; • Acquire low energy-consuming refrigerators and other equipment; • Purchase products with sustainability certificates and resort to local sourcing.

Dealing with extreme weather	All mobilized to get everything ready • Focus on flood control and typhoon prevention work. The head of each major region should be primarily responsible for flood control and typhoon prevention; • Establish flood and typhoon emergency response teams and construct a flood and typhoon response network with them; • When the flood and typhoon strike, emergency rescue team members should remain combat-ready at all times, and their mobile phones must always be switched on and accessible; • Major regions should promptly circulate the Company's requirements for flood and typhoon prevention among their stores. Carry out self-inspection and implement preventive measures • Stores should conduct self-inspections, i.e. special safety inspections for flood and typhoon prevention focusing on the so-called "three things unobstructed and one thing clear (三通一清)" (roof gutters, ground gutters, and concealed gutters should be unobstructed, and platforms should be clear), falling objects from high places (advertisements, light boxes, facade panels, canopies, etc.), wall seepage, and blocked manholes, especially the leaks in power distribution rooms, machine rooms, and pump rooms, as well as blockages or damage to downspouts; • Stores with submersible pumps should notify the engineering department to request an inspection. Only after the on-site inspection by the engineering department is satisfactorily completed and proper inspection records are documented, the pumps can be used by designated personnel; • If a store needs to purchase flood control equipment and install flood-stopping panels, they should promptly contact the purchasing department. Quick response in extreme weather conditions • When a typhoon and heavy rain strike, someone should be assigned to duty promptly; • Stores that are prone to flooding should prepare in advance and take preventive measures before the rain comes; • Personnel on duty should regularly listen to weather forecasts, and in case of major events, must report to their supervisors immediately according to the Company's hierarchical reporting system; • When the flood and typhoon hit, stores encountering special situations such as water ingress or severe leakage should carry out emergency repairs and call the insurance company immediately.

4. BUILDING A PREMIUM BRAND WITH DEDICATED SERVICES

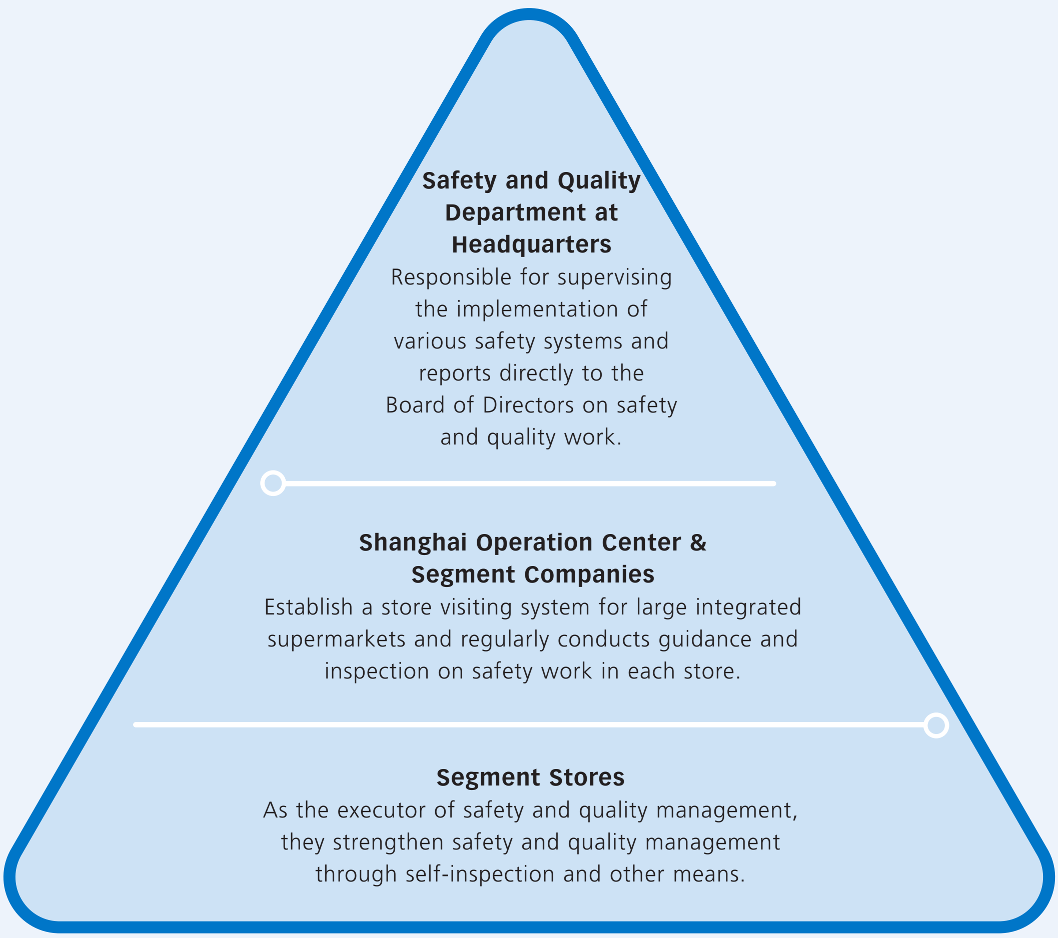
4.1 Ensuring Product Quality

Ensuring Product Quality

The Group complies strictly with the relevant laws and regulations such as the *Food Safety Law of the People's Republic of China, Measures for Supervision and Administration of Quality and Safety of Agricultural Products on Sale in Food Markets*, 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 *Lianhua Supermarket Proprietary Brand Quality Control Process,* the *Measures for Management of Product Certificates and* the *Invoice and Management Measures for Defective Goods of Lianhua Supermarket Holdings Co., Ltd. (2023) (Trial)*, 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 2023 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.

The Group, as a principal product seller, prioritizes product quality assurance through strengthened daily management, rationalized inventory, reliable procurement sources, proper staffing, and information traceability to ensure the quality and safety of on-shelf products.

Goods Quality Management Initiatives in 2023

Enhancing daily management and risk alerts	• Reinforcing the daily management including claims for certificates and invoices, import inspection, storage and transportation, production and processing, cleaning and disinfection, temperature management, supervision and inspection, examination and testing, and shelf-life management; • Increasing the promotion of goods quality management through notification, training, and WeChat group, etc., to enhance the risk awareness and ensure the basic protection work.
Rationalizing inventory arrangement and focusing on shelf-life management	• Rationalizing the inventory of goods, semi-finished products, finished products, food ingredients, promotional items, etc. to avoid expiry and wastage; • Prioritizing the supervision of shelf life for food at every stage, intensifying inspection work, and diligently adhering to the management requirements for food nearing its expiration date.
Ensuring the sources of procurement and strengthening the supervision of promotions	• Strictly implementing the claims for certificates and invoices measure to ensure the traceability of goods imported; • Strengthening the supervision and management of promotions, special sales, exhibitions and other activities; • Conducting rigorous evaluations of supplier qualifications, product qualifications, and sales processes to ensure legal and compliant operations.
Ensuring staffing for proper handling of emergencies	• Properly deploying personnel to ensure the orderly implementation of goods quality supervision and strengthening management of key processes; • Effectively managing emergencies such as government regulations and customer complaints, promptly addressing them in accordance with incident handling procedures and reporting requirements; • Assigning designated emergency contacts to ensure prompt handling and reporting.
Implementing information traceability and regulating the operation of special foods	• Ensuring the proper execution of information traceability by timely uploading traceability information and ensuring the accuracy of data; • Establishing regulations for the operation of specialty foods, including the separate display of such products and the prohibition of mixing them with regular food items; • Providing clear sales warnings and consumer alerts, and strictly prohibiting the dissemination of false advertisements and promotions.

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.

The Group strictly observed the quality and safety of the products it sold by means of engaging third-party inspection, 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 2023, the Group experienced a total of 26 cases involving sales of defective goods. In all cases, the Company took immediate measures to withdraw the defective goods from the shelves and recall them, analyzed the causes of the defects, and assisted the suppliers and production enterprises to carry out rectification and consolidation. Moreover, the Group actively cooperated with the relevant law enforcement authorities to handle the incidents in a timely and effective manner.

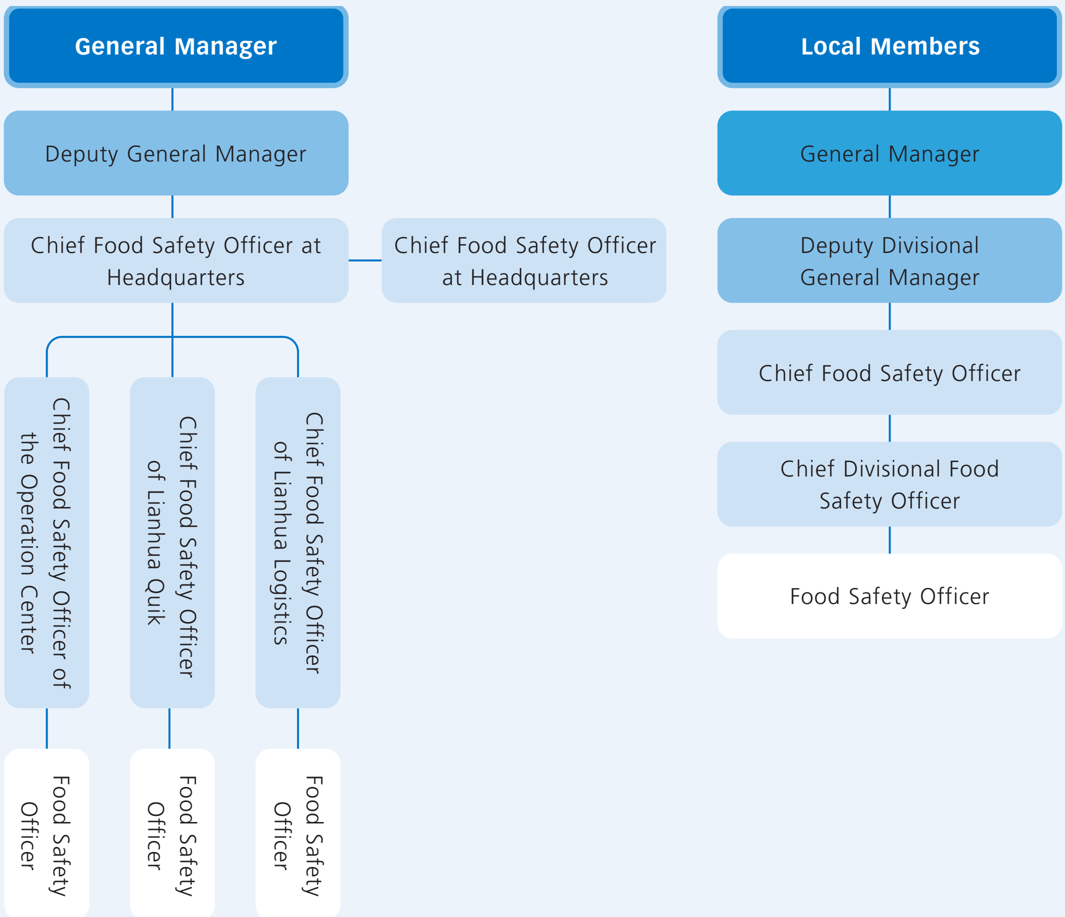
Assurance of food safety

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,* the *Measures for Supervision and Administration of Quality and Safety of Agricultural Products on Sale in Food Markets,* the *Food Safety Regulations in Shanghai,* the *Measures for Retrospective Management of Food Safety Information in Shanghai,* the *State Administration of Market Supervision – Provisions on the Supervision and Administration of the Implementation of Main Responsibility for Food Safety by Enterprises* and other relevant laws and regulations, the Group has established internal food safety management systems such as the *"Food Safety Management Standardized Manual for Food Business Enterprises of Lianhua Supermarket Holdings Co., Ltd. (2023) (Trial)"* and the *"Emergency Response Plan for Food Safety Incidents of Lianhua Supermarket Holdings Co., Ltd. (Trial)"*, laying a solid foundation for the management of food safety.

In 2023, the Group established an overall corporate food safety framework and formulated a three-tier management structure comprising the top-level executives, the chief food safety officer and the food safety officer, and implemented a working mechanism of daily control, weekly checkup and monthly scheduling at each level. Both the Group's headquarters and its various local members have formulated their food safety management structure in accordance with the above system.

Lianhua Supermarket's Three-Level Food Safety Management Framework

Food Safety Organization Structure of Lianhua Supermarket Headquarters and Its Local Members



Food Safety Workflow

Daily Control	While performing the daily control of food safety in the Company's operations management manual, the food safety officer conducts daily checkups based on the food safety risk control reference checklist, and formulates the *Daily Control Record and Management Sheet* before closing the store each day.
Weekly Checkup	The chief food safety officer conducts risk and hazard inspections at least once a week to analyze and evaluate the food safety management status of the Company, researches and solves the problems found in the daily control, and formulates the *"Weekly Checkup Record and Management Sheet"*.
Monthly Scheduling	The top-level executives receive a report from the chief food safety officer or food safety officer at the beginning of each month and set out the food safety work priorities for the month, complete the *Monthly Food Safety Scheduling Meeting Minutes* and fill in the *Monthly Scheduling Record and Management Sheet* at the same time.

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

Stop sale → Formulate a recall plan → Publish an announcement on recall

→ Start recall → Dispose of recalled food → Record recall results

The Group attaches great importance on effective food safety management. While utilizing cutting-edge technologies to ensure food safety, the Group has been pushing forward the implementation of food safety inspection and food safety standardization assessment. In addition, the Group has launched various training activities focusing on food safety to enhance the competence of its staff in food safety.

Food Safety Management Measures

Category	Measures	Achievements in 2023
Information Traceability System	• The Group has developed its Lianhua Food Safety Information Traceability and License Management System to control the quality of goods at source; • The Group Headquarters assists other segments in registering for the Traceability Platform; • Ensure timely feedback on various issues encountered during the integration of the Company's self-built platform with government platforms, aiming to enhance the accuracy of traceability data uploads.	• Successfully updated the Shanghai Food Safety Information Traceability Platform; • Information on directly-operated supermarkets and Century Lianhua stores was collected and a total of 399 enterprises were registered.
Food Safety Inspection	• Initiate food safety inspections of stores across all segments.	• 681 inspections in the segment stores of hypermarket, Lianhua directly-operated supermarkets, Lianhua franchised supermarkets, and Lianhua Quik convenience stores in Shanghai region; • Specifically, 43 inspections in hypermarkets, 320 in Lianhua directly-operated supermarkets, 154 in Lianhua franchised supermarkets, 72 in Lianhua Quik directly-operated convenience stores and 92 in Lianhua Quik franchised convenience stores.

Category	Measures	Achievements in 2023
Food Safety Standardization Assessment	• The Group conducted a food safety standardization assessment of Lianhua Logistics, a subsidiary of the Group, in accordance with the requirements of the *Audit Evaluation Form for Logistics Center* as set out in the *Standardization Manual for Food Safety Management of Bailian Group Food Business Enterprises (Trial) 2023;* • The assessment primarily covered areas such as personnel management, procurement and acceptance procedures, rapid testing of agricultural products for consumption, storage facilities, pest control measures, equipment and tools, storage and transportation management, shelf-life management, expired product management, and food recall management.	• The logistics center assessment resulted in a score of 90.4, corresponding to a grade of B. Six issues were identified for improvement, and all of them have been successfully addressed, achieving a 100% completion rate.
Food Safety Training	• Develop and launch 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"); • Organize monthly training courses on different safety topics with classroom exercises to consolidate the training results.	• Organized a total of 8 sessions of "Monthly Discussion" training on food safety; • Developed training tutorials and examination question banks on the operation of the new food safety information traceability platform for directly-operated supermarkets and the Bailian Group's food safety management standardization manual, with a cumulative total of 13,100 participants; • Organized food safety training on three topics: interpretation of new regulations on agricultural products, training on food safety sampling and inspection, and new requirements of the *Administrative Measures for Food Operation Licensing and Record-filing* (《食品經營許可和備案管理辦法》), with a cumulative total of 780 participants.

4.2 Supply Chain 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. For the supply chain of fresh food ingredients, establishing a direct sourcing model from the production base is crucial to ensuring the quality of fresh food ingredients. 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.

Enhancement of Supply Chain Audit

The Group's suppliers mainly consist of proprietary merchandise suppliers and non-proprietary merchandise suppliers. There are also engineering suppliers, including asset suppliers and engineering teams. The Group has developed several systems, such as the *Headquarters Contract Signing Management System and Process (Trial), Lianhua Supermarket Price Management System (Trial),* and *New Product Management Guidelines (Trial)* to govern supplier management practices.

In respect of the admission of suppliers, the Group has formulated the *Measures for Management of Product Certificates and Invoice of Lianhua Supermarket Holdings Co., Ltd.*, and 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 quality audits of its suppliers, who will examine the qualifications of each one of them carefully. Simultaneously, the Group has developed the *Management Measures for the 'Negative List' of Food and Drug Safety of Lianhua Supermarket Holdings Co., Ltd. (Trial)* to ensure those with incomplete qualifications, false certificates or those blacklisted will be resolutely rejected.

Requirements on claims for certificates and invoices from suppliers

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 *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. Furthermore, 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 • Sample Review	• Admission of new suppliers, review and evaluation by third-party professional organizations, including production environment, production process, quality management system, etc.	• Suppliers submit the inspection reports of the first batch of products issued by the third party • Random inspections arranged by the Safety and Quality Department	• Random spot check for store products is conducted from time to time, and at least one random spot check for privatelabel foods that have been on the market every year • At least once a year supervision and audit, and occasional flight inspection of manufacturers

In the evaluation of engineering suppliers, it is required that suppliers provide their credit rating qualification from "Credit China" when submitting bids to ensure the integrity qualification of suppliers. In 2023, the Group's Asset Engineering Department initiated the screening of qualified suppliers for asset procurement. In the initial stage, the qualification supplier forms were set up and basic information was collected from suppliers. As a result, the qualified supplier database was established in the preliminary stage.

Fresh Ingredients Supply Chain Management

Given the short shelf-life of fresh food, effective supply chain management of fresh ingredients is critical to ensure their quality and timely delivery. The Group has established the *Procurement Management Procedures for the Department of Fresh Produce Procurement, Supplier Management System of the Fresh Procurement Department, Joint Vendor Management System of the Fresh Procurement Department (Trial), New Product Introduction System of the Fresh Procurement Department,* and *Store Inspection System of the Fresh Procurement Department (Trial)* for different categories of fresh goods such as cooked food, aquatic products, vegetables, fruits, bread, meat and poultry and frozen and refrigerated commodities 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.

The Group set a target of 47% for the proportion of sales from production bases and direct purchases in 2023 (excluding purchases from the wholesale market), and the actual proportion achieved this year was 47.5%, exceeding the target.

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. In 2023, with the prosperous development of fresh produce, the Group set up a dedicated department for fresh produce, established a fresh produce category and paid attention to the development of the corresponding proprietary brands, integrated the resources of the corresponding suppliers, reformulated the corresponding contract terms and enhanced the core management capability of purchasing and operational efficiency, so as to supplement the shortcomings of the existing proprietary brands.

Vegetable Supply Chain 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 product must be tested twice, with a sample tested 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 • 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 Lianhua Shanghai Chongming Jingjie Vegetable Self-managed Base Project
The Group launched a self-managed base project together with Shanghai Chongming Jingjie Vegetable. Lianhua Supermarket has assigned two staff members to directly manage the base, closely monitoring seed varieties, sowing schedules, and the use of fertilizers and pesticides, explicitly prohibiting the use of nationally banned pesticides. In addition, Lianhua Supermarket ensures strict adherence to product requirements during vegetable harvesting and maintains full control over the cold chain logistics process to guarantee that the quality and pesticide residue levels of vegetables from its own base meet standards.

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 environmental, social and government considerations into its procurement and supplier management processes to accelerate the construction of a sustainable supply chain.

Approaches for Sustainable Supply Chain Development and Achievements in 2023

Type	Approaches	Actions and Achievements
Environment (E)	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 11.6% of the total category.
	Principle of "low carbon and energy saving" priority	Priority is given to suppliers certified in technical innovation, energy conservation and environmental protection.
Society (S)	Localized procurement	The Group has been deeply cultivating its local businesses in Shanghai, and has cooperatives, 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 22 categories of fresh produce subject to nation-wide joint procurement, including vegetables, fruits, groceries, and grains, with production bases in 9 provinces and a total procurement volume of over 1,773 tons.
	Sustainability management for engineering vendors	In the works contract, the works team is explicitly required to take out insurance for all risks, third party liability insurance and accidental injury insurance for works as well as property insurance for construction equipment, so as to reduce the social risks in the works.

Type	Approaches	Actions and Achievements
	Responsible purchasing of lamps	As required by the *Measures for Supervision and Management of Quality and Safety of Agricultural Products Sold for Consumption in the Market* issued by the State Administration of Market Supervision, from 1 December 2023 onwards, lighting that causes obvious changes to the real colour and other sensory properties of agricultural products for consumption shall not be used. The Assets Engineering Department, together with the Safety and Quality Department and the Operation Centre, conducted a survey of the types and quantities of lamps in the fresh produce area of the shops to ensure that all coloured lamps were switched off within the time period and that the replacement of lamps was completed batch by batch.
	Animal welfare concerns	Selected animal welfare-conscious breeding and slaughtering plants to co-operate and promote the construction of a sustainable supply chain.
Government (G)	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.

Case Lianhua Supermarket's Proprietary Brand Won Grand Award

The three new products developed by Lianhua Supermarket's proprietary brand team this year, namely "Lianou Original Seaweed", "UPSH Button Lithium Battery" and "UPSH Long Strip Sleeve Hot Water Bag", won the "Excellent Product Award" in the 7th Global Proprietary Brand Products Asia Expo – Proprietary Brand Golden Star Award Selection Campaign, and Lianhua Supermarket's Proprietary Brand Team won the "Excellence Team Award" in the Golden Star Award.

Case Concerned about Animal Welfare and Strategic Co-operation with Hengjian

Shanghai Hengjian Agriculture and Animal Husbandry Science and Technology Co., Ltd. ("Chongming Hengjian") is mainly engaged in pig farming and retailing. Lianhua Market plans to introduce ecologically farmed non-anti-resistant pork to supplement pork varieties in order to improve the quality of pork starting from 2021. After market research and selection, it has initiated a strategic co-operation with Chongming Hengjian (崇明恒健) to promote further marketisation of non-anti-resistant porks. After market research and selection, we have launched a strategic cooperation with Chongming Hengjian to promote the further marketisation of anti-resistant pork. Chongming Hengjian has taken the following initiatives to enhance animal welfare:

(1) Providing sows and fattening pigs with a large "pig living area": the size of the pig barn is 30% larger than the general standard, so that sows and fattening pigs have more free space to move around.

(2) Provide nursery pigs with an underfloor heating system: piglets grow freely in underfloor-heated beds.

(3) Provide air purification system for pigsties: The whole pigsties are equipped with air disinfection system, and the quality of the air reaches the excellent air quality in the forest.

(4) Provide automatic intelligent environmental control system for pig barns: the temperature of pig barns is controlled at 18-26°C，not cold in winter and not hot in summer.

(5) Provide high-quality pig feed: Pigs eat full-price, high-quality compound feed composed of natural grains, which is fresh, nutritious and tasty.

(6) Provide quality drinking water: Through the adoption of air energy green energy technology, the water that the pigs drink is warm in winter and cool in summer.

(7) No violence: humane treatment of pigs, no hitting or kicking.

(8) Painless Slaughtering: The rapid electroshocking process enables painless slaughtering.

In 2017, the farm was awarded the "Golden Pig Award for Welfare Farming" by the World Agriculture and Animal Welfare Association.

4.3 Consumer Relationship Management

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 in 2023

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 were 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 stating "Return without reason within seven days" was posted in the store to remind customers of their rights and increase the credibility of our stores

Enhancing Consumer Satisfaction

The Group places a high priority on consumer satisfaction by understanding the real needs of consumers through questionnaire surveys, actively establishing contact with consumers, solving consumer shopping problems at any time and launching special activities, so as to enhance consumer satisfaction.

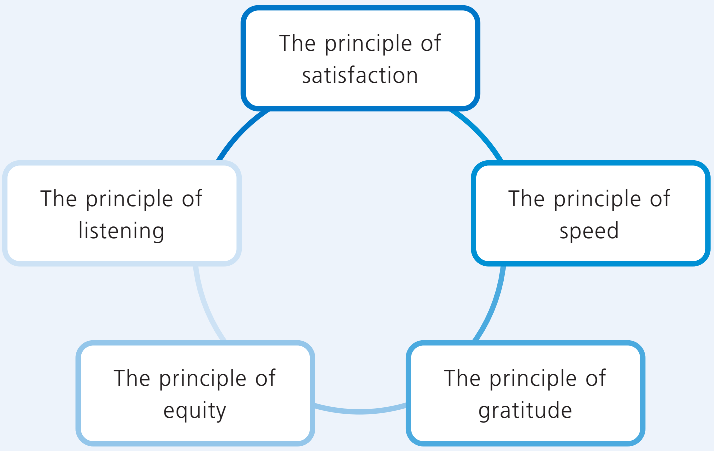
Initiatives to enhance consumer satisfaction in 2023

<table>
<tr><td rowspan="3">Satisfaction survey activity</td><td>Questionnaire Survey:
• The research on spring festival consumer behaviour trend
• The research on the surroundings of Gubei shop No. 1699
• The research on hotpot consumer behavior
• The research on Lianhua consumer behaviour</td></tr>
<tr><td>Consumer seminar:
• Taking advantage of the limited face-to-face communication opportunities to understand the actual needs and opinions of customers in the shop, the shop had made targeted rectifications and adjustments.</td></tr>
<tr><td>Shop scoring mechanism:
• The Group has annual targets for public ratings and conducts regular back-office tracking to understand the customer ratings of each shop, and requests shops to provide timely responses to customers for any newly added negative comments;
• The Group cooperates with third-party companies to have them conduct secret customer interviews in order to understand the status of customer service in shops from the perspective of customers.</td></tr>
<tr><td rowspan="4">Satisfaction enhancement activity</td><td>Offline customer interaction:
• "Welcoming the God of Wealth and Wishing Good Luck" activity on Chinese New Year's Day
• The "Pampering and loving yourself" activity on Women's Day
• "We are with you" activity on Children's Day
• Making scented sachets with your hands in greeting Dragon Boat Festival
• Thank-you activity on Thanksgiving Day
• The 2nd Lianhua Ignite Festival was held</td></tr>
<tr><td>Online goodies recommendation:
• The "shopping group" established by each shop is managed by the designated shop staff;
• Information such as greetings, promotions and publicity is posted regularly every day, making it convenient for customers to learn about the promotional activities of each shop in a timely manner without leaving the home;
• Answers are given to customers' questions and enquiries about the products they are purchasing in the shopping group.</td></tr>
<tr><td>Community marketing:
• Our shop staff visit the surrounding community from time to time to conduct marketing and promotion activities and attract new members to join the shopping group, so that more customers can enjoy the convenient sales methods and proximity services.</td></tr>
<tr><td>Enhancement of brand image:
• Lianhua Huashang successfully completed the food supply for the Asian Games and Asian Paralympic Games, and achieved the "four-zeroes" goal, namely "zero" food-borne stimulant incident, "zero" food safety incident, "zero disruption" in food supply and "zero complaint" on food quality.</td></tr>
</table>

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



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 provide feedback on the processing results to the Safety and Quality Department.

The Group has made efforts both online and offline to improve customer service and reduce customer complaints through the establishment of an online incentive and penalty mechanism and an offline first-inquiry system.

Measures to Reduce Customer Complaints

Online: shop performance incentive and penalty system

Through weekly tracking of shop performance indicators, centralised training for new shop managers and the guiding of single-store inspection, we continued to improve the quality of online performance, and avoid the removal of shelves on external platforms and customer complaints due to out-of-stock online.

Offline: first-inquiry responsibility system

The first staff member who receives a customer's enquiry or consultation has the responsibility to serve him/her, and must be responsible for the reception, acceptance or guidance of the customer, and handover work, and must not pass the buck to customers because he/she is not in charge of the work.

In 2023, the Group had a total of 41 quality complaints and 100% of the customer complaints were handled. Meanwhile, the online customer complaint rate of the Group's standard supermarkets decreased by 66% and the offline customer complaint rate decreased by 18% as compared to 2022.

4.4 Information and Privacy Protection of Consumers

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 promote the protection of 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 the *Law on Protection of Consumers' Interests and Rights 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百聯私隱政策》) 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 2023, the Group arranged for its staff to participate in the legal training on the protection of personal information for the supermarkets and convenience industries in Shanghai organised by the Network Law Enforcement and Supervision Department of Shanghai Internet Information Office, together with the Management Office of the Department of Commerce and Trade of the Municipal Commission of Commerce, the Consumer Protection Department of the Municipal Market Supervision Administration and the Shanghai Association of Chain Store Operators, to learn the definition of personal information, the principles of handling personal information, the protection measures and the legal liabilities. Subsequently, the training providers conducted relevant training for the relevant persons in charge of the Group's online-to-home team to ensure that they are aware of and strictly enforce the relevant regulations, and implement their work in accordance with the regulations, so as to ensure that consumers' personal information is not leaked out.

During the reporting period, there were no confirmed complaints of infringement of customer privacy and leakage of customer information.

4.5 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 *Lianhua Corporate Brand Manual and the Brand Management Measures of Lianhua Supermarket Co., Ltd. (Trial)*, and ensures responsible marketing by making a standardized use of branded visual and conventional marketing materials, 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 and persist in physical material photography. 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. During the reporting period, the Group did not violate any laws and regulations when conducting marketing activities (including advertising, marketing and sponsorship).

In respect of brand image enhancement, the Group launched its brand IP image – Lianou (聯藕), promoted the registration of the trademark of Lianou, empowered brand communication and marketing activities, and completed the trial of the new version of price tags and special promotional price tags, which as at the end of December 2023, it had been adopted in 14 hypermarkets and 32 supermarkets. At the same time, the Group launched the upgrading of supermarket facades, unified the exposure of brand image, optimised the product mix and strengthened the scene-experienced shopping, so as to make the shops more in line with the needs of community residents' life. As at the end of December 2023, the facade rejuvenation was completed for 69 standard supermarkets and for 5 hypermarkets.

Case "Lianou Oubao (聯藕藕寶)" empowering brand communication

Lianhua Supermarket's brand mascot, "Lianou Oubao", is inspired by the lotus root and aims to convey the concept of healthiness, happiness and positive energy to consumers. Through the image of Oubao (藕寶), Lianhua Supermarket hopes to establish a closer emotional connection with consumers and create a unique brand personality and cultural connotation by perfectly blending tradition with modernity. As of the end of December 2023, a total of 32 proprietary brand products have been packaged with the image of Lianou Oubao. At the same time, Lianhua Supermarket's online and offline activities have been exposed with the Oubao image.

In terms of guiding customers to sustainable consumption, the Group puts the sustainability labels of its products in prominent positions, and at the same time creates boutique shops that promote the concept of sustainability, and continuously promotes the concept of sustainable environmental protection to consumers.

Typical examples of sustainable consumption in 2023

1. **Display of home appliances with energy efficiency rating to guide customers to save energy and reduce emissions**

   The Group's shops require products or display samples of home appliances to show their energy efficiency ratings for easy viewing by customers. When customers have the need to purchase, our staff will remind customers of the energy consumption of home appliances and guide them to purchase more energy-efficient products.

2. **Organic products are displayed in categories to facilitate customers' selection and purchase**

   The Group's shops display environmentally friendly organic products in categories to make it easier for customers to choose and buy, and at the same time, bring customers healthier food choices.

3. **Posting the "Sugar Free Logo" to promote a healthy lifestyle**

   Lianhua Supermarket was designated as one of the first batch of pilot merchants for the sugar-free logo in Shanghai. The Company places products with the sugar-free logo in prominent positions on the shelves to guide residents to choose healthy beverages.

4. **City Life boutique supermarket conveying the concept of sustainable consumption**

   In 2023, Lianhua Supermarket built its first boutique supermarket named City Life in Gubei, Shanghai. In addition to selling green food, it is also equipped with electronic devices such as an unmanned cashier area and electronic cards, which convey the concept of "environmentally friendly, healthy, tasteful, and life".

5. PEOPLE-ORIENTED, CREATE A BETTER LIFE

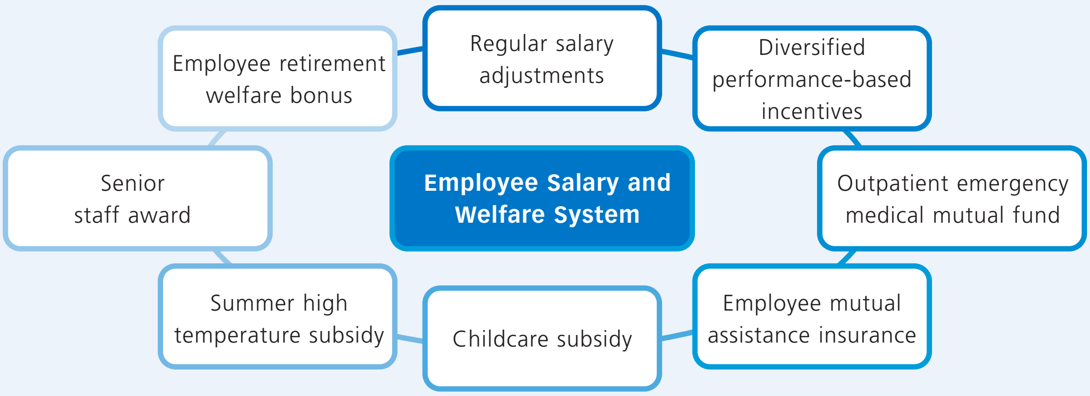
5.1 Rights and Benefits of Staff

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, and 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 legal 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 the *Labor Law of the People's Republic of China,* the *Law of the People's Republic of China on Employment Contracts,* the *Special Rules on the Labor Protection of Female Employees,* the *Social Insurance Law of the People's Republic of China,* the *Regulation on Work-Related Injury Insurance of the People's Republic of China,* the *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. In 2023, the Group amended the *Benefit Management Measures* and *Attendance and Leave Management Measures* to standardize the benefit and attendance system of Lianhua Supermarket's headquarters, supermarkets and hypermarkets.

Salary and Benefit System



In order to ensure that our employees are fully entitled to the rights in the governance of the Group, the Company actively listens to employees' opinions, and cares for and emphasizes the reasonable needs of the employees. The Group has established an employee representative meeting, with re-election being carried out every five years, and holds a meeting on an annual basis. In 2023, the Group's employee representative meeting considered matters such as collective contract, special contract for female employees, annual administrative work report, use of business entertainment expenses and social insurance payment, etc. Employee representatives have fully fulfilled their rights to democratic management.

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, taking out special insurance for female employees against special illnesses under the Shanghai Federation of Trade Unions, organizing gynecological check-ups for female employees once a year, etc., in order to fully protect their rights.

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 2023, the Group organized the "Love All the Way, A Start of the New Journey" Lianhua Challenge, set up a yoga club, and launched fun games and birthday parties, etc., to achieve cohesion, healthy body, relaxation and stress relief of employees of the Group.

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 the *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.

Category of Employees' Difficulties

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 Safe Production

Creating a safe production environment is the foundation of our operations. The Group strictly abides by the *Safety Production Law of the People's Republic of China*, the *Regulations of Shanghai Municipality on Safe Production*, the *Fire Control Law of the People's Republic of China*, the *Regulations of Shanghai Municipality on Fire Control*, the *Regulation on Emergency Responses to Work Safety Accidents*, and other laws and regulations. In 2023, we formulated and published the *Emergency Response Plan to Production Safety Accidents*, the *Hazard Investigation and Management System*, and the *Risk Grading Management System*, as well as ensured safety accountability by signing the *Letter of Responsibility for Safe Production* with its employees. In addition, logistics and warehouse safe production is one of the key areas of concern in the operating process of the Group. The Group formulated the *Warehouse Management System,* the *Commodity Management System,* the *Transportation Management System* and the *Training Management System* to safeguard production safety in the process of logistics transportation and warehousing of products.

Main Contents and Signing of the *2023 Letter of Responsibility for Safe Production*

Main Contents	• Strengthening accountability assessment, improving rules and regulations, advocating safety culture, promoting safety technology and safeguarding safety investment; • Implementing the "Fifteen Hard Measures" of the Safety Commission of the State Council and the "78" working measures for safe production in Shanghai; • Promoting the investigation and management of various types of risks and hazards, and implementing emergency protection; • The coverage of safety inspections and the rectification rate of hazards of all types of major accidents must reach 100%; • Advocating the "three zeros" goal of zero injury, zero accident and zero loss; • Not to exceed the production safety assessment indicators set by the Shanghai Municipal Committee Office; • No production safety accidents of major and above and with serious social impact.
Scope of Signing	• 26 of the Company's departments and offices implemented the signing and commitment of safety accountability; • 9 member companies in other regions implemented the signing and commitment of safety accountability (Lianhua Anhui Company, Lianhua Huashang, Lianhua Jiangsu Company, Lianhua Henan Company, Lianhua Guangxi Company, etc.); • Signing coverage rate of 100%.

With respect to the health and safety of employees, the Group strictly abides by the *Occupational Disease Prevention and Control 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. The Group also requires that 100% of the safety management personnel should be licensed and obtain the *Safety Officer Certificate* and *the Safety Manager Certificate*.

In 2023, the Group enhanced its safety management level, safety awareness and safety risk prevention to safeguard production safety by arranging safety training and drills, certification of safety personnel, and safety audits and rectifications.

Safe Production Training and Drills in 2023

Category	Safety Training	Safety Drills
Stores	• Provided store management personnel with training on "safety management in store management"; provided store managers with full-coverage training on "safe production + fire safety", and issued training materials to require store managers to train store staff; provided safety managers of Century Lianhua with "production safety standardization" training. • "Safe Production Month", "Safe Production Week" and other thematic promotion activities.	• Six emergency response plans: power outage prevention emergency response plan, anti-terrorism emergency response plan, firefighting emergency response plan, explosion prevention emergency response plan, typhoon and flood prevention emergency response plan, and robbery emergency response plan.
Warehousing and Logistics	• Carried out training on main responsible party for safety, training on hazard identification, training on fire safety, training on the operation of forklifts, training on elevator management, training on driver safety, training on limited space safety, and training on the operation of fire sprinkler systems.	• Fire evacuation drills, fire extinguisher drills, fire fighting two belts and one nozzle drills, fire control machine operation drills, micro fire station training, elevator emergency rescue drills, limited space emergency rescue drills, forklift emergency rescue exercise, pressure vessel emergency rescue drills, CPR rescue drills, typhoon and flood prevention drills, fire sprinkler system emergency drills.

Category	Safety Training	Safety Drills
2023 Performance	• Launched the "119 Fire Control Promotion Month" and other thematic promotion activities of the Group in 2023; • Assisted labor unions to participate in the "Safety and Health Cup (安康杯)" competition; • Invested RMB2,007,900 in safe production; with 113,720 trainees; • In 2023, the Group launched 3 sessions of continuing education for certified safety management personnel in accordance with the requirements of Shanghai Municipality, including continuing education for 32 people in charge of safety and 65 people in charge of safety management.	• In 2023, the Company and its member companies organized 2,708 emergency drills for a series of emergencies, including "emergency evacuation from a fire in a building", "trapped due to elevator malfunctioning", "fire in a certain part of a store," "large water leak in a certain area of a store", and "anti-terrorist incident in a store", with a total of 77,997 participants.

Case Various Special Emergency Drills of Century Lianhua Stores

Century Lianhua launched a number of special emergency drills in accordance with the Company's management requirements. Prior to the emergency drill, dedicated store staff explained the contents and requirements of the drill on site, and demonstrated the key operational steps. All store staff studied seriously and participated in the drills to ensure that everyone acquires the safety knowledge, knows the escape routes, and understands how to use fire extinguishers.

Case Enhancement in Logistics and Warehouse Safety Management

The large logistics and warehousing area, extensive safety scope, complex staff structure, and main laborers with the culture level of high school or below have led to the general insufficient safety awareness among employees. In order to improve the safety level of logistics and warehousing staff, in addition to regular safe production management, the Group has made the following efforts:

- Set up the "Park Office Environment Enhancement Project", conducted monthly safety inspections and scoring, and urged team members to pay attention to and rectify the safety hazards identified.

- Sorted the safety hazards or habitual violations commonly identified during regular safety inspections, and held monthly safety education in the fleet and daily pre-shift meeting in the warehouse to strengthen theoretical learning.

- The safety training course materials on hazards investigation were displayed in the warehouse area with hidden hazards through photos and videos. In addition to training, the course materials will be broadcasted on a loop in the cafeteria screen and other venues with more people to strengthen the learning of the staff.

In October 2023, Lianhua Logistics was approved as a Level 3 Safety Standardization Enterprise by the Shanghai Emergency Management Bureau of Jiading District.

During the Reporting Period, the Group did not have any non-compliance incidents in respect of safe production. The percentage of employees participating in medical check-ups accounted for 50.06% of the total number of employees. The Group did not experience any work-related fatalities, incidents of occupational disease, or fire accidents.

With respect to safety audits and rectifications, in 2023, the Group organized and deployed comprehensive safety checks for the "Special Major Accidental Hazards Investigation and Rectification in 2023, Flood and Typhoon Prevention", the "20th CPC National Congress", "Labor Day, Mid-Autumn Festival", "China International Import Expo" and other special and major events and festivals. The Group also conducted fire prevention and control in winter this year and spring next year, special rectification of plant and warehouse safety, special rectification of gas safety, and relevant safety checks. During the Reporting Period, the Group carried out 706 safety audits in stores, and investigated and rectified 1,338 safety hazards. The Group also organized its member companies to conduct 8,596 safety audits in stores, and investigated and rectified 8,188 safety hazards. All hidden hazards have been rectified.

5.3 Employees' Development and Training

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 demonstrate their talents. The Group primarily implements its talent development system through talent reserves, team building, and salary optimization.

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 2023 to reserve talents for the Company's management pipeline. 22 management trainees with undergraduate and graduate degrees were recruited, of which 72.7% were from Double First-Class universities. After completing three stages of theoretical learning, store internships, and departmental rotations, 20 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 47 reserve store managers were recruited externally, and 37 management trainees were recruited through school-enterprise cooperation. A total of 84 reserve management personnel for hypermarkets and supermarkets were trained. As of the end of 31 December 2023, various employee development support trainings carried out by the Group have covered a total of 64,628 participants, and the Group is expected to receive a subsidy of RMB882,600 from the Ministry of Human Resources and Social Security of the People's Republic of China.

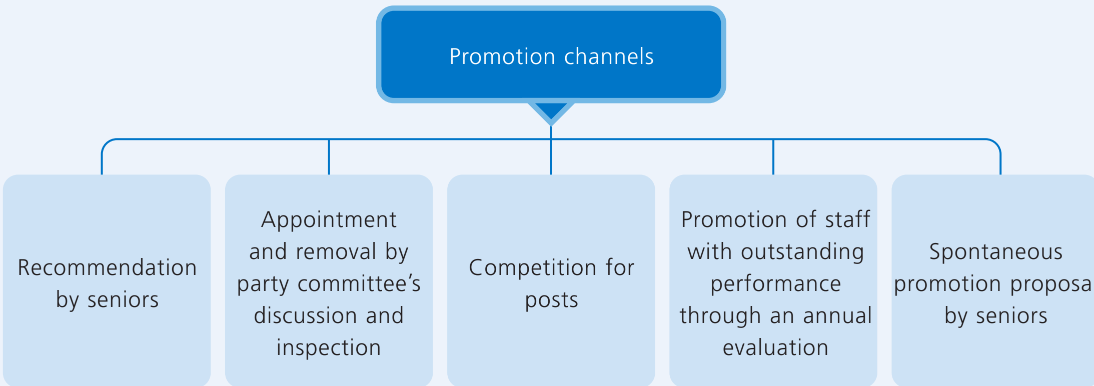
In 2023, in order to improve employee performance evaluation and provide timely motivation for employee development, the Group completed the performance evaluations of management personnel for 2022 with reference to the *Employee Annual Performance Evaluation Management Measures of Lianhua Supermarket 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)》), covering the Group's headquarters employees, employees of the Group's subsidiaries, front-line managers and staff from hypermarkets and supermarkets, with a total of 58 professional managers evaluated for their performance in 2022. Based on the 2022 evaluation results, the Group completed promotions, salary adjustments, and other tasks for headquarters employees.

In addition, during 2023, the Group recruited 1 market-oriented cadre, promoted 17 internal cadres, and removed 1 cadre from the cadre team. The average age of the cadre team decreased from 48.3 years old at the beginning of 2023 to 48.2 years old, effectively promoting the continuous optimization of the talent structure and professional quality of the Group.

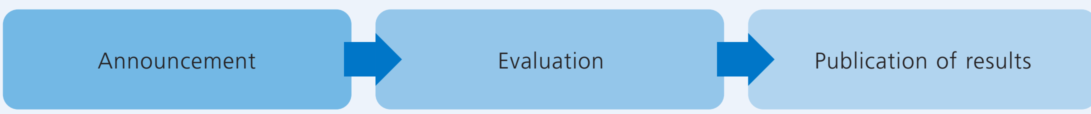
Staff Selection and Promotion

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 smooth promotion channels and processes to motivate employees and support their promotion and career development.

Staff Promotion Channels and Process



Process of competition for posts



At the same time, the Group is committed to the continuous building of high-quality and inter-disciplinary talents, paying attention to the breadth and depth of the career development of talents, and establishing a spiral career development path. In 2023, the Group issued the *Management Measures for the Rotation and Temporary Posts of Management Personnel*, which puts forward the requirements of temporary posts, rotations, and part-time jobs for the entry into the core talent team, and clarifies the management process and assessment requirements during the temporary post period in order to establish a long-term effective mechanism.

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 relevant customized training programs and training activities for middle and senior management, young cadre reserve, store partners, store employees, new employees, interns and other employees at all levels.

Trainings for Different Types of Employees

Type of Employee	Training Program
Interns	• Hatching Program
New employees	• New employee orientation for stores • New employee orientation for departments and offices of the headquarters
Store employees	• Training for reserve store managers of supermarkets • Training for management trainees of supermarkets • Training for reserve store management personnel of hypermarkets • Business empowerment training for franchised stores
Store partners	• Business training for store managers of supermarkets
Young cadre reserve	• Participation in the Young Eagle Program of Bailian Group • Management trainee orientation of the headquarters
Middle and senior management personnel	• Participation in the Strong Eagle Program of Bailian Group

Type of Training and Training Program

Type of Training	Training Program
Professional skills	• Salesperson (level 2) training • Product salesperson (level 3/advanced) training • Digital salesperson training
Ideology and system building	• Party building platform • System and business process learning
Safety culture building	• Food safety training • Production safety training • Internet safety training

6. BUILD, SHARE AND CREATE A HARMONIOUS SOCIETY TOGETHER

6.1 Community Communication and 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 Group actively focuses on community care, helping the elderly and the needy, and works together with residents and consumers to build a harmonious community life. During the Reporting Period, Lianhua Supermarket's headquarters invested RMB316,000 in community welfare, and 301 of its employees volunteered for 815 hours of service.

Major Community Communication Activities in 2023

Community activity	• On March 15, Lianhua Supermarket and its stores in various districts actively cooperated with relevant institutions and towns to conduct consumer rights protection publicity activities, continuing to convey the brand concept of living wholeheartedly to the public. • We actively called on community residents to participate in the "Earth Hour" public welfare activities. Century Lianhua's stores in Shanghai turned off non-essential light sources at the same time, in order to take practical actions to convey the environmental protection concept of caring for the Earth to more consumers. • In September 2023, Lianhua held the second Spark Festival, and jointly promoted the construction of "one-quarter convenient living circle" with the Shanghai Municipal State-owned Assets Supervision and Administration Commission, the Shanghai Municipal Commission of Commerce, the Changning District Commission of Commerce, Xinhua Road Street, Bailian Group and Jiushi Group, and granted plates to the merchants of the one-quarter convenient living circle alliance of Xinhua Road Street, in order to create a community of honest operation. • In 2023, Lianhua Quik launched 6 "sunshine station service caravan" volunteer service activities, going into the community to provide residents with traditional commodities for their livelihood.

Community donation	• The Group has continued to carry out six "Summer Breeze" activities since 2018. This year, the Group's employees went out of the stores to give proprietary salted soda water to city sanitation workers. • Since 2018, the Group has undertaken the Shanghai municipal government's practical project of "love relay station for outdoor workers" initiated by the Municipal Federation of Trade Unions and led by the trade union of Bailian Group. In 2023, the stations were set up in 60 Lianhua Supermarket Development and Lianhua Quik stores to provide outdoor workers with drinking water, microwave heating, mobile phone charging, Bailian love packs, and other services. In 2023, Xinzha store of Lianhua Supermarket Development was selected as the "most beautiful service station for outdoor workers". • Lianhua Huashang responded to the call of "Welcoming Asian Games with Books" by donating books for the construction of the "happy reading corner" at the Asian Games V Station.
Helping the elderly and the needy	• We organized the "Bailian Group's Warm Spring Action – Light up the Heart" activity with the Municipal Federation of Trade Unions to provide a loving dinner to 400 families in need in the city, and donate dinner gift packs with selected rice and free-range poussins. • The Waigaoqiao store and Pudian store of Century Lianhua visited an auxiliary school in Pudong New District, Shanghai to serve as volunteers, and organized the activity of stocking and cashiering in the mini supermarket with the children of the school, so that the children could have a better understanding of the supermarket positions in the environment that they are familiar with, and have the opportunity to know more about the society. Through the activity, the society is able to learn more about these disadvantaged groups. • The stores communicated with the surrounding streets and neighborhood committees to provide the mobility-impaired with special services in the community. When the elderly have shopping needs, the stores are responsible for purchasing and delivering goods to the door. At the same time, the stores also visited the elderly living alone in the local community during the Double Ninth Festival. • For 14 consecutive years, Lianhua Quik has been carrying out the work of pairing up with the disabled in the community.
Blood donation	• Lianhua Huashang cooperated with the Blood Center of Zhejiang Province and the Management Center of Zhejiang Blood Stem Cell Donor Database to jointly organize the "Welcoming the Asian Games with Blood Donation and Love, Shaping New Culture with Love", the 2nd Blood Donation Month and Zhou Zhoujun "Blood Donation for Love", in which 65 employees of the Company successfully donated 20,340 milliliters of blood.

6.2 Rural Revitalization and Public Charities

Lianhua Supermarket has 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 actively developing rural markets, fully taking advantage of the scale of its outlets, and using the matching of production and sales as an entry point. The Group targeted its assistance to villages in Xinjiang, Jiangxi and Yunnan, making good use of the local characteristics 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.

Rural Revitalization Measures and Effectiveness in 2023

Rural market support	• Since 2022, with the support of the relevant departments in Chongming District, Shanghai, the Group has been actively exploring the rural market by opening supermarket chains in the rural areas. As of the end of 2023, the Group had set up 51 directly-operated stores in Chongming District, including 7 village stores. Meanwhile, in 2023, Lianhua Supermarket Development opened 3 outlets in the Lingang Special Area. • We have paired up with Zhina Village in Zhonghe Township, Yongren County, Chuxiong Prefecture, Yunnan Province, to provide Zhina Village with a special fund of RMB100,000 each year, which is used for the construction of a "love supermarket" and small-scale public welfare projects at the village level.
Connecting production and sales	• We established a long-term cooperative relationship with the Xinjiang Duyuan Fruit and Vegetable Cooperative to procure prune plums and grapes, which are local specialties in Xinjiang. • We cooperated with Zepu County in Kashgar to procure Zepu apples. • We actively participated in the assistance work organized by the Shanghai Municipal Commission of Commerce by purchasing Jiangxi blueberries to help local farmers tide over the difficult times. • In response to the call of the Shanghai municipal government and the labor union of Bailian Group, we contributed RMB39,300 to the poverty alleviation commodities in Yunnan Province. • Lianhua Huashang supported and procured agricultural products in Linqi, Zhejiang, Aksu, Xinjiang, Enshi, Hubei, and Guangyuan, Sichuan, etc. The total sales of these products in 2023 amounted to RMB85.602 million.

With respect to public welfare and charity, the Group is committed to solving the most urgent problems in the society, such as inequality in education, environmental protection and public health. The Group regularly organizes charity events, such as fundraising and donation activities, charity sales, to exert positive influence and motivate more people to join the public welfare and charity.

Public Welfare and Charity Initiatives in 2023

Lianhua Huashang donated a cumulative of RMB183,000 to the Chunfeng Office for the "Chunfeng" feedback and relief action, of which 2,791 employees donated a total of RMB83,000.

Lianhua Huashang carried out a special charity sales activity named "Bloodline Connection - Protection and Blossom" for the purpose of caring for children with leukemia. The charity sale goods were donated by employees, which raised a total of RMB15,000 to donate to families of children with leukemia. At the same time, the Company visited children with leukemia and donated school bags in an amount of RMB3,000.

Lianhua Guangxi Company actively participated in the school aid activities and donated RMB1,000 to the students with difficult family life in Luoman Township, Liuzhou City.

7. PERFORMANCE

Environmental performance

Environmental Performance Table[1]

Indicator	Unit	2021	2022	2023
Emissions				
Total GHG emissions[2]	ton CO_2e	279,451.18	246,930.16	**172,192.39[3]**
Scope 1: GHG emissions[2]	ton CO_2e	2,882.39	2,432.67	**2,265.12**
Scope 2: GHG emissions	ton CO_2e	276,568.79	244,497.49	**169,927.27[3]**
GHG emissions per unit area	kg CO_2e/m^2	156.33	142.76	**95.38**
Total quantity of hazardous wastes	ton	7.19	3.36	**6.55[4]**
Total quantity of non-hazardous wastes	ton	4,945.05	3,795.50	**4,265.44[4]**
Discharge of domestic wastewater	ton	2,605,016.24	2,618,514.62	**2,499,186.94**
Use of Resources				
Total consumption of power	MWh	473,657.80	428,717.32	**297,961.19[3]**
Power consumption per unit area	kWh/m^2	264.97	247.86	**167.25[3]**
Total gas consumption	m^3	136,409.35	84,862.70	**64,695.60[5]**
Gasoline consumption of freight vehicles	liter	59,467.21	55,438.00	**48,121.21**
Diesel consumption of freight vehicles	liter	1,336,985.83	749,405.01	**740,376.48**
Gasoline consumption of official vehicles	liter	113,906.09	42,517.52	**27,637.58[6]**
Diesel consumption of official vehicles	liter	880.95	443.95	**421.12**
Total water consumption	ton	2,877,300.00	2,793,700.00	**2,665,179.53**
Water consumption per unit area	ton/m^2	1.61	1.62	**1.50**
Total quantity of purchased packages[7]	ton	1,819.26	1,750.64	**1,287.46**
Environmental Management System				
Total investment in environmental protection	RMB'0000	–	–	**522.09**
Investment in environmental protection by sector: equipment renewal	RMB'0000	–	–	**113.34**
Investment in environmental protection by sector: waste treatment	RMB'0000	–	–	**408.75**

Notes:

1. Statistical caliber The data statistical caliber is within the scope of consolidated reports, and if not otherwise specified, includes Lianhua Supermarket headquarters, Lianhua Quik, Lianhua Logistics, regional subsidiaries (including Zhejiang, Guangxi, Anhui, Jiangsu and Henan regional subsidiaries) and all directly-operated stores (including Shanghai and other regions). Data in relation to hazardous and non-hazardous wastes exclude Lianhua Supermarket Development, Lianhua Quik, Lianhua Huashang and Lianhua Henan Company. The total purchases of packages exclude Lianhua Quik. The Group started to compile statistics on the amount of investment in environmental protection since 2023.

2. Calculation method Total GHG emissions include Scope 1 and Scope 2 GHG emissions. Scope 1 GHG gas emissions came from the 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 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 and 2023 take reference to the coefficients in the "Guidelines for Measurement Methodology and Reporting of Corporate Greenhouse Gas Emissions of Power Generation Equipment (2022 revision)". 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 location. The 2021 emission coefficients are based on the coefficient of 0.5810t 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 and 2023 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.

3. Compared with 2022, Lianhua Anhui Company and Lianhua Jiangsu Company closed stores due to business reduction and energy reduction, therefore, the total electricity consumption and Scope 2 GHG emissions decreased in 2023.

4. In 2022, due to the impact of the pandemic 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. The resumption to the normal level in 2023 resulted in an increase in the corresponding figures.

5. In 2023, some of the Group's basement outlets strengthened their fire management and ceased to use natural gas, while Lianhua Anhui Company and Lianhua Jiangsu Company closed certain stores, resulting in a decrease in total natural gas consumption.

6. In 2023, the Group significantly reduced the use of official vehicles, resulting in a higher reduction in gasoline consumption of official vehicles.

7. Packages include trays, cling film and roll bags. In 2023, the business of Lianhua Anhui Company and Lianhua Jiangsu Company decreased, so the purchase volume decreased; Due to the large inventory of Lianhua Guangxi Company in 2022, the purchase volume also decreased.

Social performance

Employment Performance Table[1]

Category	Indicator	Unit	2021	2022	2023
Employment					
Total staff		Person	27,780	28,701	**25,735**
By gender	Females	Person	18,939	19,657	**17,712**
	Males	Person	8,841	9,044	**8,023**
By form of employment	Full-time labour contract staff	Person	22,439	19,347	**16,357[2]**
	Full-time dispatch contract staff	Person	2,788	3,412	**2,202[2]**
	Part-time staff	Person	2,553	5,942	**7,176[2]**
By age	Over 50 years old	Person	5,504	5,311	**6,701**
	30-50 years old	Person	20,436	21,405	**17,328**
	Under 30 years old	Person	1,840	1,985	**1,706**
By birthplace	Staff from mainland	Person	27,780	28,701	**25,735**
	Staff from Hong Kong, Macao and Taiwan & overseas	Person	0	0	**0**
By rank	Senior management	Person	39	39	**38**
	Middle management	Person	631	631	**513**
	Junior management	Person	28,031	28,031	**25,184**
Turnover Rate[3]		%	23.89	27.15	**28.47**
By gender	Male employees' turnover rate	%	13.39	25.23	**26.84**
	Female employees' turnover rate	%	34.99	28.04	**29.21**
By age	Over 50 years old employees' turnover rate	%	35.33	34.47	**31.44**
	30-50 years old employees' turnover rate	%	18.04	20.96	**21.45**
	Under 30 years old employees' turnover rate	%	56.58	74.14	**92.44[4]**
By birthplace	Turnover rate of staff from mainland China	%	23.89	27.15	**28.47**
	Turnover rate of staff from Hong Kong, Macao and Taiwan & overseas	%	0.00	0.00	**0.00**

Category	Indicator	Unit	2021	2022	2023
Rights and Benefits					
Employee health check-ups	Number of employees participating in health check-ups	Person	14,082	16,697	**12,882**
	Coverage rate of employee health check-ups[5]	%	50.69	58.18	**50.06**
Protection of rights and benefits through collective bargaining	Number of employees covered by collective bargaining agreements (end of period)	Person	27,780	21,973	**23,559**
	Percentage of employees covered by collective bargaining agreements	%	100	76.56	**91.54**
Total number of discriminations		Case	0	0	**0**
Health and Safety					
Number of work-related fatalities		Person	0	0	**0**
Lost days due to work injury		Day	9,870	11,104.00	**7,779.00**[6]
Development and Training					
Percentage of employees trained		%	96.31	94.71	**95.78**
By gender	Percentage of female employees trained	%	67.84	67.99	**68.47**
	Percentage of male employees trained	%	32.16	32.01	**31.53**
By rank	Percentage of senior management trained	%	0.14	0.14	**0.15**
	Percentage of middle management trained	%	1.87	2.20	**1.95**
	Percentage of junior management trained	%	98	97.66	**97.89**
Average training hours completed by employees		Hour	18.93	22.83	**13.44**[7]
By gender	Average training hours completed by female employees	Hour	17.51	21.71	**12.85**[7]
	Average training hours completed by male employees	Hour	21.98	25.26	**14.74**[7]
By rank	Average training hours completed by senior management	Hour	26.27	141.49	**33.84**[7]
	Average training hours completed by middle management	Hour	39.94	55.02	**49.43**[7]
	Average training hours completed by junior management	Hour	18.44	21.94	**12.68**[7]

Notes:

1. Statistical caliber The data statistical caliber is within the scope of consolidated reports.

2. In 2023, the Group optimized its store staffing standards. The percentage of fixed frontline employees (labour contract staff/labor dispatch staff) decreased significantly, and the percentage of flexible employees (outsourced workers, hourly-rated workers and other flexible workers) increased as compared with that at the end of the year 2022.

3. The calculation method for employee turnover rate in 2021 and 2022 is as follows: employee turnover rate=number of employees in this category lost within the year/total number of employees in this category at the end of the period x 100%; In 2023, referring to the Shanghai State owned Assets Supervision and Administration Commission's "Environmental, Social, and Governance (ESG) Indicator System for State Owned Listed Companies in Shanghai (Version 1.0)", the calculation method for employee turnover rate was changed to: employee turnover rate=number of employees in this category lost within the year/(total number of employees in this category at the beginning of the year+total number of employees in this category at the end of the year)/2 x 100%. The data for 2021 and 2022 were recalculated based on the above formula.

4. 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.

5. The physical examination coverage rate of employees is the physical examination arrival rate of employees of the Group. Under the multiple impacts of COVID-19 and influenza A and B, the probability of employees going to the hospital for diagnosis and treatment by themselves increased in 2023. Some employees are unwilling to go to the physical examination center for repeated examinations, so the physical examination arrival rate declined.

6. The Group enhanced employees' safety awareness by strengthening safety education and training, conducting stringent safety management and supervision, and standardizing safety operation procedures; at the same time, the Group provided the necessary protective gear to reduce the occurrence of work-related accidents. Therefore, the number of lost days due to work injury decreased significantly in 2023.

7. In 2021 and 2022, the Group increased the number of online training courses and hours related to the pandemic prevention and control due to the impact of COVID-19. In 2023, the number of average training hours decreased significantly due to the elimination of the impact of COVID-19.

Supply Chain Management Performance Table[1]

Indicator	Unit	2021	2022	2023
Number of suppliers (end of period)	/	1,924	2,060	**2,378**
Number of suppliers from mainland (end of period)	/	1,922	2,058	**2,376**
Number of suppliers from Hong Kong, Macao and Taiwan & overseas (end of period)	/	2	2	**2**

Note:

1. Statistical caliber The data statistical caliber is within the scope of consolidated reports.

Product Responsibility Performance Table[1]

Indicator	Unit	2021	2022	2023
Sales of products sold subject to recalls for safety and health reasons as a percentage of total sales	%	0.004	0.002	**0.002**
Total amount of fines for violating laws and regulations relating to products and services	RMB'0000	79.47	50.49	**42.32**
Number of incidents of violation of laws and regulations relating to products and services	Case	58	42	**57**
Complaint treatment rate with respect to products and services	%	100	100	**100**
Total number of complaints with respect to products and services	Case	2,118	1,912	**1,911**
Confirmed complaint of infringement of customer privacy and loss of customer information	Case	0	0	**0**

Note:

1. Statistical caliber The data statistical caliber is within the scope of consolidated reports.

Safe Production Performance Table[1]

Indicator	Unit	2022	2023
Total amount of investment in safe production	RMB'0000	–	**200.79**
Number of safety hazards and 5S inspections	Item	12,052	**9,441**[2]
Number of safety training	Time	2,550	**2,776**
Number of participants in safety training	Person	153,470	**113,720**[3]
Number of emergency drills	Time	1,903	**2,708**[4]
Number of participants in emergency drills	Person	67,987	**77,997**

Notes:

1. Statistical caliber The data statistical caliber is within the scope of consolidated reports.

2. In 2023, the Group carried out a large number of safety production training and emergency drills, and the safety awareness of employees was significantly improved. All employees in all segments had the ability to check and correct safety hazards, so the number of safety hazards and 5S investigations carried out by the Group decreased.

3. In 2023, the number of participants in safety training decreased due to a decrease in the total of the Group's employees.

4. In order to increase employees' safety awareness, the Group organized a series of special emergency drills, including "emergency evacuation from a fire in a building", "trapped due to elevator malfunctioning", "fire in a certain part of a store", "large water leak in a certain area of a store", and "anti-terrorist incident in a store", resulting in a significant increase in the number of emergency drills.

Community Investment Performance Table[1]

Indicator	Unit	2021	2022	2023
Community public welfare investment	RMB	515,315[2]	791,070[2]	**562,057[3]**
Number of volunteers[4]	Person	3,907	1,770	**2,681**
Number of volunteer services hours[5]	Hour	5,960	26,478	**26,638**

Notes:

1. Statistical caliber The data statistical caliber is within the scope of consolidated reports.

2. In 2023, the statistics of the total amount of community public welfare investment were expanded to the scope of the consolidated statement, and the total amount of community public welfare investment in 2021 and 2022 was adjusted retrospectively.

3. In 2023, with the end of the COVID-19 epidemic and the improvement of residents' living standards, the Group will carry out community charity donation activities based on the actual needs of community assistance and rural revitalization. Therefore, the total amount will decrease compared with 2022.

4. In 2022, the number of volunteers decreased more due to COVID-19. In 2023, the number of volunteers increased due to the elimination of the impact of the pandemic.

5. Although the number of volunteers decreased in 2022, the number of service hours per capita increased during the pandemic, resulting in an increase in the number of volunteer service hours. In 2023, the number of volunteer service hours of the Company increased due to Lianhua Huashang's arrangement of volunteer services in the Asian Games and the increase in the number of community volunteer service hours.

Governance Performance

Anti-corruption Performance Table[1]

Indicator	Unit	2021	2022	2023
Number of employees participating in anti-corruption training	Person	6,655	9,304	**8,722**
Total hours of anti-corruption training of employees	Hour	9,287	11,377	**10,932**
Number of concluded lawsuits regarding corruption brought against the issuer or its employees during the Reporting Period	Case	0	0	**0**
Number of directors participating in anti-corruption training	Person	8	11	**11**
Total hours of anti-corruption training of directors	Hour	27.5	27.5	**27.5**
Hours of anti-corruption training per director	Hour/Person	2.5	2.5	**2.5**
Percentage of directors covered by anti-corruption training	%	72.73	100	**100**

Note:

1. Statistical caliber The data statistical caliber is within the scope of consolidated reports.

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.	Green Operation
KPI A1.1	The types of emissions and respective emissions data.	Green Operation 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 and Practice Green Operation Packaging Reduction and Recycling
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 and Practice Green Operation

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.	Green Operation
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 and Practice Green Operation
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 and Practice Green Operation
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.	Green Operation
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Green Operation Climate Change Mitigation and Adaptation
Aspect A4. Climate Change		
General Disclosure A4	Policies on identification and mitigation of significant climate-related issues that have impacted, and those which may impact, the issuer.	Climate Change Mitigation and Adaptation
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.	Climate Change Mitigation and Adaptation

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, anti-discrimination, 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.	Safe Production
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.	Safe Production
Aspect B3. Development and Training		
General Disclosure B3	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Employees' Development and Training
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.	Ensuring Product Quality 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.	Consumer Relationship Management Performance
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Risk Management and Internal Control
KPI B6.4	Description of quality assurance process and recall procedures.	Ensuring Product Quality
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Information and Privacy Protection of Consumers

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.	Community Communication and Development
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community Communication and Development Rural Revitalization and Public Charities
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Performance

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