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## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you have sold or transferred all your shares in **Yihai International Holding Ltd.**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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### **YIHAI INTERNATIONAL HOLDING LTD.**

**頤海國際控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1579)**

#### **CONTINUING CONNECTED TRANSACTIONS**

**(1) RENEWAL OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF 2019 AND 2020**

**(2) SALE AND PURCHASE OF PRODUCTS WITH THE JOINT VENTURE**

**AND**

**(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT SHAREHOLDERS**



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A notice convening the Extraordinary General Meeting of the Company to be held at Conference Room 206, 2nd Floor, Building 6, Songlei Office Building, Heng Song Yuan, Middle Road of South 3rd Ring Road, Fengtai District, Beijing, PRC at 10:00 a.m. on Wednesday, 8 August 2018 is set out on pages 80 to 83 of this circular.

Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time fixed for the holding of the Extraordinary General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting at the Extraordinary General Meeting if they so wish.

The English and Chinese versions of this circular and the accompanying form of proxy are available on the Company's website at [www.yihchina.com](http://www.yihchina.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

19 July 2018

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context otherwise requires:*

“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	YIHAI INTERNATIONAL HOLDING LTD. (頤海國際控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands on 18 October 2013, and the Shares of which have been listed on the Main Board of the Stock Exchange since 13 July 2016
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“continuing connected transaction(s)”	has the meaning ascribed thereto in the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	director(s) of the Company
“Existing Framework Sales and Purchase Agreements”	collectively, the hotpot soup flavouring products sales agreement dated 18 September 2017 entered into between Yihai Shanghai and the Joint Venture in relation to the sales of hotpot soup flavouring products from Yihai Shanghai and its subsidiaries to the Joint Venture, and the self-serving small hotpot products sales agreement dated 18 September 2017 entered into between the Joint Venture and Yihai Shanghai in relation to the sales of Small Hotpot Products by the Joint Venture to Yihai Shanghai and its subsidiaries
“Existing Shuhai Sales Agreement”	the sales agreement dated 24 June 2016 entered into between Yihai Shanghai and Shuhai Supply Chain in relation to the sale of hot pot soup flavoring products, hot pot dipping sauce products and other compound condiment products by the Group to Shuhai Supply Chain Group
“Existing Master Sales Agreement”	the master sales agreement dated 24 June 2016 as supplemented by two supplemental master sales agreements dated 18 September 2017 and 22 March 2018, respectively, entered into between Singapore Haidilao and Yihai Shanghai to regulate the sale of Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products by the Group to the Haidilao Group

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## DEFINITIONS

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“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held on 8 August 2018 to consider and if thought fit, approve the Haidilao (Shuhai) and JV Continuing Connected Transactions (and their respective proposed annual caps), or any adjournment thereof
“Framework Sales and Purchase Agreements”	collectively, the Hotpot Soup Flavouring Products Sales Agreement and the Small Hotpot Products Sales Agreement
“Group”	the Company and its subsidiaries
“Haidilao (Shuhai) and JV Continuing Connected Transactions”	collectively, (i) the sale of Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products to the Haidilao Group pursuant to the Haidilao Master Sales Agreement, (ii) the sale of hot pot soup flavoring products, hot pot dipping sauce products and other compound condiment products by the Group to Shuhai Supply Chain Group pursuant to the Shuhai Sales Agreement, and (iii) the sale of hotpot soup flavouring products to and purchase of Small Hotpot Products from the Joint Venture pursuant to the Framework Sales and Purchase Agreements
“Haidilao Customized Products”	hotpot soup flavouring and Chinese-style compound condiment products manufactured by the Group using formulas owned by Haidilao Group for use in its hotpot restaurants
“Haidilao Group”	Singapore Haidilao and its subsidiaries, the principal business of which is to operate hot pot restaurant chain in the PRC and overseas countries
“Haidilao Master Sales Agreement”	the master sales agreement dated 6 July 2018 entered into between Singapore Haidilao and Yihai Shanghai to regulate the sale of Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products by the Group to the Haidilao Group
“Haidilao Retail Products”	retail hotpot soup flavouring, hotpot dipping sauce and Chinese-style compound condiment products manufactured by the Group using formulas the Group owns for display and sale to consumers in Haidilao Group hot pot restaurants, which are the same products as those sold by the Group through independent third party distributors
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Hotpot Soup Flavouring Products Sales Agreement”	the hotpot soup flavouring products sales agreement dated 6 July 2018 entered into between Yihai Shanghai and the Joint Venture in relation to the sales of hotpot soup flavouring products from Yihai Shanghai and its subsidiaries to the Joint Venture
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Yau Ka Chi, Mr. Qian Mingxing and Ms. Ye Shujun, established to advise the Independent Shareholders on the Haidilao (Shuhai) and JV Continuing Connected Transactions
“Independent Financial Adviser” or “First Shanghai”	First Shanghai Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and Independent Shareholders in relation to the Haidilao (Shuhai) and JV Continuing Connected Transactions
“Independent Shareholders”	has the meaning ascribed to it under the Listing Rules; and in relation to approving (i) the Haidilao Master Sales Agreement at the Extraordinary General Meeting, means the Shareholders other than Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong, and their respective associates, (ii) the Shuhai Sales Agreement at the Extraordinary General Meeting, means the Shareholders other than Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong, and their respective associates, and (iii) the Framework Sales and Purchase Agreements at the Extraordinary General Meeting, means the Shareholders other than Ms. Dang Chunxiang, Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong and their respective associates
“independent third party(ies)”	party(ies) not connected with any of the Directors, chief executive, substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“Jingyuan Investment”	Jiayang City Jingyuan Investment Co., Ltd.* (簡陽市靜遠投資有限公司), a limited liability company established in the PRC on 13 March 2009, which is held as to 68% by Mr. Zhang Yong and Ms. Shu Ping (controlling shareholders) and 32% by Mr. Shi Yonghong (the Chairman) and his wife
“Joint Venture”	Fuhai (Shanghai) Food Technology Co., Ltd.* (馥海(上海)食品科技有限公司), a company established in the PRC and a 60% owned subsidiary of the Company

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## DEFINITIONS

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“Latest Practicable Date”	13 July 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“PRC”	the People’s Republic of China, excluding for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the Company’s prospectus dated 30 June 2016
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	ordinary share(s) in the share capital of the Company with nominal value of US\$0.00001 each
“Sichuan Haidilao”	Sichuan Haidilao Catering Corporation Ltd.* (四川海底捞餐饮股份有限公司), a joint stock limited liability company established in the PRC and is directly or indirectly held as to approximately 33.5% by Mr. Zhang Yong and Ms. Shu Ping (controlling shareholders), 50% by Jingyuan Investment and 16% by Mr. Shi Yonghong (the Chairman) and his wife
“Singapore Haidilao”	HAI DI LAO HOLDINGS PTE. LTD., a limited liability company incorporated in Singapore and is indirectly held as to approximately 62.7% by Mr. Zhang Yong and Ms. Shu Ping (controlling shareholders), and 29.7% by Mr. Shi Yonghong (the Chairman) and his wife
“Shuhai Sales Agreement”	the sales agreement dated 6 July 2018 entered into between Yihai Shanghai and Shuhai Supply Chain in relation to the sale of hot pot soup flavoring products, hot pot dipping sauce products and other compound condiment products by the Group to Shuhai Supply Chain Group

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## DEFINITIONS

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“Shuhai Supply Chain”	Shuhai (Beijing) Supply Chain Management Co., Ltd.* (蜀海(北京)供應鏈管理有限責任公司), a limited liability company established in the PRC on 3 June 2014 and is indirectly held as to approximately 52.17% by the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, and their associate and 24.65% by Mr. Shi Yonghong and his wife
“Shuhai Supply Chain Group”	Shuhai Supply Chain and its subsidiaries
“Small Hotpot Products”	the self-serving small hotpot products manufactured and sold by the Joint Venture
“Small Hotpot Products Sales Agreement”	the self-serving small hotpot products sales agreement dated 6 July 2018 entered into between the Joint Venture and Yihai Shanghai in relation to the sales of Small Hotpot Products by the Joint Venture to Yihai Shanghai and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Xinpai Shanghai”	Xinpai (Shanghai) Catering Management Co., Ltd.* (新派(上海)餐飲管理有限公司), a company established in the PRC with limited liability and is controlled as to approximately 62.70% by the controlling shareholders of the Company, Mr. Zhang Yong and Ms. Shu Ping, and 29.7% by Mr. Shi Yonghong (the Chairman) and his wife
“Yihai Shanghai”	Yihai (Shanghai) Food Co., Ltd. (頤海(上海)食品有限公司), a foreign investment enterprise established in the PRC and an indirectly wholly owned subsidiary of the Company
“%”	per cent

\* *for identification purpose only*

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LETTER FROM THE BOARD

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**YIHAI INTERNATIONAL HOLDING LTD.**

**頤海國際控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1579)**

***Executive Directors:***

Ms. Dang Chunxiang

Mr. Sun Shengfeng

Ms. Shu Ping

***Registered office:***

P.O. Box 31119 Grand Pavilion

Hibiscus Way

802 West Bay Road

Grand Cayman

KY1-1205 Cayman Islands

***Non-executive Directors:***

Mr. Shi Yonghong (Chairman)

Mr. Zhang Yong

Mr. Pan Di

***Corporate Headquarters:***

1st and 2nd Floors, Building 6

Songlei Office Building

Heng Song Yuan

Middle Road of South 3rd Ring Road

Fengtai District

Beijing, PRC

***Independent Non-executive Directors:***

Mr. Yau Ka Chi

Mr. Qian Mingxing

Ms. Ye Shujun

***Principal place of business in Hong Kong:***

18/F., Tesbury Centre

28 Queen's Road East

Wan Chai, Hong Kong

19 July 2018

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**  
**(1) RENEWAL OF ANNUAL CAPS FOR CONTINUING CONNECTED**  
**TRANSACTIONS IN RESPECT OF 2019 AND 2020**  
**(2) SALE AND PURCHASE OF PRODUCTS WITH**  
**THE JOINT VENTURE AND**  
**(3) NOTICE OF THE EXTRAORDINARY GENERAL MEETING**



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## LETTER FROM THE BOARD

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### INTRODUCTION

The purpose of this circular is to provide you with information in connection with the proposals to be put forward at the Extraordinary General Meeting to consider: (i) the sale of Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products to the Haidilao Group pursuant to the Haidilao Master Sales Agreement, (ii) the sale of hot pot soup flavoring products, hot pot dipping sauce products and other compound condiment products by the Group to Shuhai Supply Chain Group pursuant to the Shuhai Sales Agreement, and (iii) the sale of hotpot soup flavouring products to the Joint Venture and purchase of Small Hotpot Products from the Joint Venture under the Framework Sales and Purchase Agreements. This circular contains the explanatory statement in compliance with the Listing Rules and to give all the information reasonably necessary to enable Shareholders to make an informed decision on whether to vote for or against the resolutions. A notice convening the Extraordinary General Meeting is set out on pages 80 to 83 of this circular.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### A. H Aidilao Master Sales Agreement

##### (I) SALE OF PRODUCTS TO THE Haidilao Group

#### Background

Reference is made to the announcement of the Company dated 6 July 2018 in relation to, among others, the renewal of annual caps for continuing connected transactions in respect of 2019 and 2020.

#### Continuing Connected Transactions under the Haidilao Master Sales Agreement

On 6 July 2018, Yihai Shanghai and Singapore Haidilao entered into the Haidilao Master Sales Agreement, pursuant to which the Group agreed to sell Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products to the Haidilao Group for a term of two years from 1 January 2019 to 31 December 2020. The principal terms of the Haidilao Master Sales Agreement are summarized below.

#### The Haidilao Master Sales Agreement

##### *Date*

6 July 2018

##### *Parties*

- (1) Yihai Shanghai
- (2) Singapore Haidilao

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## LETTER FROM THE BOARD

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### *Term*

The Haidilao Master Sales Agreement has an initial term of two years from 1 January 2019 to 31 December 2020. Subject to compliance with the Listing Rules and applicable laws and regulations, the Haidilao Master Sales Agreement may be renewed for a further term of three years from time to time, unless the parties agree in writing to terminate the Haidilao Master Sales Agreement during its term; or the Haidilao Master Sales Agreement is terminated as required by applicable laws, regulations, requirements of the securities regulatory authorities, or judgment or decision of any competent court. Upon renewal of the Haidilao Master Sales Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

### *Nature of transactions*

#### *(a) Sale of Haidilao Customized Products*

Pursuant to the terms of the Haidilao Master Sales Agreement, the Group is the sole supplier of Haidilao Customized Products to the Haidilao Group for use in its hotpot restaurants in the PRC. Upon fulfillment of certain requirements relating to mass production and standardization and upon confirmation of the types or products required, the Group shall be recognized as the sole supplier of the Haidilao Customized Products to the Haidilao Group for use in its overseas hotpot restaurants (including those in Hong Kong, Macau and Taiwan). However, if the Group is unable to satisfy the quantity of the products demanded, or the quality of the Haidilao Customized Products supplied by the Group does not fulfill the specifications of the Haidilao Group, and the matter cannot be resolved within a reasonable period (not longer than 30 days) after consultation with the Group, the Haidilao Group may engage other suppliers. Under the Haidilao Master Sales Agreement, the Group may engage contract manufacturers to produce Haidilao Customized Products.

Sale of Haidilao Customized Products will be made on the basis of individual orders specifying the type of product, purchase volume, sales price, delivery date etc. The sales price of Haidilao Customized Products shall be determined based on the pricing policy as set out below.

The Haidilao Group owns the proprietary rights to the formulas of Haidilao Customized Products (the “**Haidilao Group Formulas**”) and licenses the Haidilao Group Formulas to the Group and the Group’s contract manufacturers to use for production on a royalty-free basis. The Group is required to, and shall use reasonable efforts to procure its contract manufacturers to: (i) keep confidential the Haidilao Group Formulas, and (ii) unless the Haidilao Group has given written consent, refrain from selling products that use these formulas to any of the Haidilao Group’s competitors that are primarily engaged in the hot pot business in the PRC and has a market share of more than 0.5%.

For any upgrades and developments in the Haidilao Group Formulas made through the joint efforts of the Haidilao Group and the Group, the Haidilao Group will own the proprietary rights, and the Group and its contract manufacturers will be entitled to use such upgraded formulas for production of Haidilao Customized Products. In relation to the sales of products which will be produced with such upgraded formulas, and in accordance with the Haidilao Master Sales Agreement, a supplemental agreement will be entered into by the parties to confirm that the upgraded formulas are a result of joint efforts of the Haidilao Group and the Group.

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## LETTER FROM THE BOARD

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For any upgrades and developments in the Haidilao Group Formulas made through the Group's own efforts, the Group will own the proprietary rights of such upgraded formulas unless otherwise agreed between the parties. If the Group agrees to supply any product which will be produced with such upgraded formulas to the Haidilao Group, in accordance with the Haidilao Master Sales Agreement, a supplemental agreement will be entered into by the parties to confirm that the upgraded formulas are a result of the Group's own efforts and to confirm the usage of such upgraded formulas.

(b) *Sale of Haidilao Retail Products*

Pursuant to the terms of the Haidilao Master Sales Agreement, the Group is the sole supplier of the Haidilao Retail Products to the Haidilao Group for display and sales to customers in the hotpot restaurant of the Haidilao Group. Haidilao Retail Products are manufactured with the Group's own formulas. Haidilao Group is not permitted to sell the Group's products to any third party distributor.

Sale of Haidilao Retail Products will be made on the basis of individual orders specifying the type of product, purchase volume, delivery date etc. The sales price for the Haidilao Retail Products by cities shall be provided to the Haidilao Group semi-annually.

(c) *Sale of Small Hotpot Products*

Pursuant to the terms of the Haidilao Master Sales Agreement, the Group is the sole supplier of the Small Hotpot Products to the Haidilao Group for display and sales to customers in the hotpot restaurant of the Haidilao Group. The Small Hotpot Products are manufactured with the Joint Venture's own formulas. Haidilao Group is not permitted to sell the Group's products to any third party distributor. The quantity of the Small Hotpot Products for sales is not fixed but is to be determined and agreed between the parties.

***Pricing basis***

The sale prices of Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products are determined by the parties with reference to a number of factors as stated below. If there is any change in pricing policy in the future, the Group shall fully comply with the relevant requirements under Chapter 14A of the Listing Rules (if applicable).

(a) *Sale of Haidilao Customized Products*

The sale price of Haidilao Customized Products shall be determined by the parties after arm's length negotiations with reference to (i) the historical sales price, (ii) the estimated overall net profit margin through sales to independent third party distributors in accordance with the pricing formula, (iii) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Haidilao Customized Products, and (iv) the market price of similar products sold by comparable companies to independent third party distributors. Taking into account historical data and forecasted estimates, the independent non-executive Directors will regularly review and re-assess the sales prices of Haidilao Customized Products semi-annually and

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## LETTER FROM THE BOARD

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make adjustments as appropriate to maintain a net profit margin for such sales same as those for the sales to independent third party distributors. The Group also adjusts sales prices if there is any significant change in the cost of sales and expenses incurred in connection with Haidilao Customized Products.

(b) *Sale of Haidilao Retail Products*

The sale price of Haidilao Retail Products shall be consistent with the pricing policy for similar products that Group offers to independent third party distributors and shall be determined by the parties after arm's length negotiations with reference to (i) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Haidilao Retail Products, and (ii) the prevailing market price of similar products. The independent non-executive Directors will regularly review and re-assess the sales prices of the Haidilao Retail Products semi-annually and make adjustments if there is any significant change in the production cost.

(c) *Sale of Small Hotpot Products*

The sales price of Small Hotpot Products shall be determined by the parties after arm's length negotiations with reference to (i) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Small Hotpot Products, and (ii) the prevailing market price of similar products. The independent non-executive Directors will regularly review and re-assess the sales prices of the Small Hotpot Products semi-annually and make adjustments if there is any significant change in the production cost.

***Payment terms***

Fees payable under the Haidilao Master Sales Agreement will be billed in a timely and appropriate manner according to the terms agreed by both parties.

(a) *Sale of Haidilao Customized Products*

For sales to hotpot restaurants in the PRC, payment shall be made on a monthly basis following delivery of products and the issuance of delivery invoices; for sales to overseas hotpot restaurants, payment shall be made based on the purchase volume per individual order.

(b) *Sale of Haidilao Retail Products*

Payment shall be made on a monthly basis, following the delivery of products and issuance of invoices by the Group.

(c) *Sale of Small Hotpot Products*

Payment shall be made on a monthly basis, following the delivery of products and issuance of invoices by the Group.

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## LETTER FROM THE BOARD

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### *Historical amounts*

The table below sets forth the historical amounts for the sales to the Haidilao Group under the Existing Master Sales Agreement for the two years ended 31 December 2017 and the three months ended 31 March 2018 and the annual cap for the year ending 31 December 2018:

	<b>For the year ended 31 December 2016 (RMB'000)</b>	<b>For the year ended 31 December 2017 (RMB'000)</b>	<b>For the three months ended 31 March 2018 (unaudited) (RMB'000)</b>	<b>Annual cap for the year ending 31 December 2018 (RMB'000)</b>
Haidilao Customized Products	579,921	891,638	265,010	1,526,000
Haidilao Retail Products	17,625	13,596	2,993	30,000
Small Hotpot Products	Nil	99	260	13,700
<b>Total</b>	<b><u>597,546</u></b>	<b><u>905,333</u></b>	<b><u>268,263</u></b>	<b><u>1,569,700</u></b>

As at the Latest Practicable Date, the actual transaction amount has not exceeded the annual cap for the year ending 31 December 2018.

### *Proposed annual caps and basis of determination*

The Company estimates that the annual caps for the Haidilao Master Sales Agreement for the two years ending 31 December 2020 are as follows:

	<b>For the year ending 31 December 2019 (RMB'000)</b>	<b>For the year ending 31 December 2020 (RMB'000)</b>
Haidilao Customized Products	2,269,600	3,462,700
Haidilao Retail Products	45,000	65,000
Small Hotpot Products	23,300	39,600
<b>Total</b>	<b><u>2,337,900</u></b>	<b><u>3,567,300</u></b>

In arriving at the above proposed annual caps for the Haidilao Customized Products and Haidilao Retail Products, the Group has taken into account the following factors:

- (i) the historical transaction amounts with the Haidilao Group;
- (ii) Haidilao Group's rapid expansion in recent years, as demonstrated by the number of stores of the Haidilao Group as at 31 December 2015, 2016, 2017 and 31 March 2018, being 146, 176, 273 and 304 respectively; the growth in the same store results of the stores of the Haidilao Group;

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## LETTER FROM THE BOARD

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(iii) substantial increase in revenue of the Group from 2013 to 2017, which is largely attributable to the sales to the Haidilao Group; and

(iv) the growth of the PRC catering industry.

In arriving at the above proposed annual caps for the Small Hotpot Products, the Group has taken into account the following factors:

(i) the historical transaction amounts with the Haidilao Group;

(ii) Haidilao Group's rapid expansion in recent years, as demonstrated by the number of stores of the Haidilao Group as at 31 December 2015, 2016, 2017 and 31 March 2018, being 146, 176, 273 and 304 respectively; the growth in the same store results of the stores of the Haidilao Group; and

(iii) the strong growth and extensive market potential of the PRC catering industry and the self-serving small hotpot products market.

**Shareholders should note that the above proposed annual caps should not be construed as an assurance or forecast by the Company of the future revenues of the Group under the terms of the Haidilao Master Sales Agreement.**

### **(II) REASONS FOR AND BENEFITS OF ENTERING INTO THE HAIDILAO MASTER SALES AGREEMENT**

The principal activities of the Group are researching and developing, manufacturing, distributing and selling high-quality hotpot soup flavoring, hotpot dipping sauce and Chinese-style compound condiment products. The Haidilao Group is the largest Chinese hot pot restaurant chain in the PRC. Being the sole supplier of hotpot soup flavoring products for the Haidilao Group in the PRC, the Group has benefited from working with the Haidilao Group. The Group has established a long-term and stable relationship with the Haidilao Group. Such relationship is fair and reasonable, beneficial for the stable operation and business expansion of the Group and in the interests of the Company and the Shareholders as a whole.

The sale of Small Hotpot Products has enriched the existing product scope and expanded the Group's existing business, and is expected to create a new source of profit growth for the Group.

### **(III) INFORMATION OF THE PARTIES**

Yihai Shanghai is principally engaged in the sales of compound condiments in the PRC.

The Group is principally engaged in the manufacture and sales of compound condiment in the PRC.

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## LETTER FROM THE BOARD

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Singapore Haidilao and its subsidiaries are primarily engaged in the hot pot restaurant business in the PRC and overseas countries, among other ancillary businesses.

### **(IV) LISTING RULES IMPLICATIONS**

Mr. Zhang Yong and his wife Ms. Shu Ping, the non-executive Director and executive Director, together hold approximately 35.59% of the total issued shares of the Company and are therefore controlling shareholders of the Company. Mr. Shi Yonghong, the Chairman, holds approximately 16.93% of the total issued shares of the Company and is therefore a substantial shareholder of the Company.

Singapore Haidilao is indirectly held as to approximately 62.7% by Mr. Zhang Yong and Ms. Shu Ping and 29.7% by Mr. Shi Yonghong and his wife.

Singapore Haidilao is therefore a connected person of the Company by virtue of being an associate of the controlling shareholders of the Company, and the sales transactions between the Group and the Haidilao Group constitute continuing connected transactions of the Company under the Listing Rules.

Since (i) the nature of products to be sold under the Haidilao Master Sales Agreement and Shuhai Sales Agreement is similar and (ii) both Singapore Haidilao and Shuhai Supply Chain are associates of the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, the transactions contemplated under the Haidilao Master Sales Agreement and Shuhai Sales Agreement will be aggregated pursuant to Rule 14A.82(1) and Rule 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of the Haidilao Master Sales Agreement and the Shuhai Sales Agreement are aggregated.

Since the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the aggregated transactions are more than 5%, the proposed annual caps under the Haidilao Master Sales Agreement are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **(V) DIRECTORS' CONFIRMATION IN RELATION TO HAIDILAO MASTER SALES AGREEMENT**

The Directors (including the independent non-executive Directors) are of the view that the Haidilao Master Sales Agreement have been and will be entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are of the view that the proposed annual caps under the Haidilao Master Sales Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Except for Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong, none of the Directors has any material interest in the Haidilao Master Sales Agreement or is required to abstain from voting on the Board resolution. Mr. Zhang Yong, together with his wife Ms. Shu Ping, directly or indirectly hold approximately 62.7% of Singapore Haidilao. Mr. Shi Yonghong, together with his wife, directly or indirectly, hold approximately 29.7% of Singapore Haidilao.

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## LETTER FROM THE BOARD

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### (VI) APPROVAL BY INDEPENDENT SHAREHOLDERS

Mr. Zhang Yong, together with his wife Ms. Shu Ping, directly or indirectly hold approximately 62.7% of Singapore Haidilao. Mr. Shi Yonghong, together with his wife, directly or indirectly, hold approximately 29.7% of Singapore Haidilao. In accordance with the Listing Rules, Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong and their respective associates (which in aggregate hold 549,790,513 Shares, representing approximately 52.52% of the issued Shares) will abstain from voting on the ordinary resolutions to approve the Haidilao Master Sales Agreement (including the proposed annual caps) at the Extraordinary General Meeting.

The Company will seek the Independent Shareholders' approval at the Extraordinary General Meeting for, among others, the Haidilao Master Sales Agreement on the condition that:

1. the annual transaction amount of the Haidilao Master Sales Agreement shall not exceed the respective annual caps;
2. (i) the Haidilao Master Sales Agreement will be entered into in the ordinary and usual course of business of the Group and either (a) on normal commercial terms or better; or (b) if there is no available comparison, on terms no less favourable than terms available to the Group from Independent Third Parties; and  
  
(ii) the transactions will be entered into in accordance with the Haidilao Master Sales Agreement and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company will comply with relevant provisions of the Listing Rules in relation to the transactions under the Haidilao Master Sales Agreement.

### B. SHUHAI SALES AGREEMENT

#### (I) SALE OF PRODUCTS TO THE SHUHAI SUPPLY CHAIN GROUP

##### Background

Reference is made to the announcement of the Company dated 6 July 2018 in relation to, among others, the renewal of annual caps for continuing connected transactions in respect of 2019 and 2020.

##### Continuing Connected Transactions under the Shuhai Sales Agreement

On 6 July 2018, Yihai Shanghai and Shuhai Supply Chain entered into the Shuhai Sales Agreement, pursuant to which the Group agreed to supply products customized for Shuhai Supply Chain Group's customers who are catering service providers ("**Shuhai Customized Products**") and products targeting at the retail market ("**Shuhai Retail Products**") for a term of two years from 1 January 2019 to 31 December 2020. The principal terms of the Shuhai Sales Agreement are summarized below.



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## LETTER FROM THE BOARD

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### **The Shuhai Sales Agreement**

#### *Date*

6 July 2018

#### *Parties*

- (3) Yihai Shanghai
- (4) Shuhai Supply Chain

#### *Term*

The Shuhai Sales Agreement has an initial term of two years from 1 January 2019 to 31 December 2020. Subject to compliance with the Listing Rules and applicable laws and regulations, the Shuhai Sales Agreement may be renewed for a further term of three years from time to time, unless Yihai Shanghai notifies Shuhai Supply Chain to the contrary with one month's written notice prior to the expiry of the agreement's term. Upon renewal of the Shuhai Sales Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

#### *Nature of transactions*

Pursuant to the terms of the Shuhai Sales Agreement, the Group will supply Shuhai Customized Products and Shuhai Retail Products to the Shihai Supply Chain Group. Shuhai Customized Products and Shuhai Retail Products will be sold and distributed by Shuhai Supply Chain Group to its customers who are catering service providers. Shuhai Supply Chain Group is not permitted to sell the Group's products to any third party distributor or any retail channel and shall ensure that its customers will not sell the Group's products to any third party distributor.

The Group will semi-annually provide a price list for all the Shuhai Customized Products and Shuhai Retail Products by cities to Shuhai Supply Chain Group. The sales price of the Shuhai Customized Products and Shuhai Retail Products shall be determined based on the pricing policy as set out below. Sales of the Shuhai Customized Products and Shuhai Retail Products will be made on the basis of individual orders specifying the type of product, purchase volume, delivery date and etc.

#### *Pricing basis*

The sales price of Shuhai Customized Products and Shuhai Retail Products shall be determined by the parties with reference to a number of factors, details of which are further disclosed below. The Group will review and re-assess the sales prices semi-annually and make adjustments if necessary. Such review and adjustment (if any) will be made by the independent non-executive Directors. If there is any change in pricing policy in the future, the Group shall fully comply with the relevant requirements under Chapter 14A of the Listing Rules (if applicable).

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## LETTER FROM THE BOARD

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### *(a) Sale of Shuhai Customized Products*

In respect of the Shuhai Customized Products, the sales price shall be determined by the parties after arm's length negotiations with reference to (i) historical sales price, (ii) the estimated overall net profit margin through sales to independent third party distributors in accordance with the pricing formula, (iii) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Shuhai Customized Products, and (iv) the market price of similar products sold by comparable companies to independent third party distributors.

Taking into account historical data and forecasted estimates, the independent non-executive Directors regularly review and re-assess the sales prices of Shuhai Customized Products semi-annually and make adjustments as appropriate to maintain a net profit margin for such sales same as those for the Group's sales to independent third party distributors. The Group will also adjust sales prices if there is any significant change in the cost of sales and expenses incurred in connection with the Shuhai Customized Products.

### *(b) Sale of Shuhai Retail Products*

In respect of the Shuhai Retail Products, the sales price shall be consistent with the pricing policy for similar products the Group offers to independent third party distributors and shall be determined by the parties after arm's length negotiations with reference to (i) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of the Shuhai Retail Products, and (ii) the prevailing market price of similar products. The independent non-executive Directors regularly review and re-assess the sales price of Shuhai Retail Products semi-annually and make adjustments if there is any significant change in the production cost.

### ***Payment terms***

Payment shall be made by Shuhai Supply Chain Group on a monthly basis following the delivery of products and the Group's issuance of delivery invoices.

### ***Historical amounts***

The table below sets forth the historical amounts for the sales to the Shuhai Supply Chain Group under the Existing Shuhai Sales Agreement for the two years ended 31 December 2017 and the three months ended 31 March 2018 and the annual cap for the year ending 31 December 2018:

	<b>For the year ended 31 December 2016 (RMB'000)</b>	<b>For the year ended 31 December 2017 (RMB'000)</b>	<b>For the three months ended 31 March 2018 (unaudited) (RMB'000)</b>	<b>Annual cap for the year ending 31 December 2018 (RMB'000)</b>
Shuhai Customized Products	4,099	8,469	3,790	12,000
Shuhai Retail Products	555	306	212	680
<b>Total</b>	<b>4,654</b>	<b>8,775</b>	<b>4,002</b>	<b>12,680</b>

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the actual transaction amount has not exceeded the annual cap for the year ending 31 December 2018.

### *Proposed annual caps and basis of determination*

The Company estimates that the annual caps for the Shuhai Sales Agreement for the two years ending 31 December 2020 are as follows:

	<b>For the year ending 31 December 2019 (RMB'000)</b>	<b>For the year ending 31 December 2020 (RMB'000)</b>
Shuhai Customized Products	18,600	27,900
Shuhai Retail Products	<u>1,060</u>	<u>1,600</u>
<b>Total</b>	<b><u>19,660</u></b>	<b><u>29,500</u></b>

In arriving at the above proposed annual caps for the Shuhai Customized Products, the Group has taken into account the following factors:

- (i) historical sales of Shuhai Customized Products by the Group to Shuhai Supply Chain Group, including sales volumes and sales prices;
- (ii) the estimated overall net profit margin through sales to independent third party distributors in accordance with the pricing formula;
- (iii) the prevailing production cost and expenses incurred by the Group in connection with the production of Shuhai Customized Products; and
- (iv) the estimated increase in demand for Shuhai Customized Products. Shuhai Supply Chain has been broadening its client base, which is expected to lead to an increase in demand for Shuhai Customized Products from the Group.

In arriving at the above proposed annual caps for the Shuhai Retail Products, the Group has taken into account the following factors:

- (i) historical sales volume of Shuhai Retail Products by the Group to Shuhai Supply Chain Group;
- (ii) the prevailing market price of similar products sold by the Group to independent third party distributors;
- (iii) the prevailing production cost and expenses incurred by the Group in connection with the production of Shuhai Retail Products; and

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## LETTER FROM THE BOARD

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(iv) the estimated demand for Shuhai Retail Products. Shuhai Supply Chain has been broadening its client base, which is expected to lead to an increase in demand for Shuhai Retail Products from the Group.

### **(II) REASONS FOR AND BENEFITS OF ENTERING INTO THE SHUHAI SALES AGREEMENT**

The Group supplies condiment products to a number of third-party catering service providers and the Group plans to further expand its customized services and sales to a greater number of catering service clients. Shuhai Supply Chain is primarily engaged in the provision of storage and logistics services to catering service providers. Its extensive client network gives the Group access to potential catering service clients, and increases consumer exposure to the Group's products and promote the brand image of the Group.

### **(III) INFORMATION OF THE PARTIES**

Yihai Shanghai is principally engaged in the sales of compound condiments in the PRC.

The Group is principally engaged in the manufacture and sales of compound condiment in the PRC.

Shuhai Supply Chain and its subsidiaries are primarily engaged in the provision of storage and logistics services business.

### **(IV) LISTING RULES IMPLICATIONS**

Mr. Zhang Yong and his wife Ms. Shu Ping, the non-executive Director and executive Director, together hold approximately 35.59% of the total issued shares of the Company and are therefore controlling shareholders of the Company. Mr. Shi Yonghong, the Chairman, holds approximately 16.93% of the total issued shares of the Company and is therefore a substantial shareholder of the Company.

Shuhai Supply Chain is indirectly held as to approximately 52.17% by the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, and their associate and 24.65% by Mr. Shi Yonghong and his wife.

Shuhai Supply Chain is, therefore, a connected person of the Company by virtue of being an associate of the controlling shareholders of the Company, and the transactions contemplated under the Shuhai Sales Agreement constitute continuing connected transactions of the Company under the Listing Rules.

Since (i) the nature of products to be sold under the Haidilao Master Sales Agreement and Shuhai Sales Agreement is similar and (ii) both Singapore Haidilao and Shuhai Supply Chain are associates of the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, the transactions contemplated under the Haidilao Master Sales Agreement and Shuhai Sales Agreement will be aggregated pursuant to Rule 14A.82(1) and Rule 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of the Haidilao Master Sales Agreement and the Shuhai Sales Agreement are aggregated.

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## LETTER FROM THE BOARD

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Since the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the aggregated transactions are more than 5%, the proposed annual caps under the Shuhai Sales Agreement are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **(V) DIRECTORS' CONFIRMATION IN RELATION TO SHUHAI SALES AGREEMENT**

The Directors (including the independent non-executive Directors) are of the view that the Shuhai Sales Agreement have been and will be entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are of the view that the proposed annual caps under the Shuhai Sales Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Except for Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong, none of the Directors has any material interest in the Shuhai Sales Agreement or is required to abstain from voting on the Board resolution. Mr. Zhang Yong, together with his wife Ms. Shu Ping, and their associate directly or indirectly hold approximately 52.17% of Shuhai Supply Chain. Mr. Shi Yonghong, together with his wife, directly or indirectly, hold approximately 24.65% of Shuhai Supply Chain.

### **(VI) APPROVAL BY INDEPENDENT SHAREHOLDERS**

Mr. Zhang Yong, together with his wife Ms. Shu Ping, and their associate directly or indirectly hold approximately 52.17% of Shuhai Supply Chain. Mr. Shi Yonghong, together with his wife, directly or indirectly, hold approximately 24.65% of Shuhai Supply Chain. In accordance with the Listing Rules, Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong and their respective associates (which in aggregate hold 549,790,513 Shares, representing approximately 52.52% of the issued Shares) will abstain from voting on the ordinary resolutions to approve the Shuhai Sales Agreement (including the proposed annual caps) at the Extraordinary General Meeting.

The Company will seek the Independent Shareholders' approval at the Extraordinary General Meeting for, among others, the Haidilao Master Sales Agreement on the condition that:

1. the annual transaction amount of the Shuhai Sales Agreement shall not exceed the respective annual caps;
2. (i) the Shuhai Sales Agreement will be entered into in the ordinary and usual course of business of the Group and either (a) on normal commercial terms or better; or (b) if there is no available comparison, on terms no less favourable than terms available to the Group from Independent Third Parties; and  
(ii) the transactions will be entered into in accordance with the Shuhai Sales Agreement and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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The Company will comply with relevant provisions of the Listing Rules in relation to the transactions under the Shuhai Sales Agreement.

### C. SALE AND PURCHASE OF PRODUCTS WITH THE JOINT VENTURE

#### (I) SALE OF HOTPOT SOUP FLAVOURING PRODUCTS TO THE JOINT VENTURE AND PURCHASE OF SMALL HOTPOT PRODUCTS FROM THE JOINT VENTURE

##### **Background**

Reference is made to the announcement of the Company dated 6 July 2018 in relation to, among others, the sale and purchase of products with the Joint Venture.

As disclosed in the announcement, Yihai Shanghai and the Joint Venture entered into the Existing Framework Sales and Purchase Agreements dated 18 September 2017 pursuant to which (i) Yihai Shanghai (for itself and on behalf of its subsidiaries, other than the Joint Venture) agreed to sell hotpot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hotpot Products; and (ii) the Joint Venture agreed to sell Small Hotpot Products to Yihai Shanghai and its subsidiaries. The Existing Framework Sales and Purchase Agreements are for a term from 18 September 2017 to 31 August 2020.

The Company intends to continue to enter into transactions of similar nature with the Joint Venture after 31 August 2020.

##### **Continuing Connected Transactions under the Framework Sales and Purchase Agreements**

On 6 July 2018, Yihai Shanghai and the Joint Venture entered into the Framework Sales and Purchase Agreements, pursuant to which (i) Yihai Shanghai (for itself and on behalf of its subsidiaries, other than the Joint Venture) agreed to sell hotpot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hotpot Products; and (ii) the Joint Venture agreed to sell Small Hotpot Products to Yihai Shanghai and its subsidiaries (other than the Joint Venture) for a term of four months from 1 September 2020 to 31 December 2020. The principal terms of the Framework Sales and Purchase Agreements are summarized below.

##### **The Framework Sales and Purchase Agreements**

###### *Date*

6 July 2018

###### *Parties*

- (1) Yihai Shanghai
- (2) Joint Venture

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## LETTER FROM THE BOARD

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### *Term*

The Framework Sales and Purchase Agreements are for an initial term of four months from 1 September 2020 to 31 December 2020. Subject to compliance with the Listing Rules and applicable laws and regulations, the Framework Sales and Purchase Agreements may be renewed for a further term of three years from time to time, unless Yihai Shanghai notifies the Joint Venture to the contrary with one month's written notice prior to the expiry of the agreement's term. Upon renewal of the Framework Sales and Purchase Agreements, the parties may amend the terms of the agreement based on the then prevailing circumstances.

### *Nature of transactions*

Pursuant to the Framework Sales and Purchase Agreements, (a) Yihai Shanghai (for itself and on behalf of its subsidiaries, other than the Joint Venture) agreed to sell hotpot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hotpot Products; and (b) the Joint Venture agreed to sell Small Hotpot Products to Yihai Shanghai and its subsidiaries (excluding the Joint Venture).

The quantity of (a) the hotpot soup flavouring products to be sold to the Joint Venture; and (b) the Small Hotpot Products to be sold to Yihai Shanghai, respectively, are not fixed under the Framework Sales and Purchase Agreements but are to be determined and agreed between the relevant parties from time to time.

During the current term of the Framework Sales and Purchase Agreements, Yihai Shanghai and the Joint Venture may enter into separate agreements from time to time in respect of the sale and purchase of the hotpot soup flavouring products and the Small Hotpot Products upon and subject to the terms and conditions in compliance with the Framework Sales and Purchase Agreements.

### *Pricing basis*

The sales prices of hotpot soup flavouring products and the purchase price of the Small Hotpot Products shall be determined by the parties with reference to a number of factors, details of which are further disclosed below. Any adjustment to the aforementioned prices must be agreed by both parties after one party gives prior written notice one month in advance.

#### *(a) Sale of hotpot soup flavouring products*

The sales price of hotpot soup flavouring products shall be determined by the parties after arm's length negotiations with reference to (i) the prevailing production cost and expenses incurred by the Group in connection with the production of the products, and (ii) the market price of similar products sold by comparable companies.

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## LETTER FROM THE BOARD

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(b) *Purchase of Small Hotpot Products*

The purchase price of Small Hotpot Products shall be determined by the parties after arm's length negotiations with reference to (i) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Small Hotpot Products, and (ii) the prevailing market price of similar products.

***Payment terms***

Fees payable under the Framework Sales and Purchase Agreements will be billed in a timely and appropriate manner according to terms agreed by both parties and settled within the following month.

***Historical amounts***

The table below sets forth the historical amounts for the sales of hotpot soup flavouring products to the Joint Venture and the purchase of Small Hotpot Products for the year ended 31 December 2017 and the three months ended 31 March 2018, and the annual caps for the two years ending 31 December 2019 and the eight months ending 31 August 2020:

	<b>For the year ended 31 December 2017 (RMB'000)</b>	<b>For the three months ended 31 March 2018 (unaudited) (RMB'000)</b>	<b>Annual cap for the year ending 31 December 2018 (RMB'000)</b>	<b>Annual cap for the year ending 31 December 2019 (RMB'000)</b>	<b>Annual cap for the eight months ending 31 August 2020 (RMB'000)</b>
Sale of hotpot soup flavouring products	Nil	728	9,500	14,500	12,800
Purchase of Small Hotpot Products	<u>2,560</u>	<u>2,837</u>	<u>131,800</u>	<u>191,000</u>	<u>165,533</u>
<b>Total</b>	<b><u>2,560</u></b>	<b><u>3,563</u></b>	<b><u>141,300</u></b>	<b><u>205,500</u></b>	<b><u>178,333</u></b>

As at the Latest Practicable Date, the actual transaction amount has not exceeded the annual cap for the year ending 31 December 2018.



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## LETTER FROM THE BOARD

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### *Proposed annual caps and basis of determination*

The Company estimates that the caps for the Framework Sale and Purchase Agreements for the four months ending 31 December 2020 and therefore the annual caps for the year ending 31 December 2020 are as follows:

	<b>For the four months ending 31 December 2020 (RMB'000)</b>	<b>For the year ending 31 December 2020 (RMB'000)</b>
Sale of hotpot soup flavouring products	12,800	25,600
Purchase of Small Hotpot Products	<u>165,533</u>	<u>331,066</u>
<b>Total</b>	<b><u>178,333</u></b>	<b><u>356,666</u></b>

In arriving at the above proposed annual caps for the sales of hotpot soup flavouring products, the Group has taken into account the following factors:

The annual cap in relation to the sale of hotpot soup flavouring products is determined based on the expected demand of the Small Hotpot Products. As the hotpot soup flavouring products will be used as raw materials in producing the Small Hotpot Products, the demand for the former is directly proportionate to the market demand for the latter, as described below.

In arriving at the above proposed annual cap for the purchase of Small Hotpot Products, the Group has taken into account the following factors:

- (i) the expected market demand, in particular, the Company has taken into account the seasonal pattern of hotpot consumption in autumn and winter seasons;
- (ii) the prevailing market price of similar products;
- (iii) current production costs and expenses incurred in connection with the production of Small Hotpot Products by the Joint Venture; and
- (iv) the strong growth and extensive market potential of the PRC catering industry and the self-serving small hotpot products market.

## **(II) REASONS FOR AND BENEFITS OF THE SALE AND PURCHASE OF PRODUCTS WITH THE JOINT VENTURE**

Self-serving small hotpot products are new portable and instant products that can be purchased or sold in the retail market and can be sold through both online and offline sales channels, and has become a new line of business for the Group.

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## LETTER FROM THE BOARD

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By selling hotpot soup flavouring products to the Joint Venture, the Company can further ensure that the Small Hotpot Products to be manufactured by the Joint Venture are of satisfactory quality.

The Group's subsequent sale of the Small Hotpot Products that it purchased from the Joint Venture to customers is expected to create a new source of income stream and profit growth for the Group as Small Hotpot Products are new products of the Group.

### **(III) INFORMATION OF THE PARTIES**

Yihai Shanghai is principally engaged in the sales of compound condiments in the PRC.

The Group is principally engaged in the manufacture and sales of compound condiment in the PRC.

The Joint Venture is principally engaged in the manufacture and sales of Small Hotpot Products.

Xinpai Shanghai is principally engaged in catering management and catering service.

### **(IV) LISTING RULES IMPLICATIONS**

The Joint Venture is currently a 60% held non wholly-owned subsidiary of the Company. As the Joint Venture is owned as to 40% by Xinpai Shanghai, which is controlled as to approximately (i) 62.70% by the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, and (ii) 29.7% by Mr. Shi Yonghong (the Chairman) and his wife, the Joint Venture is therefore a connected subsidiary of the Company. Accordingly, the transactions contemplated under the Framework Sales and Purchase Agreements constitute continuing connected transactions of the Company for the purpose of the Listing Rules.

Since the sales of hotpot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hotpot Products and the subsequent purchase of Small Hotpot Products are related, the sales and purchase transactions as contemplated under the Framework Sales and Purchase Agreements will be aggregated and treated as if they were one transaction pursuant to Rule 14A.82(1) and Rule 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of (i) sales of hotpot soup flavouring products; and (ii) purchase of Small Hotpot Products are aggregated.

Since the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) are more than 5%, the proposed annual caps under the Framework Sales and Purchase Agreements are subject to the reporting, annual review, announcement and independent shareholders' approval under Chapter 14A of the Listing Rules.

### **(V) DIRECTORS' CONFIRMATION IN RELATION TO THE SALE AND PURCHASE OF PRODUCTS WITH THE JOINT VENTURE**

The Directors (including the independent non-executive Directors) are of the view that the Framework Sales and Purchase Agreements have been and will be entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable

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## LETTER FROM THE BOARD

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and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are of the view that the proposed annual caps under the Framework Sales and Purchase Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Ms. Dang Chunxiang (an executive Director) is the chairman of the Joint Venture and has abstained from voting on the relevant board resolutions approving the Framework Sales and Purchase Agreements pursuant to the articles of association of the Company and the Listing Rules. As Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong are indirectly interested in the equity interests of Xinpai Shanghai, which holds 40% equity interests in the Joint Venture, they have abstained from voting on the relevant board resolutions approving the Framework Sales and Purchase Agreements. Except for Ms. Dang Chunxiang, Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong, no other Director has a material interest in the Framework Sales and Purchase Agreements and is required to abstain from voting on the board resolutions for approving the Framework Sales and Purchase Agreements.

### **(VI) APPROVAL BY INDEPENDENT SHAREHOLDERS**

In accordance with the Listing Rules, Ms. Dang Chunxiang, Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong and their respective associates (which in aggregate hold 549,790,513 Shares, representing approximately 52.52% of the issued Shares) will abstain from voting on the ordinary resolution to approve the Framework Sales and Purchase Agreements (including the proposed annual caps) at the Extraordinary General Meeting.

The Company will seek the Independent Shareholders' approval at the Extraordinary General Meeting for, among others, the Framework Sales and Purchase Agreements on the condition that:

1. the annual transaction amount of the Framework Sales and Purchase Agreements for the four months from 1 September 2020 to 31 December 2020 shall not exceed the proposed annual caps;
2. (i) the Framework Sales and Purchase Agreements will be entered into in the ordinary and usual course of business of the Group and either (a) on normal commercial terms or better; or (b) if there is no available comparison, on terms no less favourable than terms available to the Group from Independent Third Parties; and  
  
(ii) the transactions will be entered into in accordance with the Framework Sales and Purchase Agreements and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company will comply with relevant provisions of the Listing Rules in relation to the transactions under the Framework Sales and Purchase Agreements.

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## LETTER FROM THE BOARD

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### D. NO EXTREME RELIANCE ON THE HAIDILAO GROUP

Notwithstanding the sales to the Haidilao Group, the Directors are of the view that the Company's reliance on the Haidilao Group is not extreme on the following grounds:

#### (a) Ability to reduce the level of reliance by diversifying the business model

##### *Diversified customer base*

Although the Haidilao Group remains a key customer of the Group, the Group has evolved into a leading compound condiment manufacturer in the PRC, primarily focused on the mid- to high-end segment of the Chinese hotpot condiment market. The Group has diversified its business model over the years, and has successfully established and developed its third-party customer base across the PRC and the globe:

- (i) Sales through distribution channels: The Group has established an extensive and fast-growing distribution network. The Group's distributors are now covering 31 provincial territories in the PRC (including all first-tier cities, all second-tier cities, 226 third- and fourth-tier and lower tier cities) and 23 overseas countries and markets. In 2017, the Group's sales revenue from sales to independent (or third-party) distributors amounted to approximately RMB587.1 million, representing a year-on-year increase of approximately 32.7%.
- (ii) Sales through e-commerce channels: The Group puts a lot of efforts in developing e-commerce channels. Both the strengthening of online marketing and promotion, and the management and regulation of e-commerce channels have improved comprehensively in various aspects. As at 31 December 2017, the Group owned five flagship stores on e-commerce platforms such as Tmall, JD.com and Suning E-commerce. Since 2015, the Group has dedicated a team responsible for exploring e-commerce channels and initiating targeted online marketing activities. As at 31 December 2017, the e-commerce sales team had 57 members, representing an increase by 46.2% as compared to that of 31 December 2016 (2016: 39). In 2017, the Group's sales revenue derived from e-commerce channels amounted to approximately RMB105.9 million, representing a year-on-year increase of approximately 265.5%. As far as the Directors understand, all of the target customers through these e-commerce channels are independent third parties.
- (iii) Sales to third-party catering service providers: As a supplier to catering service providers, the Group has been manufacturing customized compound condiment products for third-party catering service providers since March 2015. The Group also supplies products manufactured for the retail market to catering service providers. By continuously enhancing efforts to provide diversified and customized products and services to third-party catering service providers, the Group's third-party catering service providers and customized customers involved various types of catering operations, such as hot pot restaurants, spicy stir-fry restaurants and barbecue restaurants. The number of such customers reached 82 as at 31 December 2017, representing a significant increase of approximately 86.4% as compared to that of 31 December 2016. Like sales through e-commerce channels, the Group

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## LETTER FROM THE BOARD

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has focused on sales to third-party catering providers since 2015 and provided comprehensive support in this sales channel as direction for future strategic development. In 2017, the Group's sales revenue from third-party catering service providers amounted to approximately RMB23.4 million, representing a substantial year-on-year increase of approximately 301.5%.

### *Diversified product portfolio*

Apart from the Group's effort in diversifying its customer base, the Group has also spared great efforts in developing new products:

- (i) The Group has a dedicated research and development team with a market-oriented focus to collect and analyze market information and data, formulate and upgrade product formulas, and optimize production processes and equipment. For sales of standard products to third parties, the Group owns the proprietary rights to the formulas of the compound condiment products that the Group develops or upgrades. In 2017, the Group had successfully launched (i) new products such as spicy red swamp crawfish (catering pack), clear soup hot pot (catering pack) and five different types of Small Hotpot Products; and (ii) improved and upgraded new products on top of certain existing core products. This would not only help the Group's products to better meet the market demand, but could also effectively ease the problem of inadequate products during low seasons. As at 31 December 2017, the Group had a total of 44 hotpot soup flavouring products, 6 dipping sauce products, 20 Chinese-style compound condiment products and 5 Small Hotpot Products, representing an addition of 3 hotpot soup flavouring products, 5 Chinese-style compound condiment products and 5 Small Hotpot Products as compared to those as at the end of 2016. For the addition of those products, only 1 hotpot soup flavouring product is Haidilao Customized Product, the other 12 products are new products for sales to third parties.
- (ii) The Group has extensive new product reserve: The Group launched 3 red swamp crawfish condiment products, 1 condiment sauces product, 2 self-serving instant rice noodles products and 1 Small Hotpot Product with new tastes in early 2018, and these new products are standard products primarily for sales through third-party retail channels. In addition, the Group also manufactures Small Hotpot Products for sale since around September 2017. The Small Hotpot Products will primarily be sold through third-party retail channels as well, while the target customers thereof shall substantially be independent third party customers at retail level.

This is demonstrated from the above that the Group's current sales strategy is focused on independent third party customers, rather than the Haidilao Group.

The Directors would like to stress that the Group has put great effort to increase sales revenue from independent third party distributors and/or customers; while sales revenue from the Haidilao Group has also been increasing correspondingly over the years, so proportion of reliance on the sales revenue from the Haidilao Group has been maintaining over the years.

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## LETTER FROM THE BOARD

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### *Interests of the Group and the Haidilao Group are aligned*

Notwithstanding the aforesaid, the Directors believe that the commercial interests of the Group and the Haidilao Group are strongly aligned, and it is in the best interests of the Group and the Shareholders as a whole to maintain a stable co-operation relationship with the Haidilao Group. The Group has been and continue to be the sole supplier of hotpot soup flavouring products to the Haidilao Group.

Pursuant to the terms of the Haidilao Master Sales Agreement, the Haidilao Group may engage other suppliers to produce hotpot soup flavouring products if the Group is unable to satisfy the quantity of the products demanded, or the quality of the Haidilao Customized Products supplied by the Group does not fulfil the specifications of the Haidilao Group, and the matter cannot be resolved within a reasonable period (not longer than 30 days) after consultation with the Group. The Directors believe that over the past years, the consistent high quality of the products, adherence to stringent food safety control, maintenance of stable supply and competitive prices have contributed to the success of the Haidilao Group. Accordingly, in addition to the aforementioned contractual arrangements that ensure a stable co-operation relationship between the Haidilao Group and the Group, the Directors believe that it would be uneconomical and administratively burdensome for the Haidilao Group to turn to alternative suppliers.

The process for Haidilao Group to identify alternative suppliers satisfying their quantities demanded and food safety and quality control requirements would be time-consuming and resource-intensive, considering (i) the Group's dominant market share (particularly in the mid- to high-end hotpot soup flavouring market); (ii) the Group's long-standing position for over a decade as the sole supplier of hot pot soup flavouring products to the Haidilao Group in the PRC; and (iii) the time and costs devoted by both the Haidilao Group and the Group to formulate, develop, and monitor compliance with food safety and quality control requirements of hotpot soup flavouring products supplied to the Haidilao Group. Such alternative suppliers may not be able to achieve the Group's production capacity or duplicate its cost structure within a short period of time, which may increase the operational costs of the Haidilao Group. The stability in supply and quality of the Haidilao Group's hotpot soup flavouring products may also be affected, jeopardizing the Haidilao Group's reputation and, consequently, revenue if the Haidilao Group decides to engage alternative suppliers. The Directors believe that the time, cost and uncertainty in connection with a change of the Haidilao Group's supplier pose a significant entry barrier and effectively discourage the Haidilao Group from turning to alternative suppliers.

The Board would like to emphasize that the Group acts in the best interests of the Group and the Shareholders as a whole in formulating sales policy. Whilst the Haidilao Group has been and remains to be the Group's largest customer, in the event that the demand for the Group's products from the Haidilao Group decreases significantly, the Group would solicit business from other customers utilizing its own formulas or formulas provided by customers, and expand its business by leveraging its production know-how, industry experience and existing network. In addition to the 22 products produced exclusively for Haidilao hot pot restaurants as at 31 December 2017, the Group had a diversified product portfolio with 53 products being offered to the retail market with independent third party customers. As stated above, the Group also has an extensive distribution network that enables it to market and sell its products to consumers through both physical and e-commerce channels in

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## LETTER FROM THE BOARD

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domestic and overseas markets. Furthermore, through the Group's years of experience in serving the Haidilao Group, the Group has accumulated extensive knowledge of the catering service industry in the PRC. The Group possesses market-oriented and solid research and development capabilities, and sufficient production capabilities to formulate customized condiment formulas, manufacture high-quality condiment products at scale to meet catering service providers' needs, and expand quickly into new market segments to command a significant market share.

It is worth to further emphasize that while the Group may selectively diversify its sales to other independent third party distributors and/or customers, the Group does not see the commercial need to overly diversify its customer base at this stage since it would bring unnecessary additional business and financial risks and administrative burdens to the Group. It is the fact that by shifting substantial sales volume to other independent third party distributors and/or customers might conversely bring in new business and/or financial uncertainties/risks to the Group, because the Group has to re-assess the financial background and credit-worthiness of such new independent third party distributors and/or customers, instead of the Haidilao Group which has well-established co-operation and creditworthy relationship with the Group itself so far. Benefitting from the years of experience with the Haidilao Group, there shall be a more secured, reliable and trust-worthy relationship with the Group when compared to any other independent third party distributors and/or customers. Given Mr. Zhang Yong and his wife, Ms. Shu Ping, are the controlling shareholders of both the Group and the Haidilao Group, the Directors are of the view that the controlling shareholders would not commit acts that might be detrimental to their substantial shareholding interests in the Group, so that the Group's risk of reliance on single largest customer (i.e. the Haidilao Group) is minimal. On such basis, the Directors consider that the commercial and financial benefits from the business relationship with the Haidilao Group in the foreseeable future shall outweigh the reliance on its position as the single largest customer of the Group. It shall be in the best interests of the Group and the Shareholders as a whole to maintain the current business relationship with the Haidilao Group in the coming future. In any event, the Group will ensure that the proportion of sales to the Haidilao Group in each of the three years ending 31 December 2020 will maintain at similar level as that from 2015 to 2017.

**(b) Level of reliance**

While revenue from the Haidilao Group is expected to increase in line with its continuous expansion and growth in the PRC and across the globe, the Group expects that the revenue contribution from the Haidilao Group as a percentage of the Group's total revenue will remain as approximately the same level in near future and hopefully will decrease over time in the coming future. The Group expects that the revenue from sales of the Group's products to third-party customers will increase over the years in the coming future as a result of the Group's active marketing efforts, continuous expansion of distribution networks as well as the launch of new products.

This is reinforced by the fact that the Joint Venture was established for the manufacture of Small Hotpot Products. The Group has paid great attention in diversifying its source of revenue as it is anticipated that revenue from the sales of Small Hotpot Products to the Haidilao Group would not represent a substantial proportion of the total revenue of the Joint Venture for the two years ending 31 December 2020. Therefore, it is currently expected that the revenue contribution from the Haidilao Group as a percentage of the Group's total revenue will decrease over time in the coming future.



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## LETTER FROM THE BOARD

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### (c) **Industry landscape**

The Haidilao Group is one of the key players in the hotpot catering service industry in the PRC. Although the hotpot catering service industry in the PRC is not dominated by a few players only, it would be in the best interests of the Group and the Shareholders as a whole to continue its sales to the Haidilao Group as demonstrated above. As a result of the contractual arrangements under the Haidilao Master Sales Agreement, the Haidilao Group has been and continues to be the Group's largest customer, and the Group continues to be the Haidilao Group's sole supplier of hotpot soup flavouring products in the PRC. This strong alignment of interests enables the Group to grow alongside the Haidilao Group's anticipated expansion, while the Group maintains and extends its diversified customer base through new and broadened distribution channels, geographical expansion and the development of launching of new products.

Hot pot condiments are sold through three main channels in the PRC, namely, the retail channel, catering service channel and other channels such as e-commerce channel. According to the research report of a market consultant, in 2015, the retail channel was the largest channel, accounting for 50.1% of total market size of hot pot condiments in the PRC. The catering service channel was the second largest, accounting for 46.1% of the market. Other channels accounted for 3.8% of the market.

In relation to the retail channels, the Group has broadened and comprehensive distribution channels throughout the PRC. In relation to the catering service channel, apart from the Haidilao Group, the Group has actively expanded the business of third-party catering providers that are involved in various types of catering operations, such as hot pot restaurants, spicy stir-fry restaurants and barbecue restaurants. In relation to e-commerce channel, the Group owns five flagship stores on e-commerce platforms such as Tmall, JD.com and Suning E-commerce, which can further enhance the promotion and sales of the Group's products to the retail market in the coming future.

### (d) **Mutual reliance**

The Group has entered into a number of agreements with the Haidilao Group, including the Haidilao Master Sales Agreement, that constitute the framework for the Group's long term, stable and mutually beneficial business relationship with the Haidilao Group.

Hotpot soup flavouring condiment is an important component for the operations of a hotpot restaurant. As the sole supplier of hotpot soup flavouring products to the Haidilao Group in the PRC, the Haidilao Group relies on the Group and the Group has contributed to the success of the Haidilao Group.

### (e) **Capability of maintaining revenue in future**

According to the research report of a market consultant, in 2015, the market size of compound condiments in the PRC was RMB75.1 billion, representing 18.2% of the total condiment market size in the PRC. In 2015, the Company's market share in the overall compound condiment market is 1.7%. According to the aforesaid report, the market size of the compound condiments in the PRC is expected to reach higher growth in the future because (i) there is an increasing trend to use compound



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## LETTER FROM THE BOARD

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condiment by home cooking; and (ii) standardization made it more suitable to use for catering service providers. The market size of compound condiments in China is expected to reach RMB148.8 billion in 2020, with a compound annual growth rate of 14.7% since 2015, representing 22.1% of the total condiment market size in China.

Against this backdrop, the Group will explore the home cooking market by developing convenient, safe and standardized products to meet the market demand. In order to consolidate its market share and maintain a stable profit margin at the same time, the Group will also develop new products and optimize the existing products through its solid research and development capabilities.

Therefore, the Group believes that it is capable of maintaining its revenue in the future in light of the reliance.

### **E. THE GROUP'S PLAN IN MAINTAINING/INCREASING THE PROPORTION OF SALES TO INDEPENDENT THIRD PARTIES**

For each of the three years ended 31 December 2017, sales to the Haidilao Group amounted to approximately RMB457,753,000, RMB597,546,000 and RMB915,080,000, representing approximately 54.0%, 54.9% and 55.6% of the Group's total revenue, respectively. As stated above, the revenue contribution from the Haidilao Group as a percentage of the Group's total revenue is expected to be relatively stable for the three years ending 31 December 2020. The Group will ensure that such proportion will maintain at similar level as that from 2015 to 2017 with the measures stated herein, and hopefully will decrease over time in the coming future due to the expected faster growth in sales of the Group's products to third-party customers as a result of the Group's active marketing efforts, continuous expansion of distribution networks as well as the launch of new products.

The Board would like to emphasize that the Group acts in the best interests of the Group and the Shareholders as a whole in formulating sales policy. In addition to the measures stated in "D. NO EXTREME RELIANCE ON THE HAIDILAO GROUP" above, the Group's plan in maintaining or increasing the proportion of sales to independent third parties is as follows:

#### **(a) Sales through distribution channels**

The Group expects to boost the sales through the distribution channels by way of (i) the implementation of policies to increase the number of stock keeping units in the terminal sales points and the efficiency of shelf display of the products; (ii) organizing various roadshow activities in different cities during the peak season in the second half of the year; (iii) enhancing the Group's control of sales at the terminal sales points through taking samples at the terminal sales points by the Group's sales team and third-party distributors as well as providing sales guidance; and (iv) monitoring the sales and inventory level on a monthly basis so that sales plans can be modified from time to time to cater for market demand.

#### **(b) Sales through e-commerce channels**

The Group also puts effort in developing products for sales through e-commerce as well as promoting sales in festive days. In addition, apart from focusing on the sales through the five flagship stores on e-commerce channels, the Group has also dedicated a team specifically responsible for exploring e-commerce channels and initiating targeted online marketing activities.

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## LETTER FROM THE BOARD

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**(c) Sales to third-party catering service providers**

The Group has newly established a department for serving third-party catering service providers so as to provide comprehensive support in this sales channel and increase sales to third-party catering service providers.

**(d) Diversified product portfolio**

The Group has spared great effort in developing new products and expanding product reserve. For instance, in the second quarter of 2017, the Group has launched updated product formulas of certain existing core products with new packaging in response to market demand. The Group also launched 7 new instant sauce products in early 2018.

**(e) Staff training**

In 2017, the Group has optimized the sales team for the purpose of enhancing the capability and efficiency of terminal sales; at the same time, the Group also provides extensive training to the staff and puts effort to attract and retain talents.

**(f) Regular monitoring**

The finance team will regularly monitor the proportion of sales between the Haidilao Group and the independent third parties. If it is noted that the proportion of sales to the Haidilao Group may potentially exceed the historical percentage ratio, the Group would take the following steps as appropriate with a view to increasing the sales to independent third parties such that such proportion in each of the three years ending 31 December 2020 will maintain at similar level as that from 2015 to 2017: (i) organize various marketing activities such as tasting events and themed promotion events in different cities; (ii) further increase the inventory level at the terminal sales point and enhance shelf display management for attracting awareness of potential new customers; (iii) broaden online new product portfolios, (iv) expand the sales team and the distribution network; (v) enhance efforts to provide diversified and customized products and services to third-party catering service providers; and (vi) expand the research and development team so as to formulate and upgrade product formulas and develop new products.

### INTERNAL CONTROL MEASURES

The Group has a comprehensive internal control system to ensure that the terms of the Haidilao (Shuhai) and JV Continuing Connected Transactions are fair and reasonable, and the Haidilao (Shuhai) and JV Continuing Connected Transactions are conducted on normal commercial terms or better and in the ordinary course of business of the Group, and in the interests of the Company and the Shareholders as a whole. Relevant internal control measures include:

- (i) The Group has designated a team of senior management from business operation, legal, risk control and finance departments and the Board office to continuously monitor continuing connected transactions. The team of senior management continuously traces and regularly monitors the progress of continuing connected transactions and reports to the Board.

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## LETTER FROM THE BOARD

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- (ii) The relevant personnel of the business department of the Company will conduct regular checks on the market price for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the pricing basis for the relevant continuing connected transactions:
  - (a) the marketing team will from time to time (on a regular basis and/or prior to price negotiation) gather market intelligence by way of research and investigation to ascertain the quality of the products compared to similar products in the market and the reference price of each type of the products in the market;
  - (b) the Company would conduct regular reviews on monthly basis of the sales, profit margin, market and profitability of the products, and ensure the transactions are within the annual cap; and
  - (c) in particular, in relation to the Haidilao Master Sales Agreement, the finance department regularly reviews the gross profit margin for sales to independent third parties and determine the price of products to be sold to the Haidilao Group, and the team of senior management will review and confirm the sales price. Taking into account historical data and forecasted estimates, the independent non-executive Directors regularly review and re-assess the sales prices of the products semi-annually and make adjustments as appropriate to maintain a net profit margin for such sales same as those for sales to independent third parties.
- (iii) The team of senior management together with the finance department of the Group regularly monitors the actual amounts incurred for each type of continuing connected transactions for the purpose of ensuring the relevant annual caps are not exceeded.
- (iv) The team of senior management of the Group organize and run internal control tests regularly to evaluate the completeness and effectiveness of the internal control measures in relation to continuing connected transactions.
- (v) The Board conducts annual review on the implementation of continuing connected transactions and conducts review of financial statements which include the disclosure of continuing connected transactions semi-annually. The review mainly includes a review on whether the Group and the connected parties have fulfilled the terms of the agreements in relation to continuing connected transactions during the relevant year or semi-annually and whether the actual transaction amounts incurred between the Group and the connected persons are within the annual caps.
- (vi) The team of senior management of the Group collects and reviews continuing connected transactions each month in order to guarantee (i) the connected parties have fulfilled the terms of the agreements in relation to continuing connected transactions during the relevant month; and (ii) the actual transaction amounts incurred and estimated to be incurred between the Company and the connected parties are within the annual caps.
- (vii) The independent non-executive Directors conduct annual review of continuing connected transactions and provide annual confirmations in the Company's annual report on whether

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## LETTER FROM THE BOARD

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the continuing connected transactions are conducted (i) in the Group's ordinary course of business; (ii) in accordance with normal commercial terms or better and on terms that are fair and reasonable; (iii) in accordance with the terms of the relevant agreements; and (iv) in the interests of the Company and the Shareholders as a whole.

- (viii) The audit committee of the Company conducts review of the annual financial statements, annual report, interim financial statements and interim report which include the disclosure and analysis of the implementation of continuing connected transactions and opine on continuing connected transactions as disclosed in such financial statements and reports, including whether the terms of the continuing connected transactions are fair and reasonable and whether the transaction amounts are within the relevant annual caps.
- (ix) To assist the Company in complying with the applicable rules listed in chapter 14A of the Listing Rules, the external auditor of the Company performs work in accordance with the regulations in the "Hong Kong Standard on Assurance Engagements 3000 — "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information"" and with reference to the "Practice Note 740 — Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, on the Company's continuing connected transactions and issue a letter in respect of the continuing connected transactions disclosed in the Company's annual report in accordance with the applicable accounting standards and the Listing Rules.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 3 August 2018 to Wednesday, 8 August 2018, both days inclusive, in order to determine the eligibility of the shareholders to attend and vote at the Extraordinary General Meeting. The shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 2 August 2018 will be entitled to attend and vote at the Extraordinary General Meeting. In order to be eligible to attend and vote at the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Thursday, 2 August 2018.

### EXTRAORDINARY GENERAL MEETING

Set out on pages 80 to 83 of this circular is the notice of the Extraordinary General Meeting at which, inter alia, ordinary resolutions will be proposed to the Shareholders to consider and approve (i) the Haidilao Master Sales Agreement, (ii) the Shuhai Sales Agreement, and (iii) the Framework Sales and Purchase Agreements.

A form of proxy is enclosed for use at the Extraordinary General Meeting. Such form of proxy is also published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar of the

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## **LETTER FROM THE BOARD**

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Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for the holding of the Extraordinary General Meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude Shareholders from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting thereof should they so wish.

In accordance with the Listing Rules, Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong and their respective associates have a material interest in the Haidilao Master Sales Agreement and the Shuhai Sales Agreement and will, at the Extraordinary General Meeting, abstain from voting on the ordinary resolutions to approve the Haidilao Master Sales Agreement and Shuhai Sales Agreement (including the respective proposed annual caps).

In accordance with the Listing Rules, Ms. Dang Chunxiang, Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong and their respective associates have a material interest in the Framework Sales and Purchase Agreements and will abstain from voting on the ordinary resolution to approve the Framework Sales and Purchase Agreements (including the proposed annual caps) at the Extraordinary General Meeting.

Except as disclosed, no other Shareholder has any material interest in the proposed resolutions and is required to abstain from voting on such resolutions.

Pursuant to Rule 13.39(4) of the Listing Rules and Article 13.5 of the Articles of Association, a resolution put to the vote at any general meeting shall be decided on a poll save that the Chairman may, in good faith, allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

On a poll, every Shareholder present in person or by proxy or (being a corporation) by its duly authorized representative shall have one vote for each share registered in his/her/its name in the register of members. A Shareholder entitled to more than one vote need not use up all his/her/its votes nor cast all the votes in the same way.

### **RECOMMENDATION OF THE BOARD**

The Directors are of the opinion that the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps) are carried out in the ordinary and usual course of business, the terms are on normal commercial terms or better and are fair and reasonable. They are also of the opinion that the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps) are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of all the relevant ordinary resolutions to be proposed at the Extraordinary General Meeting.

### **RECOMMENDATION OF THE INDEPENDENT FINANCIAL ADVISER AND THE INDEPENDENT BOARD COMMITTEE**

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the terms of the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps), and First Shanghai has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders.

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## LETTER FROM THE BOARD

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The Independent Financial Adviser considers the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps) are on normal commercial terms and in the ordinary and usual course of business of the Group. The Independent Financial Adviser also considers that the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The full text of the letter from the Independent Financial Adviser issued by First Shanghai containing its recommendation in respect of the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps) is set out on pages 38 to 73 of this circular.

The Independent Board Committee, having taken into account the advice of First Shanghai, considers the terms of the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the Extraordinary General Meeting to approve the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps). The full text of the letter from the Independent Board Committee is set out on page 37 of this circular.

Yours faithfully,  
For and on behalf of the Board  
**Yihai International Holding Ltd.**  
**Shi Yonghong**  
*Chairman*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**YIHAI INTERNATIONAL HOLDING LTD.**

**頤海國際控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1579)**

19 July 2018

*To the Independent Shareholders*

**CONTINUING CONNECTED TRANSACTIONS  
(1) RENEWAL OF ANNUAL CAPS FOR CONTINUING CONNECTED  
TRANSACTIONS IN RESPECT OF 2019 AND 2020  
(2) SALE AND PURCHASE OF PRODUCTS WITH  
THE JOINT VENTURE AND  
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Dear Sir or Madam,

We have been appointed as the Independent Board Committee to advise you in connection with the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps), details of which are set out in the letter from the Board contained in the circular issued by the Company to the Shareholders dated 19 July 2018, of which this letter forms part. We wish to draw your attention to the letter from the Independent Financial Adviser as set out on pages 38 to 73 of the circular. Terms defined in the circular shall have the same meanings when used herein, unless the context otherwise requires.

Having considered the information set out in the letter from the Board, the terms of the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps) and the advice of First Shanghai in relation thereto as set out on pages 38 to 73 of the circular, we are of the view that the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps) are on normal commercial terms and conducted in the ordinary and usual course of the business of the Group. We are also of the view that the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps) are in the interests of the Company and the Shareholders as a whole, and are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the Extraordinary General Meeting to approve the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps).

Yours faithfully,  
**Yihai International Holding Ltd.**  
**YAU Ka Chi      QIAN Mingxing      YE Shujun**  
*Independent Non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter to the Independent Board Committee and the Independent Shareholders received from the Independent Financial Adviser setting out its opinion regarding the Haidilao (Shuhai) and JV Continuing Connected Transactions (including renewal of their respective proposed annual caps) contemplated under each of the Haidilao Master Sales Agreement, Shuhai Sales Agreement and the Framework Sales and Purchase Agreements, for the purpose of inclusion in this circular.*



19 July 2018

*To the Independent Board Committee and  
the Independent Shareholders*

Yihai International Holding Ltd.  
1st and 2nd Floors, Building 6  
Songlei Office Building  
Heng Song Yuan  
Middle Road of South 3rd Ring Road  
Fengtai District  
Beijing  
The PRC

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS  
(1) RENEWAL OF ANNUAL CAPS FOR CONTINUING CONNECTED  
TRANSACTIONS IN RESPECT OF 2019 AND 2020  
AND  
(2) SALE AND PURCHASE OF PRODUCTS WITH THE JOINT  
VENTURE**

### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Haidilao (Shuhai) and JV Continuing Connected Transactions (including renewal of their respective proposed annual caps) contemplated



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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under each of the Haidilao Master Sales Agreement, Shuhai Sales Agreement and the Framework Sales and Purchase Agreements, details of which are contained in the circular to the Shareholders dated 19 July 2018 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those ascribed in the Circular.

The Group and Haidilao Group had entered into the Existing Master Sales Agreement dated 24 June 2016 to regulate the sale of Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products by the Group to the Haidilao Group. As the Existing Master Sales Agreement commencing from 24 June 2016 is going to expire by 31 December 2018, the Company intends to continue to enter into transactions of similar nature after 31 December 2018. Therefore, on 6 July 2018, the Group entered into new Haidilao Master Sales Agreement, the nature of which is similar to that of the transactions under the Existing Master Sales Agreement, for a term of two years from 1 January 2019 to 31 December 2020.

Further on 6 July 2018, Yihai Shanghai and Shuhai Supply Chain entered into the Shuhai Sales Agreement, pursuant to which the Group agreed to supply products customized for Shuhai Supply Chain Group’s customers who are catering service providers, and products targeting at the retail market for a term of two years from 1 January 2019 to 31 December 2020.

In addition, Yihai Shanghai and the Joint Venture entered into the Existing Framework Sales and Purchase Agreements dated 18 September 2017 pursuant to which (i) Yihai Shanghai (for itself and on behalf of its subsidiaries, other than the Joint Venture) agreed to sell hotpot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hotpot Products; and (ii) the Joint Venture agreed to sell Small Hotpot Products to Yihai Shanghai and its subsidiaries. The Existing Framework Sales and Purchase Agreements are for a term from 18 September 2017 to 31 August 2020.

The Company intends to continue to enter into transactions of similar nature with the Joint Venture after 31 August 2020. Therefore, on 6 July 2018, Yihai Shanghai and the Joint Venture entered into the Framework Sales and Purchase Agreements, the nature of which is similar to that of the transactions under the Existing Framework Sales and Purchase Agreements, for a term of four months from 1 September 2020 to 31 December 2020.

### LISTING RULES IMPLICATIONS

#### *Haidilao Master Sales Agreement*

Singapore Haidilao is indirectly held as to approximately 62.7% by Mr. Zhang Yong and Ms. Shu Ping, being the non-executive Director and executive Director, and 29.7% by Mr. Shi Yonghong and his wife.

Singapore Haidilao is therefore connected person of the Company by virtue of being associate of the controlling shareholders of the Company, and the sales transactions between the Group and the Haidilao Group constitute continuing connected transactions of the Company under the Listing Rules.

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### *Shuhai Sales Agreement*

Shuhai Supply Chain is indirectly held as to approximately 52.17% by the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, and their associate and 24.65% by Mr. Shi Yonghong and his wife.

Shuhai Supply Chain is, therefore, a connected person of the Company by virtue of being an associate of the controlling shareholders of the Company, and the transactions contemplated under the Shuhai Sales Agreement constitute continuing connected transactions of the Company under the Listing Rules.

Because (i) the nature of products to be sold under the Haidilao Master Sales Agreement and Shuhai Sales Agreement is similar; and (ii) both Singapore Haidilao and Shuhai Supply Chain are associates of the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, the transactions contemplated under the Haidilao Master Sales Agreement and Shuhai Sales Agreement will be aggregated pursuant to Rule 14A.82(1) and Rule 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of the Haidilao Master Sales Agreement and the Shuhai Sales Agreement are aggregated.

Since the applicable ratios (as defined in Rule 14.07 of the Listing Rules) of the proposed annual caps in respect of the aggregated transactions contemplated under the Haidilao Master Sales Agreement and the Shuhai Sales Agreement are more than 5%, the transactions and the proposed annual caps for such transactions for each of the two years ending 31 December 2020 are subject to reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### *Framework Sales and Purchase Agreements*

The Joint Venture is currently a 60% held non wholly-owned subsidiary of the Company. As the Joint Venture is owned as to 40% by Xinpai Shanghai, which is controlled as to approximately (i) 62.70% by the controlling shareholders of the Company, Mr. Zhang Yong and Ms. Shu Ping, being the non-executive Director and executive Director, and (ii) 29.7% by Mr. Shi Yonghong (a non-executive Director) and his wife, the Joint Venture is therefore a connected subsidiary of the Company. Accordingly, the transactions contemplated under the Framework Sales and Purchase Agreements constitute continuing connected transactions of the Company for the purpose of the Listing Rules.

Since the sales of hotpot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hotpot Products and the subsequent purchase of Small Hotpot Products are related, the sales and purchase transactions as contemplated under the Framework Sales and Purchase Agreements will be aggregated and treated as if they were one transaction pursuant to Rule 14A.82(1) and Rule 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of (i) sales of hotpot soup flavouring products, and (ii) purchase of Small Hotpot Products are aggregated.

Since the applicable ratios (as defined in Rule 14.07 of the Listing Rules) of the proposed annual caps in respect of the transactions contemplated under the Framework Sales and Purchase Agreements are more than 5%, the transactions and the proposed annual caps for the four-month period from 1 September 2020 to 31 December 2020 are subject to reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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The Extraordinary General Meeting will be convened to consider and, if thought fit, to approve the Haidilao (Shuhai) and JV Continuing Connected Transactions. In accordance with the Listing Rules, (i) Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong have a material interest in each of the Haidilao Master Sales Agreement and the Shuhai Sales Agreement, and therefore will abstain from voting on the ordinary resolutions to approve each of the Haidilao Master Sales Agreement and the Shuhai Sales Agreement at the Extraordinary General Meeting; and (ii) Ms. Dang Chunxiang, Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong have a material interest in the Framework Sales and Purchase Agreements, and therefore will abstain from voting on the ordinary resolution to approve the Framework Sales and Purchase Agreements at the Extraordinary General Meeting.

### THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising Mr. Yau Ka Chi, Mr. Qian Mingxing and Ms. Ye Shujun, being all the three independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps).

As the independent financial adviser, we have been appointed to advise the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps) are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in relation to the ordinary resolutions to be proposed for approving the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps) at the Extraordinary General Meeting.

### BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company (the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to

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us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group, the Haidilao Group, the Shuhai Supply Chain Group and the Joint Venture.

Independent Shareholders should note that, within the past two years from the Latest Practicable Date, we were engaged as the independent financial adviser by the Company for two occasions (i.e. mainly in relation to the provision of independent financial advice to the then Independent Board Committee and Independent Shareholders for (a) certain new continuing connected transactions of the Company and revision of annual caps under the Existing Master Sales Agreement for the coming two years; and (b) continuing connected transactions of the Company in respect of variation of terms of the Existing Master Sales Agreement) as detailed in the circulars of the Company dated 18 October 2017 and 12 April 2018, respectively. Given (i) our independent roles in the previous two engagements; (ii) none of the members of our parent group is a direct party to each of the Haidilao Master Sales Agreement, Shuhai Sales Agreement and the Framework Sales and Purchase Agreements; and (iii) our independent financial advisory fees for this present engagement in addition to the previous two engagements represented an insignificant percentage of revenue of our parent group, we consider that the previous two engagements would not affect our independence to form our opinion in respect of this Haidilao (Shuhai) and JV Continuing Connected Transactions to be contemplated under each of the Haidilao Master Sales Agreement, Shuhai Sales Agreement and the Framework Sales and Purchase Agreements.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps) pursuant to the Haidilao Master Sales Agreement and the Framework Sales and Purchase Agreements, we have taken into consideration the following principal factors and reasons:

(i) **RENEWAL OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS UNDER THE HAIDILAO MASTER SALES AGREEMENT IN RESPECT OF 2019 AND 2020**

1. **Background information of the Group**

The Group is principally engaged in the manufacture and sale of hotpot soup flavouring products, hotpot dipping sauce products and Chinese style compound condiment products (collectively, the “**Flavouring Products**”) in the PRC. The Group is a leading and fast-growing compound condiment manufacturer in the PRC, and the sole supplier of Flavouring Products for the Haidilao Group in the PRC, and its products have been significantly contributing to the successful growth of the Haidilao Group.

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The Group was originally founded as an internal supplier of Flavouring Products to the Haidilao Group in 2005, and since then has been the exclusive supplier of Flavouring Products to Haidilao Group in the PRC, supplying (i) customized Flavouring Products to the Haidilao Group; and (ii) retail products and customized condiments to other related party customers. The Group is also a provider of cooking condiment to the family customers in the PRC, suppliers of catering services and food companies.

The Group has entered into a number of agreements with the Haidilao Group that, together, constitute the framework for its continued long-term, stable and mutually beneficial business relationship. These agreements, made on arms' length basis, cover both the provision of certain services by the Haidilao Group to the Group, and the sales of the Group's Flavouring Products to the Haidilao Group. As a result of these contractual arrangements, the Haidilao Group continues to be the Group's largest customer since its establishment, and the Group continues to be the sole supplier of Flavouring Products to the Haidilao Group in the PRC. This strong alignment of interests enables the Group to grow alongside the Haidilao Group's persistent expansion, while the Group maintains and extends its diversified customer base through new and broadened distribution channels, geographical expansion and the development and launching of new products. As at 31 December 2017, out of the 75 products under the Group's three major product lines, 22 products were customized for exclusive supply to Haidilao hotpot restaurants, and 53 products were developed and produced for the retail market.

In terms of operating performance, benefiting from the consumption upgrade, expansion of market size of consumer products and the recovery of the catering industry in the PRC, and relying on the Group's competitive strength of serving the Haidilao Group, the Group has continued to maintain a leading position in the Chinese-style mid to high end compound condiment market. Leveraging with such favourable factors, the Group had achieved a high growth in its business operation during the financial year ended 31 December (the "Year(s)") 2017. For the Year 2017, the Group recorded revenue of approximately RMB1,646.2 million, representing a year-on-year increase of approximately 51.3% when compared to that of RMB1,088.0 million in the Year 2016; while its net profit hit a record high at approximately RMB260.7 million for the Year 2017, representing a year-on-year increase of approximately 39.6% when compared to that of RMB186.7 million in the Year 2016.

### 2. Background information of the Haidilao Group

The Haidilao Group comprises Sichuan Haidilao and Singapore Haidilao and their subsidiaries, and is principally engaged in the operation of hotpot restaurant chain in the PRC and oversea countries with its well-known trademark of "Haidilao (海底撈)".

Over the past two decades, the Haidilao Group has developed into the largest Chinese hotpot restaurant chain and the No. 1 Chinese cuisine restaurant company in China in terms of revenue in the Years 2015 to 2017. There have been over 100 million customers dining at Haidilao hotpot restaurants in the recent years, some of them were with Haidilao Group's memberships. Haidilao Group ranked first among major Chinese cuisine brands in terms of certain key performance indices, including but not limited to, table turnover rate, annual sales per restaurant and annual guest traffic.

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In the Year 2017, the Haidilao Group achieved stable growth in the same store sales and rapid expansion in the number of hotpot restaurants, benefiting from the growth in the PRC catering industry and the hotpot catering consumption market. The Group's revenue from sales of Flavouring Products to the Haidilao Group amounted to approximately RMB915.9 million for the Year 2017, representing an increase by approximately 51.2% as compared to that of approximately RMB605.7 million in the Year 2016, mainly due to the steady growth in the same store revenue of Haidilao hotpot restaurants and the increased number of new Haidilao hotpot restaurants widespread across different cities in the PRC. The Group's revenue from sales of Flavouring Products to the Haidilao Group has always accounted for more than 50% of the Group's total revenue over the past five Years from 2013 to 2017.

### 3. Principal terms of the Haidilao Master Sales Agreement

The Group and Haidilao Group had entered into the Existing Master Sales Agreement dated 24 June 2016 to regulate the sale of Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products by the Group to the Haidilao Group. As the Existing Master Sales Agreement commencing from 24 June 2016 is going to expire by 31 December 2018, the Company intends to continue to enter into transactions of similar nature after 31 December 2018. Therefore, on 6 July 2018, the Group entered into new Haidilao Master Sales Agreement, the nature of which is similar to that of the transactions under the Existing Master Sales Agreement, for a term of two years from 2019 to 2020.

The Group sells hotpot soup flavouring products customized for the Haidilao Group for use in its hotpot restaurants in the PRC in the ordinary and usual course of business. Before the listing of the Shares on the Stock Exchange, Yihai Shanghai entered into the Existing Master Sales Agreement with Sichuan Haidilao and Singapore Haidilao to regulate the transactions in relation to, among others, the sale of Haidilao Customized Products to the Haidilao Group. Save for the Supplemental Master Sales Agreement to include the sale of Small Hotpot Products to the Haidilao Group and the Second Supplemental Master Agreement to vary certain terms, no term has been modified or changed since the parties entered into the Existing Master Sales Agreement. The principal terms of the Haidilao Master Sales Agreement are summarized below:

#### *Term*

The Haidilao Master Sales Agreement has an initial term of two years from 1 January 2019 to 31 December 2020. Subject to compliance with the Listing Rules and applicable laws and regulations, the Haidilao Master Sales Agreement may be renewed for a further term of three years from time to time, unless the parties agree in writing to terminate the Haidilao Master Sales Agreement during its term; or the Haidilao Master Sales Agreement is terminated as required by applicable laws, regulations, requirements of the securities regulatory authorities, or judgment or decision of any competent court. Upon renewal of the Haidilao Master Sales Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.



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### *Nature of transactions*

#### (a) *Sale of Haidilao Customized Products*

Pursuant to the terms of the Haidilao Master Sales Agreement, the Group is the sole supplier of Haidilao Customized Products to the Haidilao Group for use in its hotpot restaurants in the PRC. Upon fulfillment of certain requirements relating to mass production and standardization and upon confirmation of the types or products required, the Group shall be recognized as the sole supplier of the Haidilao Customized Products to the Haidilao Group for use in its overseas hotpot restaurants (including those in Hong Kong, Macau and Taiwan). However, if the Group is unable to satisfy the quantity of the products demanded, or the quality of the Haidilao Customized Products supplied by the Group does not fulfil the specifications of the Haidilao Group, and the matter cannot be resolved within a reasonable period (not longer than 30 days) after consultation with the Group, the Haidilao Group may engage other suppliers. Under the Haidilao Master Sales Agreement, the Group may engage contract manufacturers to produce Haidilao Customized Products.

Sale of Haidilao Customized Products will be made on the basis of individual orders specifying the type of product, purchase volume, sales price, delivery date etc. The sales price of Haidilao Customized Products shall be determined based on the pricing policy as set out below.

The Haidilao Group owns the proprietary rights to the formulas of Haidilao Customized Products (the “**Haidilao Group Formulas**”) and licenses the Haidilao Group Formulas to the Group and the Group’s contract manufacturers to use for production on a royalty-free basis. The Group is required to, and shall use reasonable efforts to procure its contract manufacturers to: (i) keep confidential the Haidilao Group Formulas, and (ii) unless the Haidilao Group has given written consent, refrain from selling products that use these formulas to any of the Haidilao Group’s competitors that are primarily engaged in hot pot business in the PRC and has a market share of more than 0.5%.

For any upgrades and developments in the Haidilao Group Formulas made through the joint efforts of the Haidilao Group and the Group, the Haidilao Group will own the proprietary rights, and the Group and its contract manufacturers will be entitled to use such upgraded formulas for production of Haidilao Customized Products. In relation to the sales of products which will be produced with such upgraded formulas, and in accordance with the Haidilao Master Sales Agreement, a supplemental agreement will be entered into by the parties to confirm that the upgraded formulas are a result of joint efforts of the Haidilao Group and the Group.

For any upgrades and developments in the Haidilao Group Formulas made through the Group’s own efforts, the Group will own the proprietary rights of such upgraded formulas unless otherwise agreed between the parties. If the Group agrees to supply any product which will be produced with such upgraded formulas to the Haidilao Group, in accordance with the Haidilao Master Sales Agreement, a supplemental agreement will be entered into by the parties to confirm that the upgraded formulas are a result of the Group’s own efforts and to confirm the usage of such upgraded formulas.

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(b) *Sale of Haidilao Retail Products*

Pursuant to the terms of the Haidilao Master Sales Agreement, the Group is the sole supplier of the Haidilao Retail Products to the Haidilao Group for display and sales to customers in the hotpot restaurant of the Haidilao Group. Haidilao Retail Products are manufactured with the Group's own formulas. Haidilao Group is not permitted to sell the Group's products to any third party distributor.

Sale of Haidilao Retail Products will be made on the basis of individual orders specifying the type of product, purchase volume, delivery date etc. The sales price for the Haidilao Retail Products by cities shall be provided to the Haidilao Group semi-annually.

(c) *Sale of Small Hotpot Products*

Pursuant to the terms of the Haidilao Master Sales Agreement, the Group is the sole supplier of the Small Hotpot Products to the Haidilao Group for display and sales to customers in the hotpot restaurant of the Haidilao Group. The Small Hotpot Products are manufactured with the Joint Venture's own formulas. Haidilao Group is not permitted to sell the Group's products to any third party distributor. The quantity of the Small Hotpot Products for sales is not fixed but is to be determined and agreed between the parties.

***Pricing basis***

The sale prices of Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products are determined by the parties with reference to a number of factors as stated below. If there is any change in pricing policy in the future, the Group shall fully comply with the relevant requirements under Chapter 14A of the Listing Rules (if applicable).

(a) *Sale of Haidilao Customized Products*

The sale price of Haidilao Customized Products shall be determined by the parties after arm's length negotiations with reference to (i) the historical sales price, (ii) the estimated overall net profit margin through sales to independent third party distributors in accordance with the pricing formula, (iii) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Haidilao Customized Products, and (iv) the market price of similar products sold by comparable companies to independent third party distributors. Taking into account historical data and forecasted estimates, the independent non-executive Directors will regularly review and reassess the sales prices of Haidilao Customized Products semi-annually and make adjustments as appropriate to maintain a net profit margin for such sales same as those for the sales to independent third party distributors. The Group also adjusts sales prices if there is any significant change in the cost of sales and expenses incurred in connection with Haidilao Customized Products.



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(b) *Sale of Haidilao Retail Products*

The sale price of Haidilao Retail Products shall be consistent with the pricing policy for similar products that Group offers to independent third party distributors and shall be determined by the parties after arm's length negotiations with reference to (i) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Haidilao Retail Products, and (ii) the prevailing market price of similar products. The independent non-executive Directors will regularly review and re-assess the sales prices of the Haidilao Retail Products semi-annually and make adjustments if there is any significant change in the production cost.

(c) *Sale of Small Hotpot Products*

The sales price of Small Hotpot Products shall be determined by the parties after arm's length negotiations with reference to (i) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Small Hotpot Products, and (ii) the prevailing market price of similar products. The independent non-executive Directors will regularly review and re-assess the sales prices of the Small Hotpot Products semi-annually and make adjustments if there is any significant change in the production cost.

***Payment terms***

Fees payable under the Haidilao Master Sales Agreement will be billed in a timely and appropriate manner according to the terms agreed by both parties.

(a) *Sale of Haidilao Customized Products*

For sales to hotpot restaurants in the PRC, payment shall be made on a monthly basis following delivery of products and the issuance of delivery invoices; for sales to overseas hotpot restaurants, payment shall be made based on the purchase volume per individual order. According to the Management, the actual payment schedule for sales to overseas hotpot restaurants have usually been similar to those in the PRC.

(b) *Sale of Haidilao Retail Products*

Payment shall be made on a monthly basis, following the delivery of products and issuance of invoices by the Group.

(c) *Sale of Small Hotpot Products*

Payment shall be made on a monthly basis, following the delivery of products and issuance of invoices by the Group.

According to the Prospectus and annual reports of the Company (the "**Annual Report(s)**") for the Years 2016 and 2017, the Group has provided trade credit to certain major distributors, who are independent third parties, for periods of ranging from 30 days to 60 days from the invoice date, depending on their financial positions, purchasing volume, track record and other factors. We consider

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that the payment terms on a monthly (i.e. 30 days) basis for the supply of Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products to the Haidilao Group pursuant to the Haidilao Master Sales Agreement are usual, typical and on normal commercial terms, and therefore are fair and reasonable.

#### 4. Assessment of the principal terms of the Haidilao Master Sales Agreement

Based on our independent review of the Prospectus, we understand that the Group and the Haidilao Group have established a long-term and close business relationship. Over the past two decades of development, although the Group has gradually expanded into other condiment product segments, such as hotpot dipping sauce and Chinese-style compound condiment products, and has developed a nationwide distribution network for its retail condiment products targeting retail customers as a result of its business growth, the Haidilao Group has still been remaining as the Group's single largest customer, accounting for a significant proportion of its revenue (i.e. over 50% of the total revenue) and sales volume. In order to retain the Haidilao Group as one of the key customers and nurture a long-term business relationship with it, the Group had offered a significant bulk purchase discount to the Haidilao Group by pricing its products sold to the Haidilao Group under the cost-plus pricing formula that primarily consists of the cost of production and selling and administrative expenses of the supplied condiment products. As the internal supplier of the Haidilao Group prior to the listing of the Shares in July 2016, the Group intended to expand its business by leveraging the well-recognized reputation of Haidilao brand and to accumulate industry knowledge through serving the Haidilao Group.

Since August 2014, the Group has adopted a new pricing policy for its sales of Haidilao Customized Products, which allows it to retain commercially acceptable net profit margins that are the same as the net profit margins arising from sales to the independent third party customers (the “**Independent Customers**”); whilst still fostering a mutually beneficial, fair and equitable and long-term working relationship with the Haidilao Group and its affiliates. However, the Group's pricing for its sales to the Haidilao Group and its affiliates was still different from the pricing for its sales to Independent Customers, mainly because the sales to the Haidilao Group and its affiliates do not require material packaging costs or selling and distribution expenses (the “**PSD Expenses**”) as attractive packaging and marketing efforts are totally unnecessary for Haidilao Customized Products, which constitute a major part of the Group's cost structure with respect to sales to Independent Customers.

Based on this new pricing policy, which applies to both Sichuan Haidilao and Singapore Haidilao as well as their affiliates, prices are determined with reference to (i) the historical sales price, (ii) the Group's estimated overall net profit margin through sales to independent third party distributors (the “**Independent Distributors**”) in accordance with the pricing formula, (iii) the Group's production costs including the cost of raw materials, selling and administrative expenses incurred in connection with the production of Haidilao Customized Products; and (iv) the market price of similar products sold by comparable companies to Independent Distributors. Primarily as a result of the new pricing policy as well as the increased sales volume to the related parties, the Group's revenue from sales to related parties, including the Haidilao Group, have rapidly increased, which in turn also contributed

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to the rapid growth of its overall revenue and profit since then. Taking into account historical data and forecasts, the independent non-executive Directors regularly review and reassess the prices of the Group's sales to the Haidilao Group on a semi-annual basis and adjust the prices as appropriate to maintain a net profit margin similar to its sales to other Independent Distributors.

Based on our independent review of the Prospectus and Annual Reports for the Years 2016 and 2017, we noted that the average selling price per kilogram of the Haidilao Customized Products to the Haidilao Group had been slightly lower than the Flavouring Products sold to Independent Customers for the three Years from 2015 to 2017; while the respective gross profit margins (i.e. before deducting the PSD Expenses) of the Flavouring Products sold to them separately in different production formulas, packaging and tastes had deviated very largely at approximately 24.2% versus 51.6% in the Year 2015, 28.5% versus 56.0% in the Year 2016, and 27.9% versus 53.0% in the Year 2017, even though the net profit margins (i.e. after deducting the PSD Expenses) between the Haidilao Customized Products and Flavouring Products to be supplied by the Group to the Haidilao Group and Independent Customers were basically comparable with each other at an average net profit margins (i.e. after deducting the PSD Expenses) of around 14.7%, 17.0% and 16.0% for the three Years from 2015 to 2017, respectively.

Based on our clarification with the Management regarding the large deviation of gross profit margins (i.e. before deducting the PSD Expenses) there between, we were advised that Flavouring Products are compound condiments used for cooking hotpot soup in restaurants or at home. The Group has been manufacturing Flavouring Products with various high-quality raw materials, which mainly include vegetable or animal oil, chili peppers, prickly ash and other spices and ingredients, according to specific formulas and processing techniques. The formulas of the Group's Flavouring Products have been well tested and endorsed by hundreds of millions of the Haidilao Group's customers. Through the Group's continuous efforts in developing and upgrading formulas, by optimizing its production processes and implementing stringent quality control measures, it has been supplying Haidilao hotpot restaurants with customized Flavouring Products and offer the retail market a comprehensive range of high-quality Flavouring Products appealing to consumers' ever-changing expectations and enhanced food safety consciousness, with a focus on mid- to high-end market. The Group's retail Flavouring Products are distinguished from customized products supplied to the Haidilao Group in the following ways:

- (i) the Group uses its own formulas to produce retail products, but use the Haidilao Group Formulas to produce their customized products;
- (ii) the packaging of the Group's retail products is usually more delicately designed to appeal to consumers at retail level;
- (iii) the tastes of the Group's retail products and customized products are different, given in-store consumers and home-cooking consumers usually have different preferences; and
- (iv) the package size of the Group's retail products is generally smaller than that of Haidilao Customized Products.

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Based on the above understanding, the Independent Shareholders may consider that the Group has been able to set (i) higher selling prices and gross profit margins (i.e. before deducting the PSD Expenses) for retail Flavouring Products to be sold to Independent Customers, while (ii) lower selling prices and gross profit margins (i.e. before deducting the PSD Expenses) for Haidilao Customized Products, in particular view of Haidilao's bulk purchase volume and minimal PSD Expenses to be incurred for delivery of Haidilao Customized Products to Haidilao hotpot restaurants widespread in different cities across the PRC. The Group's higher selling prices fixed for Flavouring Products supplied to Independent Customers are to compensate the higher PSD Expenses to be incurred therefor. In fact, these different pricing arrangements may imply that the above-mentioned comparatively larger deviation of gross profit margins (i.e. before deducting the PSD Expenses) of Flavouring Products sold between the Haidilao Group and Independent Customers had not been detrimental to the Group's net profit margins (i.e. after deducting the PSD Expenses) thereof ultimately.

Since the establishment of the Group many years ago, although the Group has gradually expanded into other condiment product segments, such as hotpot dipping sauce and Chinese-style compound condiment products, and has developed a nationwide distribution network for its retail condiment products targeting retail customers as a result of its business growth, the Haidilao Group has still been remaining as the Group's single largest customer, accounting for a substantial part of its revenue (i.e. always between 53.6% to 55.7% of the Group's total revenue) and sales volume. Based on our independent review of the Prospectus and the Annual Reports, we noted that the Group's revenue generated from Independent Customers had been increasing rapidly with approximately RMB135.0 million, RMB219.8 million, RMB380.8 million, RMB482.3 million and RMB730.3 million for the past five Years from 2013 to 2017 respectively, representing a compound annual growth rate (the "CAGR") of approximately 52.5% over the period, which had always accounted for more than 44.0% of its total revenue over the past four Years from 2014 to 2017.

Based on our independent review of the Prospectus and Annual Reports, we noted that the Group's overall gross profit margins (i.e. before deducting the PSD Expenses) had increased steadily at approximately 22.0%, 24.0%, 34.7%, 38.3% and 37.2% over the past five Years from 2013 to 2016 respectively despite of a slightly drop by about 1.1% in the Year 2017; while its overall net profit margins (i.e. after deducting the PSD Expenses) had also been increasing persistently with the similar trend at approximately 7.0%, 8.5%, 14.7%, 17.2% and 15.9% over the same period respectively, even though there have been relatively lower average selling price, and hence much lower overall gross profit margins (i.e. before deducting the PSD Expenses), of the Haidilao Customized Products to be supplied to the Haidilao Group when compared to the retail hotpot soup flavouring products to be sold to independent third party customers, and accordingly, we consider it to be commercially justifiable without prejudicial or detrimental to the interests of the Independent Shareholders.

Further in terms of actual profitability, the Group's gross profits had been continuously increasing from approximately RMB69.4 million, RMB119.5 million, RMB294.2 million, RMB416.9 million to RMB611.8 million over the past five Years from 2013 to 2017 respectively, representing a CAGR of approximately 72.3% over the period; while its net profit attributable to owners of the Company had also been increasing rapidly with approximately RMB22.1 million, RMB42.5 million, RMB124.5 million, RMB186.7 million and RMB261.1 million over the five Years from 2013 to 2017 respectively, representing a CAGR of approximately 85.4% during the same period. Based on such

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scenario, it further demonstrated that the different pricing arrangements between the Group and the Haidilao Group and other independent third customers did not adversely affect the overall profitability of the Group and are commercially justifiable without prejudicial or detrimental to the interests of the Independent Shareholders, and therefore fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

Having considered the above mechanism for setting the selling price for supply of Haidilao Customized Products from the Group to the Haidilao Group as well as the payment terms thereunder, we are of the view that the sales of Haidilao Customized Products to the Haidilao Group pursuant to the Haidilao Master Sales Agreement are on normal commercial terms, have been and will be conducted in the ordinary and usual course of business of the Group, and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

### 5. The historical transaction amounts, existing annual caps and the proposed annual caps for the Haidilao Master Sales Agreement

#### *Historical transaction amounts*

The table below sets out the historical transaction amounts in relation to the sales of Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products pursuant to the Existing Master Sales Agreement during the periods indicated below:

	<b>For the year ended/ending 31 December</b>					
	<b>Increase/ (decrease)</b>		<b>Increase/ (decrease)</b>		<b>Increase/ (decrease)</b>	
	<b>from 2016</b>	<b>2015</b>	<b>2017</b>	<b>from 2016</b>	<b>2018</b>	<b>from 2017</b>
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
<b>Existing annual caps</b>	598,000	33.6	994,800	66.4	1,569,700	57.8
Haidilao Customized Products	580,000	32.0	968,000	66.9	1,526,000	57.6
Haidilao Retail Products	18,000	116.7	24,000	33.3	30,000	25.0
Small Hotpot Products	Nil	N/A	2,800	N/A	13,700	389.3
<b>Actual/estimated transaction amounts</b>	597,546	33.5	905,333	51.5	1,449,199	60.1
Haidilao Customized Products	579,921	32.0	891,638	53.8	1,432,486	60.7
Haidilao Retail Products	17,625	112.2	13,596	(22.9)	16,178	19.0
Small Hotpot Products	Nil	N/A	99	N/A	535	440.4

*(Note 1)*

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	For the year ended/ending 31 December					
	Increase/ (decrease)		Increase/ (decrease)		Increase/ (decrease)	
	from		from		from	
	2016	2015	2017	2016	2018	2017
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Utilisation rate of the existing annual caps</b>	99.9%		91.0%		92.3%	
Haidilao Customized Products	100.0%		92.1%		93.9%	
Haidilao Retail Products	97.9%		56.7%		53.9%	
Small Hotpot Products	N/A		3.5%		3.9%	
Total revenue of the Group	1,088,014	28.4	1,646,221	51.3	N/A	(Note 2)
Proportion of revenue from the Haidilao Group to the total revenue of the Group	54.9%		55.0%		N/A	

*Notes:*

- The estimated transaction amount for the full year ending 31 December 2018 is based on the actual transaction amount of Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products sold by the Group to the Haidilao Group up to 31 March 2018, and then annualised for the full Year 2018. Taking an example for sale of Haidilao Customized Products for the full Year 2018, the actual transaction amount thereof was approximately RMB265,010,000 for the three months ended 31 March 2018, which is then annualised by the calculation formulae of  $RMB265,010,000 \times 6/3 \text{ months} \times 100\%/37\% = RMB1,432,486,486$ . Please refer to below for the reason why the 37% is used for projection.
- The Directors consider that it may not be appropriate to make forecast for the total revenue of the Group for the full year ending 31 December 2018.

***The proposed annual caps***

	For the year ending 31 December				
			Increase		
	2018	2019	from 2018	2020	from 2019
	<i>RMB'000</i>	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Proposed annual caps</b>	1,569,700	<b>2,337,900</b>	48.9	<b>3,567,300</b>	52.6
Haidilao Customized Products	1,526,000	<b>2,269,600</b>	48.7	<b>3,462,700</b>	52.6
Haidilao Retail Products	30,000	<b>45,000</b>	50.0	<b>65,000</b>	44.4
Small Hotpot Products	13,700	<b>23,300</b>	70.1	<b>39,600</b>	70.0

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### *Basis of determination of the proposed annual caps*

Based on the Group's latest unaudited management accounts for the three months ended 31 March 2018, the actual transaction amount of the sale of Haidilao Customized Products to the Haidilao Group under the Existing Master Sales Agreement for the period from 1 January 2018 to 31 March 2018 amounted to approximately RMB265.0 million, representing approximately 17.4% of the existing annual cap for the Year 2018, which had not exceeded the existing annual cap for the Year 2018.

We understand from the Management that in determining the above proposed annual caps in respect of the Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products under the Haidilao Master Sales Agreement, the Company has taken into account the following factors:

- (i) the historical transaction amounts with the Haidilao Group;
- (ii) Haidilao Group's rapid expansion in recent years, as demonstrated by the number of stores of the Haidilao Group as at 31 December 2015, 2016 and 2017 and 31 March 2018, being 146, 176, 273 and 304 respectively;
- (iii) the growth in the same store results of the stores of the Haidilao Group;
- (iv) substantial increase in revenue of the Group for the Years from 2013 to 2017, which has been largely attributable to the sales to the Haidilao Group; and
- (v) the growth of the PRC catering industry.

The proposed annual caps are derived by applying a reasonable buffer of less than 10% to cater for possible increase in market demand, production cost and possible inflation.

The Directors are of the view that the proposed annual caps under the Haidilao Master Sales Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and Shareholders as a whole.

### *Assessment of the proposed annual caps*

In assessing the fairness and reasonableness of the proposed annual caps under the Haidilao Master Sales Agreement for the two Years 2019 and 2020, we have reviewed the schedule of forecasted sales of Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products to the Haidilao Group prepared by the Company for each of the two Years 2019 and 2020, which is used to determine the proposed annual caps under the Haidilao Master Sales Agreement and prepared based on the latest sales pattern of the Haidilao Customized Products between the Group and the Haidilao Group.



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Based on our discussion with the Management, we understand that the proposed annual caps of approximately RMB2,269.6 million and RMB3,462.7 million for the sale of Haidilao Customized Products to the Haidilao Group for each of the two Years 2019 and 2020, respectively, were determined based on the Group's sales estimates in the Year 2018 and the number of new Haidilao hotpot restaurants already in operations and to be opened in the coming three Years from 2018 to 2020, such estimates had been communicated and discussed in details between the Management and the Haidilao Group. Benefiting from the improvement in the PRC food service industry and the hotpot catering market, the Haidilao Group achieved not only the stable same store sales growth, but also the rapid expansion in terms of the number of Haidilao hotpot restaurants in the PRC, therefore the Haidilao Group has tremendously increased its demand for Haidilao Customized Products, and the Group currently anticipates that actual transaction amounts for the sale of Haidilao Customized Products and Haidilao Retail Products will further be growing for each of the coming two Years 2019 and 2020.

(a) *Haidilao Customized Products*

Haidilao Customized Products are those Flavouring Products manufactured by the Group using the Haidilao Group Formulas owned by the Haidilao Group for use in the Haidilao hotpot restaurants in the PRC and oversea countries.

According to the Annual Report for the Year 2017, the Group's revenue from sale of Haidilao Customized Products to the Haidilao Group under the Existing Master Sales Agreement for the Year 2017 amounted to approximately RMB891.6 million, representing a significant increase by approximately 53.8% when compared to that of approximately RMB579.9 million for the Year 2016. Based on our independent review of the Prospectus, the Group's business has been subject to seasonal fluctuations. Since a majority of the Group's revenue is derived from hotpot condiment products and there are seasonal patterns for hotpot consumption, so the Group has historically been experiencing higher sales of its hotpot condiment products during the winter months and lower sales during the summer months, resulting in its higher revenues in the second half of each Year (the "**Seasonal Patterns**"). Such seasonality may also vary across different regions in the PRC. According to the Annual Reports for the past two Years, the Group's revenue for the first six months of each of the three Years from 2015 to 2017 had accounted stably for approximately 36.3%, 37.0% and 38.3% (i.e. with an average of about 37%) for each of the three Years, respectively. If such operating performance is projected on an annualised basis in consistent with the same revenue pattern as that of the previous three Years from 2015 to 2017, the Group's annual revenue for sale of Haidilao Customized Products for the full Year 2018 may reach approximately RMB1,432.5 million (i.e. which is calculated as: RMB265.0 million x 6/3 months x 100%/37%), which would account for approximately 93.9% of the existing annual cap under the Existing Master Sales Agreement of RMB1,526.0 million for the Haidilao Customized Products for the Year 2018. In comparison with the historical actual transaction amount of approximately RMB891.6 million for the Year 2017, the estimated transaction amount for Haidilao Customized Products of RMB1,432.5 million for the Year 2018 would represent a considerable increase by approximately 60.7% during the Year.

Based on our further analysis on the Prospectus and Annual Reports for the past two Years, we noted that the Group's revenue had been increasing rapidly from approximately RMB315.9 million, RMB498.3 million, RMB847.3 million, RMB1,088.0 million to RMB1,646.2 million over the past five



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Years from 2013 to 2017 respectively, representing a CAGR of approximately 51.1% over the period. Having taken into account of the facts that (i) the Group's outstanding operating performance over the past five Years from 2013 to 2017 with historical organic growth by a CAGR of approximately 51.1%; and (ii) there will be many more new Haidilao hotpot restaurants to be opened in the Year 2018 and thereafter in a faster growing pace than that of the Year 2018 based on the communication and detailed discussion between the Management and the Haidilao Group, the considerable increase in the proposed annual cap for Haidilao Customized Products by approximately 48.7% for the Year 2019 when compared to the existing annual cap under the Existing Master Sales Agreement of approximately RMB1,526.0 million for the Year 2018 is prudent and may not be unjustifiable with detailed basis as analysed below.

The proposed annual caps for the sale of Haidilao Customized Products of approximately RMB2,269.6 million and RMB3,462.7 million for each of the two Years of 2019 and 2020, respectively, represent an annual growth rate of approximately 52.6 % over the two Years, which is slightly above the Group's historical CAGR in total revenue of 51.1% over the past five Years from 2013 to 2017. If we re-compute the CAGR in terms of the Group's revenue derived from the Haidilao Group by linking up the historical actual transaction amounts for the past five Years from 2013 to 2017 with the proposed annual caps for the sale of Haidilao Customized Products for the two Years 2019 and 2020, the projected CAGR would account for approximately 53.9% for the eight Years from 2013 to 2020, which would be very closely comparable to the annual cap growth rate of approximately 52.6% between the two Years of 2019 and 2020. The slight deviation of about 1.3% may imply a reasonable buffer to accommodate any unanticipated increase in the sales of Haidilao Customized Products for the coming three Years from 2018 to 2020. On such basis, we are of the view that the proposed annual caps for Haidilao Customized Products up to approximately RMB2,269.6 million and RMB3,462.7 million for the two Years of 2019 and 2020 respectively shall be realistic, and therefore are prudent, fair and reasonable.

We have noted from the Stock Exchange's website that the holding company of the Haidilao Group (the "**Haidilao Holding**") itself together with its subsidiaries, including but not limited to, the Haidilao Group (collectively, the "**Haidilao Listing Group**") had submitted its application for listing on the Main Board of the Stock Exchange on 17 May 2018. Based on our independent review of the application proof of prospectus (the "**Application Proof**") of Haidilao Holding, it had 146, 176 and 273 Haidilao hotpot restaurants as at 31 December 2015 to 2017, respectively; whilst the Group had sold Haidilao Customized Products to the Haidilao Group with revenue of approximately RMB439.3 million, RMB579.9 million and RMB891.6 million for each of the three Years from 2015 to 2017, respectively, representing an average revenue per Haidilao hotpot restaurant of approximately RMB3.01 million, RMB3.30 million and RMB3.27 million for the same respective periods. Based on the business strategy and plan of Haidilao Holding as disclosed in the Application Proof, by leveraging with the net proceeds from the proposed listing of the Haidilao Listing Group, it will continue to expand its restaurant network by increasing restaurant density and further expanding geographical coverage etc. following the proposed listing. Haidilao Holding currently plans to open 180 to 220 new Haidilao hotpot restaurants in the Year 2018. By assuming 190 new Haidilao hotpot restaurants can be opened and operating by end of the Year 2018, Haidilao Group would then have 463 Haidilao hotpot restaurants as at 31 December 2018. Based on our independent review of the consolidated cash flow statement of the Haidilao Listing Group as disclosed in the Application Proof, it had very strong capability to generate operating cash inflows before movements on working capital of approximately

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RMB799.3 million, RMB1,634.5 million and RMB1,978.4 million for each of three Years from 2015 to 2017, respectively. In addition to the considerable sum of net cash proceeds in several billion of Hong Kong dollars to be obtained from the proposed listing, we are of the view that the Haidilao Listing Group's business forecasts of opening many more Haidilao hotpot restaurants in the coming three Years shall be reliable, in particular consideration of its available financial and human resources.

In comparison of the existing annual caps for Haidilao Customized Products of approximately RMB1,526.0 million (note: the estimated transaction amount for the full Year would be very close to the annual cap amount) for the Year 2018 with such inferred 463 Haidilao hotpot restaurants at that time, the Group's average revenue to be generated from each Haidilao hotpot restaurant would amount to approximately RMB3.30 million, which would be very closely comparable to the range of the Group's historical average revenue derived therefrom between approximately RMB3.01 million and RMB3.30 million for the past three Years from 2015 to 2017. We (i) have reviewed the business expansion forecasts of the Haidilao Listing Group with the expected number of new Haidilao hotpot restaurants to be opened in the coming three Years from 2018 to 2020, which had been communicated and discussed in details between the Management and the Haidilao Group together with the proposed annual caps' setting basis; (ii) have noted that the Group's projected average revenue from sale of Haidilao Customized Products for each Haidilao hotpot restaurant for each of the two Years 2019 and 2020 is basically consistent with the Group's similar historical data/information; and (iii) are not aware of any anomaly and/or unreasonableness behind. With reference to the Group's tremendous CAGR historically, coupled with Haidilao Holding's business expansion plan with a large number of new Haidilao hotpot restaurants to be opened in the coming three Years, the proposed annual caps of approximately RMB2,269.6 million and RMB3,462.7 million for sale of Haidilao Customized Products for each of the two Years of 2019 and 2020, respectively, are realistic and comprehensible, and therefore fair and reasonable.

In consideration of the Directors' estimate to allow a buffer of less than 10% for the two Years 2019 and 2020, based on our independent research from the public website at <http://www.stats.gov.cn>, we noted from a statistical announcement with heading of “中華人民共和國2017年國民經濟和社會發展統計公報 (Statistical Communiqué of the PRC on the 2017 National Economic and Social Development)” released by National Bureau of Statistics of China on 28 February 2018 that the market size of China's catering industry increased by approximately 10.7% on a year-on-year basis to approximately RMB3.96 trillion when compared to that in the Year 2016; while the total retail sales of consumer goods reached approximately RMB36.6 trillion in the Year 2017, representing a year-on-year increase by approximately 10.2% when compared to that of approximately RMB33.2 trillion in the Year 2016, which slightly out-performed over the overall economic growth in China with gross domestic product growth of 6.9% in the Year 2017. On such basis, it shall be prudent, fair and reasonable for the Group customarily applying a reasonable buffer of less than 10% to cater for any possible increase in market demand, production cost and possible inflation in coming years.

(b) *Haidilao Retail Products*

Haidilao Retail Products are those Flavouring Products manufactured using formulas owned by the Group itself (i.e. instead of the Haidilao Group Formulas) for display and sale to customers in Haidilao hotpot restaurants, which are the same products as those sold by the Group through Independent Distributors.

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According to the above table, the Group's sale of Haidilao Retail Products have been in their limited scale with historical actual revenue amounts of approximately RMB8.3 million, RMB17.6 million and RMB13.6 million for each of the three Years from 2015 to 2017, representing a CAGR of approximately 12.8% over the past three Years. Based on our clarification with the Management, the Haidilao Retail Products have mainly been for display and sale at Haidilao hotpot restaurants, the sale of which is random and incidental to customers having their hotpot meals at such restaurants and therefore have not been the key income stream of either the Group or the Haidilao Group in any way. The Directors were not aware of any particular reasons for the decrease in the sale of Haidilao Retail Products in the Year 2017. As advised by the Directors, since the historical amounts involved for the sale of Haidilao Retail Products are comparatively limited, the past revenue trend with material fluctuation within the past three Years from 2015 to 2017 shall not be reliable for projecting the proposed annual caps for the coming two Years from 2019 and 2020.

The proposed annual caps for Haidilao Retail Products amount to approximately RMB45.0 million and RMB65.0 million for each of the two Years 2019 and 2020, respectively, representing an annual growth rate of approximately 44.4% over the periods. The Directors have simply applied the similar sales growth pattern as that of the Haidilao Customized Products for setting the relevant proposed annual caps for Haidilao Retail Products. Based on our analysis as discussed above in relation to the Haidilao Customized Products, we are of the view the basis for determining the proposed annual caps for Haidilao Retail Products is also fair and reasonable with reference to the Group's historical actual transaction amounts of Haidilao Customized Products in the past few Years.

(c) *Small Hotpot Products*

Small Hotpot Products are the self-serving small hotpot products mainly manufactured by the Joint Venture, though the revenue amounts involved are still relatively limited, which can enrich the existing product scope and expand the existing business of the Group, and is expected to create a new source of profit growth for the Group. Self-serving Small Hotpot Products are new portable and instant products that can be purchased or sold in the retail market and can be sold through both online and offline sales channels, and has just become a new line of business for the Group in the Year 2017. The Group's total revenue from the new business segment of sale of Small Hotpot Products amounted to approximately RMB61.4 million for the Year 2017, but merely amounted to RMB99,000 and RMB260,000 to the Haidilao Group for the Year 2017 and the three months ended 31 March 2018, respectively.

In assessing the fairness and reasonableness of the proposed annual caps for the Small Hotpot Products pursuant to the Haidilao Master Sales Agreement, we have reviewed the schedule of forecasted sales of Small Hotpot Products to the Haidilao Group provided by the Company for each of the two Years 2019 and 2020.

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Based on our understanding from the Management, the Joint Venture is just start-up and now at its preliminary stage of operation to test the market demand for the self-serving Small Hotpot Products in the PRC, so the proposed annual cap amounts of RMB23.3 million and RMB39.6 million involved for the two Years of 2019 and 2020, respectively, would still be relatively limited. As the Joint Venture was newly established in September 2017, there was no adequate historical financial data or information forming a persistent trend available for projection of future operating performance. Assuming the Group's total revenue amount from sale of Small Hotpot Products of approximately RMB61.4 million for the period from May to December 2017 to be annualised on an annual basis, which would reach approximately RMB92.2 million for the whole Year of 2017.

The Directors currently anticipate that as the Small Hotpot Products will gradually be accepted by the market in the subsequent Years, there would be around 965,000 packs and 1,640,000 packs of the Small Hotpot Products at average wholesale price of RMB23.0 per pack to be sold at those Haidilao hotpot restaurants widespread in different cities across the PRC, and hence the anticipated revenue may reach RMB23.3 million and RMB39.6 million for the Years 2019 and 2020, respectively, by allowing a buffer of probable increase by 5%. In comparison with the historical revenue amount for sale of Small Hotpot Products on an annualised basis of approximately RMB92.2 million for the whole Year of 2017, the proposed annual caps for each of the two Years 2019 and 2020 would account for merely 25.2% and 43.0% thereof, respectively, which we consider to be prudent, fair and reasonable.

Based on the Directors' sales estimates as analysed above and the Group's historical revenue growth at a CAGR of approximately 51.1% for the past five Years from 2013 to 2017, the forecasted annual growth rate for sale of Small Hotpot Products to the Haidilao Group is now fixed at about 70.0% between the two Years 2019 and 2020 on the grounds that the self-serving Small Hotpot Products are somehow new products in the PRC, so the expected transaction base amounts for each of the two Years 2018 and 2019 were comparatively smaller, whilst a much larger transaction amount is expected for the subsequent Years when such Small Hotpot Products would gradually accepted and favoured by the market, so there would be a stronger growth in the Year 2020 than that of Year 2019. On such basis, we consider that the proposed annual caps for sale of Small Hotpot Products at RMB23.3 million and RMB39.6 million for the Years 2019 and 2020 shall be fair and reasonable.

Having considered the above factors and analysis, we are of the view that the rationale behind and basis adopted by the Management in determining the proposed annual caps for Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products are justifiable, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

However, the Independent Shareholders should note that the above proposed annual caps for Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products relate to future events and do not represent a forecast of transaction amounts to be incurred as a result of the Haidilao (Shuhai) and JV Continuing Connected Transactions.

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### (ii) SALE OF PRODUCTS TO THE SHUHAI SUPPLY CHAIN GROUP

#### 1. Principal terms of the Shuhai Sales Agreement

On 6 July 2018, Yihai Shanghai and Shuhai Supply Chain entered into the Shuhai Sales Agreement, pursuant to which the Group agreed to supply products customized for Shuhai Supply Chain Group's customers who are catering service providers ("**Shuhai Customized Products**") and products targeting at the retail market ("**Shuhai Retail Products**") for a term of two years from 1 January 2019 to 31 December 2020. The principal terms of the Shuhai Sales Agreement are summarized below.

##### *Term*

The Shuhai Sales Agreement has an initial term of two years from 1 January 2019 to 31 December 2020. Subject to compliance with the Listing Rules and applicable laws and regulations, the Shuhai Sales Agreement may be renewed for a further term of three years from time to time, unless Yihai Shanghai notifies Shuhai Supply Chain to the contrary with one month's written notice prior to the expiry of the agreement's term. Upon renewal of the Shuhai Sales Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

##### *Nature of transactions*

Pursuant to the terms of the Shuhai Sales Agreement, the Group will supply Shuhai Customized Products and Shuhai Retail Products. Shuhai Customized Products and Shuhai Retail Products will be sold and distributed by Shuhai Supply Chain Group to its customers who are catering service providers. Shuhai Supply Chain Group is not permitted to sell the Group's products to any third party distributor or any retail channel and shall ensure that its customers will not sell the Group's products to any third party distributor.

The Group will semi-annually provide a price list for all the Shuhai Customized Products and Shuhai Retail Products by cities to Shuhai Supply Chain Group. The sales price of the Shuhai Customized Products and Shuhai Retail Products shall be determined based on the pricing policy as set out below. Sales of the Shuhai Customized Products and Shuhai Retail Products will be made on the basis of individual orders specifying the type of product, purchase volume, delivery date and etc.

##### *Pricing basis*

The sales price of Shuhai Customized Products and Shuhai Retail Products shall be determined by the parties with reference to a number of factors, details of which are further disclosed below. The Group will review and re-assess the sales prices semi-annually and make adjustments if necessary. Such review and adjustment (if any) will be made by the independent non-executive Directors. If there is any change in pricing policy in the future, the Group shall fully comply with the relevant requirements under Chapter 14A of the Listing Rules (if applicable).

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### *(a) Sale of Shuhai Customized Products*

In respect of the Shuhai Customized Products, the sales price shall be determined by the parties after arm's length negotiations with reference to (i) historical sales price, (ii) the estimated overall net profit margin through sales to independent third party distributors in accordance with the pricing formula, (iii) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Shuhai Customized Products, and (iv) the market price of similar products sold by comparable companies to independent third party distributors.

Taking into account historical data and forecasted estimates, the independent non-executive Directors regularly review and re-assess the sales prices of Shuhai Customized Products semi-annually and make adjustments as appropriate to maintain a net profit margin for such sales same as those for the Group's sales to independent third party distributors. The Group will also adjust sales prices if there is any significant change in the cost of sales and expenses incurred in connection with the Shuhai Customized Products.

Based on our understanding from the Management, the price determination mechanism currently in force for the sale of the Haidilao Customized Products is also applicable to the sale of Shuhai Customized Products, because both of them are governed by the Group's internal control and sales policies for connected persons of the Company. According to our independent review and analysis as detailed in the above, the net profit margins (i.e. after deducting the PSD Expenses) among the Haidilao Customized Products, the Shuhai Customized Products and those Flavouring Products to be supplied by the Group to the Haidilao Group, the Shuhai Supply Chain Group and Independent Customers, respectively, were basically comparable with each other at an average net profit margins (i.e. after deducting the PSD Expenses) of around 14.7%, 17.0% and 16.0% for the three Years from 2015 to 2017, respectively. Accordingly, we consider that the basis for determining the sales price of Shuhai Customized Products is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

### *(b) Sale of Shuhai Retail Products*

In respect of the Shuhai Retail Products, the sales price shall be consistent with the pricing policy for similar products the Group offers to independent third party distributors and shall be determined by the parties after arm's length negotiations with reference to (i) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of the Shuhai Retail Products, and (ii) the prevailing market price of similar products. The independent non-executive Directors regularly review and re-assess the sales price of Shuhai Retail Products semi-annually and make adjustments if there is any significant change in the production cost.

### ***Payment terms***

Payment shall be made by Shuhai Supply Chain Group on a monthly basis following the delivery of products and the Group's issuance of delivery invoices.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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According to the Prospectus and Annual Reports, the Group has provided trade credit to certain major distributors, who are independent third parties, for periods of ranging from 30 days to 60 days from the invoice date, depending on their financial positions, purchasing volume, track record and other factors. We consider that the payment terms on a monthly (i.e. 30 days) basis for the supply of Shuhai Customized Products and Shuhai Retail Products to the Shuhai Supply Chain Group pursuant to the Shuhai Sales Agreement are usual, typical and on normal commercial terms, and therefore are fair and reasonable.

### 2. Reasons for entering into the Shuhai Sales Agreement

The Group supplies condiment products to a number of third-party catering service providers and the Group plans to further expand its customized services and sales to a greater number of catering service clients. Shuhai Supply Chain is primarily engaged in the provision of storage and logistics services to catering service providers. Its extensive client network gives the Group access to potential catering service clients, and increases consumer exposure to the Group's products and promote the brand image of the Group.

### 3. The historical amounts, existing annual caps and the proposed annual caps for the Shuhai Sales Agreement

#### *Historical transaction amounts*

The table below sets out the historical transaction amounts in relation to the sales of Shuhai Customized Products and Shuhai Retail Products pursuant to the Existing Shuhai Sales Agreement during the periods indicated below:

	<b>For the year ended/ending 31 December</b>					
	<b>Increase/ (decrease)</b>		<b>Increase/ (decrease)</b>		<b>Increase/ (decrease)</b>	
	<b>from</b>		<b>from</b>		<b>from</b>	
	<b>2016</b>	<b>2015</b>	<b>2017</b>	<b>2016</b>	<b>2018</b>	<b>2017</b>
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
<b>Existing annual caps</b>	7,210	77.3	9,630	33.6	12,680	31.7
Shuhai Customized Products	6,800	68.8	9,100	33.8	12,000	31.9
Shuhai Retail Products	410	978.9	530	29.3	680	28.3
<b>Actual/estimated transaction amounts</b>	4,654	14.4	8,775	88.5	4,002	N/A
Shuhai Customized Products	4,099	1.7	8,469	106.6	3,790	N/A
Shuhai Retail Products	555	1,360.5	306	(44.9)	212	N/A

*(Note 1) (Note 1)*

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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	<b>For the year ended/ending 31 December</b>					
	<b>Increase/ (decrease)</b>		<b>Increase/ (decrease)</b>		<b>Increase/ (decrease)</b>	
	<b>from</b>		<b>from</b>		<b>from</b>	
	<b>2016</b>	<b>2015</b>	<b>2017</b>	<b>2016</b>	<b>2018</b>	<b>2017</b>
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Utilisation rate of the existing annual caps</b>	64.5%		91.1%		31.6%	
Shuhai Customized Products	60.3%		93.1%		31.6%	
Shuhai Retail Products	135.4%		57.7%		31.2%	
Total revenue of the Group	1,088,014	28.4	1,646,221	51.3	N/A	<i>(Note 2)</i>
Proportion of revenue from the Shuhai Supply Chain Group to the total revenue of the Group	0.43%		0.53%		N/A	

*Notes:*

- The transaction amounts for the Year 2018 are the actual transaction amounts of approximately RMB3,790,000 and RMB212,000 incurred for sale of Shuhai Customized Products and Shuhai Retail Products, respectively, for the three months ended 31 March 2018, which have not been annualised on a full Year basis for comparison.
- The Directors consider that it may not be appropriate to make forecast for the total revenue of the Group for the full year ending 31 December 2018.

***The proposed annual caps***

	<b>For the year ending 31 December</b>					
	<b>2018</b>		<b>Increase</b>		<b>Increase</b>	
	<b>2018</b>	<b>2019</b>	<b>from 2018</b>		<b>2020 from 2019</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	%		<i>RMB'000</i>	%
<b>Proposed annual caps</b>	12,680	<b>19,660</b>	55.0		<b>29,500</b>	50.1
Shuhai Customized Products	12,000	<b>18,600</b>	55.0		<b>27,900</b>	50.0
Shuhai Retail Products	680	<b>1,060</b>	55.9		<b>1,600</b>	50.9

***Basis of determination of the proposed annual caps***

Based on the Group's latest unaudited management accounts for the three months ended 31 March 2018, the actual transaction amounts of the sale of Shuhai Customized Products and Shuhai Retail Products to the Shuhai Supply Chain Group under the Existing Shuhai Sales Agreement for the period from 1 January 2018 to 31 March 2018 amounted to approximately RMB3.8 million and RMB0.2 million, respectively, representing approximately 31.6% and 31.2% of the existing annual caps for the Year 2018, which had not exceeded the existing annual caps for the Year 2018.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We understand from the Management that in determining the above proposed annual caps in respect of the Shuhai Customized Products and Shuhai Retail Products under the Shuhai Sales Agreement, the Company has taken into account the following factors:

- (i) historical sales of Shuhai Customized Products by the Group to Shuhai Supply Chain Group, including sales volumes and sales prices;
- (ii) the estimated overall net profit margin through sales to independent third party distributors in accordance with the pricing formula;
- (iii) the prevailing production cost and expenses incurred by the Group in connection with the production of Shuhai Customized Products; and
- (iv) the estimated increase in demand for Shuhai Customized Products. Shuhai Supply Chain has been broadening its client base, which is expected to lead to an increase in demand for Shuhai Customized Products from the Group.

In arriving at the above proposed annual caps for the Shuhai Retail Products, the Group has taken into account the following factors:

- (i) historical sales volume of Shuhai Retail Products by the Group to Shuhai Supply Chain Group;
- (ii) the prevailing market price of similar products sold by the Group to independent third party distributors;
- (iii) the prevailing production cost and expenses incurred by the Group in connection with the production of Shuhai Retail Products; and
- (iv) the estimated demand for Shuhai Retail Products. Shuhai Supply Chain has been broadening its client base, which is expected to lead to an increase in demand for Shuhai Retail Products from the Group.

The Directors are of the view that the proposed annual caps under the Shuhai Sales Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and Shareholders as a whole.

### *Assessment of the proposed annual caps*

#### *(a) Sale of Shuhai Customized Products*

Shuhai Customized Products are those Flavouring Products manufactured using formulas owned by the Group itself (i.e. instead of the Haidilao Group Formulas) for supplying to Shuhai Supply Chain Group's customers who are third-party catering service providers.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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According to the above table, the Group's sale of Shuhai Customized Products have been in their limited scale with historical actual revenue amounts of approximately RMB4.0 million, RMB4.1 million and RMB8.5 million for each of the three Years from 2015 to 2017, respectively, representing a CAGR of approximately 45.8% over the past three Years. Based on our clarification with the Management, the supply of Shuhai Customized Products to a number of third-party catering service providers has not been the key income stream of the Group in any way, but such an additional sales and distribution channel will help the Group gaining access to potential catering service clients, and increase consumer exposure to the Group's Flavouring Products and promote the brand image of the Group. The Directors believe that the Group's historical overall sales trend of Flavouring Products to all customers would mirror on the sales growth in terms of percentage in respect of the sales to Shuhai Supply Chain Group in the coming Years, even though the actual and estimated sales transaction amounts involved have been and will be comparatively smaller.

Based on the Directors' sales estimates as analysed above and the Group's historical revenue growth at a CAGR of approximately 51.1% for the past five Years from 2013 to 2017, the forecasted annual growth rate for sale of Shuhai Customized Products to the Shuhai Supply Chain Group is now fixed at about 50.0% to 55.0% which is closely comparable among each other. On such basis, we consider that the proposed annual caps for sale of Shuhai Customized Products at RMB18.6 million and RMB27.9 million for the Years 2019 and 2020 shall be fair and reasonable.

### (b) *Sale of Shuhai Retail Products*

Shuhai Retail Products are those Flavouring Products manufactured using formulas owned by the Group itself for targeting at the retail market.

According to the above table, the Group's sale of Shuhai Retail Products has been in their very limited scale with historical actual revenue amounts of merely RMB38,000, RMB555,000, RMB306,000 for each of the three Years from 2015 to 2017, respectively, which had been fluctuating considerably over the past three Years. Based on our clarification with the Management, the supply of Shuhai Retail Products to the retail markets and the sale of which is random, and has not been the key income stream of the Group in any way. The Directors were not aware of any particular reason(s) for the decrease in the sale of Shuhai Retail Products in the Year 2017. As advised by the Directors, since the historical transaction base amounts involved for the sale of Shuhai Retail Products were very minimal, the past revenue trend with material fluctuation within the past three Years from 2015 to 2017 shall not be reliable for projecting the proposed annual caps for the coming two Years from 2019 and 2020.

The proposed annual caps for Shuhai Retail Products amount to approximately RMB1.06 million and RMB1.60 million for each of the two Years 2019 and 2020, respectively, representing an annual growth rate of approximately 50.9% over the periods. The Directors have simply applied the similar sales growth pattern as that of the Shuhai Customized Products for setting the relevant proposed annual caps for Shuhai Retail Products. Based on our analysis as discussed above in relation to the Shuhai Customized Products, we are of the view the basis for determining the proposed annual caps for sale of Shuhai Retail Products is also fair and reasonable with reference to the Group's historical actual transaction amounts of Shuhai Customized Products in the past few Years.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Having considered the above factors and analysis, we are of the view that the rationale behind and basis adopted by the Management in determining the proposed annual caps for Shuhai Customized Products and Shuhai Retail Products are justifiable, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

### **(iii) SALE AND PURCHASE OF PRODUCTS WITH THE JOINT VENTURE**

On 18 September 2017, Yihai Shanghai and the Joint Venture entered into the Existing Framework Sales and Purchase Agreements dated 18 September 2017 pursuant to which (i) Yihai Shanghai (for itself and on behalf of its subsidiaries, other than the Joint Venture) agreed to sell hotpot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hotpot Products; and (ii) the Joint Venture agreed to sell Small Hotpot Products to Yihai Shanghai and its subsidiaries. The Existing Framework Sales and Purchase Agreements are for a term from 18 September 2017 to 31 August 2020.

The Company intends to continue to enter into transactions of similar nature with the Joint Venture after 31 August 2020. Therefore, on 6 July 2018, Yihai Shanghai and the Joint Venture entered into the Framework Sales and Purchase Agreements, the nature of which is similar to that of the transactions under the Existing Framework Sales and Purchase Agreements, for a term of four months from 1 September 2020 to 31 December 2020. The key purpose of entering into the Framework Sales and Purchase Agreements is to extend the agreement period for additional four months up to 31 December 2020 so as to allow the Existing Framework Sales and Purchase Agreements to be co-terminus with the expiry date of the Haidilao Master Sales Agreement by 31 December 2020. This arrangement will facilitate the Company's compliance works for renewal of the Framework Sales and Purchase Agreements and the Haidilao Master Sales Agreement for the next three Years from 2021 to 2023.

The Framework Sales and Purchase Agreements shall take effect upon the approval of the Framework Sales and Purchase Agreements and the proposed annual caps thereunder having been obtained from the relevant authoritative bodies (including the Board and/or the Shareholders as necessary) in accordance with the applicable Listing Rules.

#### **1. Principal terms of the Framework Sales and Purchase Agreements**

##### ***Term***

The Framework Sales and Purchase Agreements are for an initial term of four months from 1 September 2020 to 31 December 2020. Subject to compliance with the Listing Rules and applicable laws and regulations, the Framework Sales and Purchase Agreements may be renewed for a further term of three years from time to time, unless Yihai Shanghai notifies the Joint Venture to the contrary with one month's written notice prior to the expiry of the agreement's term. Upon renewal of the Framework Sales and Purchase Agreements, the parties may amend the terms of the agreement based on the then prevailing circumstances.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Nature of transaction*

Pursuant to the Framework Sales and Purchase Agreements, (a) Yihai Shanghai (for itself and on behalf of its subsidiaries, other than the Joint Venture) agreed to sell hotpot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hotpot Products; and (b) the Joint Venture agreed to sell Small Hotpot Products to Yihai Shanghai and its subsidiaries (excluding the Joint Venture).

The quantity of (a) the hotpot soup flavouring products to be sold to the Joint Venture and (b) the Small Hotpot Products to be sold to Yihai Shanghai, respectively, are not fixed under the Framework Sales and Purchase Agreements but are to be determined and agreed between the relevant parties from time to time.

During the current term of the Framework Sales and Purchase Agreements, Yihai Shanghai and the Joint Venture may enter into separate agreements from time to time in respect of the sale and purchase of the hotpot soup flavouring products and the Small Hotpot Products upon and subject to the terms and conditions in compliance with the Framework Sales and Purchase Agreements.

### *Pricing basis*

The sales prices of hotpot soup flavouring products and the purchase price of the Small Hotpot Products shall be determined by the parties with reference to a number of factors, details of which are further disclosed below. Any adjustment to the aforementioned prices must be agreed by both parties after one party gives prior written notice one month in advance.

#### *(a) Sale of hotpot soup flavouring products*

The sales price of hotpot soup flavouring products shall be determined by the parties after arm's length negotiations with reference to (i) the prevailing production cost and expenses incurred by the Group in connection with the production of the products, and (ii) the market price of similar products sold by comparable companies.

#### *(b) Purchase of Small Hotpot Products*

The purchase price of Small Hotpot Products shall be determined by the parties after arm's length negotiations with reference to (i) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Small Hotpot Products, and (ii) the prevailing market price of similar products.

We have discussed with the Management and reviewed a few sample invoices in relation to the sale of Small Hotpot Products by the Joint Venture to each of the Group and independent third party customers of the Joint Venture, we note that the unit selling price thereof per pack are comparable among each others and no less favourable to the Group than the terms for similar transactions between the Group and such independent third party customers.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Payment terms*

Fees payable under the Framework Sales and Purchase Agreements will be billed in a timely and appropriate manner according to terms agreed by both parties and settled within the following month.

According to the Prospectus and annual reports of the Company (the “**Annual Report(s)**”) for the Years 2016 and 2017, the Group has provided trade credit to certain major distributors, who are independent third parties, for periods of ranging from 30 days to 60 days from the invoice date, depending on their financial positions, purchasing volume, track record and other factors. We consider that the payment terms on a monthly (i.e. 30 days) basis for the (i) sale of hotpot soup flavouring products; and (ii) purchase of Small Hotpot Products pursuant to the Framework Sales and Purchase Agreements are usual, typical and on normal commercial terms, and therefore are fair and reasonable.

### **2. Reasons for entering into the Framework Sales and Purchase Agreements**

Self-serving small hotpot products are new portable and instant products that can be purchased or sold in the retail market and can be sold through both online and offline sales channels, and has become a new line of business for the Group.

By selling hotpot soup flavouring products to the Joint Venture, the Company can further ensure that the Small Hotpot Products to be manufactured by the Joint Venture are of satisfactory quality.

The Group’s subsequent sale of the Small Hotpot Products that it purchased from the Joint Venture to customers is expected to create a new source of income stream and profit growth for the Group as Small Hotpot Products are new products of the Group.

### **3. The historical transaction amounts, existing annual caps and the proposed annual caps for the Framework Sales and Purchase Agreements**

#### *Historical transaction amounts*

Based on the Group’s unaudited management accounts for the three months ended 31 March 2018, the actual transaction amount for the sale of hotpot soup flavouring products to the Joint Venture pursuant to the Framework Sales and Purchase Agreements for the period from 1 January 2018 to 31 March 2018 amounted to approximately RMB728,000, representing approximately 7.7% of the existing annual caps for the Year 2018, which had not exceeded the existing annual cap for the Year 2018. There was no transaction amount incurred during the Year 2017.

For the Year 2017 and the three months ended 31 March 2018, the actual transaction amounts of the purchase of Small Hotpot Products from the Joint Venture pursuant to the Framework Sales and Purchase Agreements were approximately RMB2.6 million and RMB2.8 million, representing approximately 5.3% and 2.2% of the existing annual caps for the Years 2017 and 2018, respectively, which had not exceeded the existing annual caps for the Years 2017 and 2018.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Existing and proposed annual caps and the basis of determination*

The table below sets forth the existing annual caps for the sales of hotpot soup flavouring products to the Joint Venture and the purchase of Small Hotpot Products for the two Years 2018 and 2019 and the eight months ending 31 August 2020, and the proposed annual cap for the four months ending 31 December 2020:

	For the year ending 31 December 2018	For the year ending 31 December 2019	Increase from 2018	For the eight months ending 31 August 2020	For the four months ending 31 December 2020	For the year ending 31 December 2020	Increase/ (decrease) from 2019
Sale of hotpot soup flavouring products (RMB)	9,500,000	14,500,000	52.6%	12,800,000	<b>12,800,000</b>	25,600,000	76.6%
Expected quantity to be sold (pouches)	9,258,000	14,046,000	51.7%	12,427,000	<b>12,427,000</b>	24,854,000	76.9%
Unit selling price (approximate RMB)	1.0	1.0	0.0%	1.0	<b>1.0</b>	1.0	0.0%
Buffer for unanticipated demand	3%	3%		3%	<b>3%</b>	3%	
Purchase of Small Hotpot Products (RMB)	131,800,000	191,000,000	44.9%	165,533,000	<b>165,533,000</b>	331,066,000	73.3%
Expected quantity to be purchased (packs)	5,328,000	7,726,000	45.0%	6,696,000	<b>6,987,500</b>	13,683,500	77.1%
Unit purchase price (RMB)	24.0	24.0	0.0%	24.0	<b>23.0</b>	23.5	(2.1)%
					<i>(Note1)</i>	<i>(Note1)</i>	
Buffer for unanticipated demand	3%	3%		3%	<b>3%</b>	3%	
Aggregated amount (RMB)	141,300,000	205,500,000	45.4%	178,333,000	<b>178,333,000</b>	356,666,000	73.6%

*Note 1:*

Subsequent to the approval of the existing annual caps under the Existing Framework Sales and Purchase Agreements, the Joint Venture has developed some new flavours of vegetarian Small Hotpot Products with lower production cost, so leading to the average unit purchase price thereof would be lower than that of before.

We understand from the Management that in determining the proposed annual caps for the Framework Sales and Purchase Agreements, the Board has taken into account the following factors:

(a) *Sale of hotpot soup flavouring products*

The annual cap in relation to the sale of hotpot soup flavouring products is determined based on the expected demand of the Small Hotpot Products. As the hotpot soup flavouring products will be used as raw materials in producing the Small Hotpot Products, the demand for the former is directly proportionate to the market demand for the latter, as described below.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(b) *Purchase of Small Hotpot Products*

In arriving at the above proposed annual caps for the purchase of Small Hotpot Products, the Group has taken into account the following factors:

- (i) the expected market demand, in particular, the Company has taken into account the seasonal pattern of hotpot consumption in autumn and winter seasons;
- (ii) the prevailing market price of similar products;
- (iii) current production costs and expenses incurred in connection with the production of Small Hotpot Products by the Joint Venture; and
- (iv) the strong growth and extensive market potential of the PRC catering industry and the self-serving small hotpot products market.

The proposed annual caps are derived by applying a reasonable buffer of less than 10% to cater for possible increase in market demand, production cost and possible inflation.

*Assessment of the proposed annual caps*

Based on our discussion with the Management, we understand that the Joint Venture is just start-up and now at its preliminary stage of operation to test the market demand for the self-serving Small Hotpot Products in the PRC, so the proposed annual cap amounts involved for the coming three years ending 31 December 2020 would still be relatively limited when compared to that of the Group's historical revenue from sale of Flavouring Products. As the Joint Venture was newly established in September 2017 and the self-serving small hotpot product is a new product, there was no adequate historical financial data/information forming a persistent trend available for projection of future operating performance. The proposed annual caps for the coming three years ending 31 December 2020 are based on the Directors' past experience of customers' tastes and preferences for hotpot soup and foodstuff in the hotpot catering market in the PRC, with particular reference to the Group's historical operating performance in the same market over the past few years.

However, we have reviewed the working schedule including calculation formulas, bases and assumptions for setting the proposed annual caps for the Framework Sales and Purchase Agreements for the four months from 1 September 2020 to 31 December 2020, which are consistent with that for the period for the two Years 2018 and 2019 and the eight months ending 31 August 2020; and noted that the projection basis is basically consistent with the Group's historical revenue growth rate for the past few years, and therefore is logical, prudent, fair and reasonable.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(a) *Sale of hotpot soup flavouring products*

In assessing the fairness and reasonableness of the proposed annual caps for the Group's sale of hotpot soup flavouring products to the Joint Venture pursuant to the Framework Sales and Purchase Agreements, we have reviewed the working schedule including calculation formulas, bases and assumptions for setting the proposed annual caps for sales of hotpot soup flavouring products to the Joint Venture provided by the Company for three Years from 2017 to 2020.

As the Joint Venture was newly established in September 2017, there was no adequate historical financial data or information forming a persistent trend available for projection of future operating performance. The proposed annual cap of RMB12.8 million for the remaining four months from September to December 2020 is based on the Directors' past experience in the hotpot catering market in the PRC and their best estimates of approximately 12,427,000 pouches of hotpot soup flavouring products to be sold at around RMB1.0 per pouch during the four months from September to December 2020, and a buffer of 3% for any unanticipated increase in demand for the hotpot soup flavouring products by the Joint Venture. Based on such estimates for the additional four months from September to December 2020, the proposed annual cap amount for the full Year of 2020 would then amount to RMB25.6 million, representing RMB12.8 million for the first eight months, plus RMB12.8 million for the remaining four months, of the Year 2020. The proposed annual cap for the latter four months from September to December 2020 will account for the same proportion as that for the first eight months from January to August 2020, and hence a larger proportion of 50.0% thereof (i.e. more than the simple pro-rata proportion of  $100\% \times 4/12 = 33.3\%$ ) than that for the former eight months from January to August 2020 of 50.0% thereof (i.e. less than the simple pro-rata proportion of  $100\% \times 8/12 = 66.7\%$ ) for the full Year of 2020, mainly because there has been Seasonal Patterns for customers having their hotpot meals within a Year as discussed in the above. Accordingly, it is logical and reasonable to apply the similar Seasonal Patterns for setting the proposed annual cap of sale of hotpot soup flavouring products for the four months from September to December 2020.

It may be difficult to explain clearly for a proposed annual cap for sale of hotpot soup flavouring products for only four months from September to December 2020, so it would be expedient to make analysis for the coming three Years as a whole for Independent Shareholders' easy reference. The Directors have anticipated that as the Small Hotpot Products will gradually be accepted by the market in the subsequent three Years, there would be approximately 9.3 million, 14.0 million and 24.9 million pouches of hotpot soup flavouring products to be sold to the Joint Venture for manufacture of self-serving Small Hotpot Products for each of the three Years 2018 to 2020, representing an annual growth rate of approximately 51.7% and 76.9% for each the two Years 2019 and 2020, respectively. Based on our understanding from the Management, as the Joint Venture is just start-up and now at its preliminary stage of operation to test the market demand for the self-serving Small Hotpot Products in the PRC, so the expected transaction base amounts for each of the two Years 2018 and 2019 were comparatively smaller, whilst a much larger transaction amount is expected for the subsequent Years when such Small Hotpot Products would gradually be accepted by the market, so there would be a stronger growth in the Year 2020 than that of Year 2019. Having considered the Group's historical outstanding revenue trend with a CAGR of about 51.1% over the past five Years from 2013 to 2017, we concur with the Directors' sales forecasts for the coming three Years up to 31 December 2020, and therefore are of view that the proposed annual caps for the sale of hotpot soup flavouring products pursuant to the Framework Sales and Purchase Agreements shall be justifiable, fair and reasonable.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(b) *Purchase of Small Hotpot Products*

In assessing the fairness and reasonableness of the proposed annual caps for the Group's purchase of Small Hotpot Products from the Joint Venture pursuant to the Framework Sales and Purchase Agreements, we have reviewed the schedule including calculation formulas, bases and assumptions for setting purchase amount of Small Hotpot Products from the Joint Venture provided by the Company for three Years from 2017 to 2020.

As mentioned above, the Joint Venture has just been set-up to test the market demand for the self-serving Small Hotpot Products in the PRC, so there was no adequate historical financial data or information forming a persistent trend available for projection of future operating performance. The proposed annual cap amount of approximately RMB165.5 million for the remaining four months from September to December 2020 is based on the Directors' past experience in the hotpot catering market in the PRC and their best estimates of approximately 6,987,500 packs of Small Hotpot Products to be purchased at average of RMB23.0 per pack during the four-month period from September to December 2020, and a buffer of about 3% for any unanticipated increase in demand for the Small Hotpot Products by the Group. Based on such estimates for the additional four months from September to December 2020, the proposed annual cap amount for the full Year of 2020 would then amount to approximately RMB331.1 million, representing approximately RMB165.5 million for the first eight months, plus RMB165.5 million for the remaining four months, of the Year 2020. The proposed annual cap for the latter four months from September to December 2020 will account for the same proportion as that for the first eight months from January to August 2020, and hence a larger proportion of 50.0% thereof (i.e. more than the simple pro-rata proportion of  $100\% \times 4/12 = 33.3\%$ ) than that for the former eight months from January to August 2020 of 50.0% thereof (i.e. less than the simple pro-rata proportion of  $100\% \times 8/12 = 66.7\%$ ) for the full Year of 2020, mainly because of the said Seasonal Patterns for customers having their hotpot meals within a Year. Accordingly, it is logical and reasonable to apply the similar Seasonal Patterns for setting the proposed annual cap of the purchase of Small Hotpot Products for the four months from September to December 2020.

Similar to the sale of hotpot soup flavouring products above, it shall be more understandable to make analysis for the purchase of Small Hotpot Products for the coming three Years as a whole, rather than the only four months from September to December 2020, for Independent Shareholders' easy reference. The Directors have anticipated that as the Small Hotpot Products will gradually be accepted by the market in the subsequent three Years from 2018 to 2020, there would be approximately 5.3 million, 7.7 million and 13.4 million packs of Small Hotpot Products to be purchased by the Group for sale to the Haidilao Group, other Independent Distributors and/or Independent Customers for each of the three Years from 2018 to 2020, representing an annual growth rate of approximately 45.0% and 73.3% for each of the two Years 2019 and 2020, respectively. As mentioned in the above, the Joint Venture is just start-up and now at its preliminary stage of operation to test the market demand for the self-serving Small Hotpot Products in the PRC, so the expected transaction base amounts for each of the two Years 2018 and 2019 were comparatively smaller whilst a much larger transaction amount is expected for the subsequent Years when such Small Hotpot Products would gradually be accepted by the market, so there would be a stronger growth in the Year 2020 than that of Year 2019; while the Group's historical revenue had a tremendous increasing trend over the past five Years from 2013 to 2017 with a CAGR of approximately 51.1% over the period. Based on our understanding, the ultimate customers in the hotpot catering market shall be substantially the same among those having their hotpot meals at Haidilao hotpot restaurants or enjoying the self-serving Small Hotpot Products at home; while people having hotpot meals in the PRC has been growing popular over the years and in

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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the near future. On such basis, we consider that the Group's past revenue may provide a good starting point of reference and/or comparable basis for its forecast for sale of Small Hotpot Products in the coming years. Having considered the Group's historical outstanding revenue trend, we concur with the Directors' sales forecasts for the coming three years up to 31 December 2020, and therefore are of the view that the proposed annual caps for the Small Hotpot Products pursuant to the Framework Sales and Purchase Agreements shall be justifiable, fair and reasonable.

Having considered the above analysis and reasons behind, we are of the view that the sale of hotpot soup flavouring products to, and purchase of Small Hotpot Products from, the Joint Venture pursuant to the Framework Sales and Purchase Agreements (including their proposed annual caps) are on normal commercial terms, will be conducted in the ordinary and usual course of business of the Group, and are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

#### **4. Internal control measures to govern the Haidilao (Shuhai) and JV Continuing Connected Transactions**

Pursuant to the Rules 14A.55 to 14A.59 of the Listing Rules, the Company has to establish appropriate and adequate internal control measures to govern the implementation of the Haidilao (Shuhai) and JV Continuing Connected Transactions, which are then subject to annual review requirements.

Based on our review of the Company's internal control guidelines and the Annual Reports, the Company has designated a team of senior management from the Group's business operation, legal, risk control and finance departments and the Board office to monitor the Haidilao (Shuhai) and JV Continuing Connected Transactions and ensure that they are conducted on arm's length basis and that the annual caps are not exceeded. Such a team of senior management of the Group continuously traces and regularly monitors the progress of the Haidilao (Shuhai) and JV Continuing Connected Transactions and reports to the Management. They will review the Haidilao (Shuhai) and JV Continuing Connected Transactions with the finance department to ensure that the annual caps are not exceeded. They will also communicate with the Audit Committee of the Company (i.e. currently comprising two independent non-executive Directors and a non-executive Director), the Management and the Board, monthly or as needed, to report the progress of the Haidilao (Shuhai) and JV Continuing Connected Transactions, and request for approval of any new changes of existing transaction terms. The heads of different functional departments of the Group will be informed on a periodic basis in relation to the terms and pricing policies of the Haidilao (Shuhai) and JV Continuing Connected Transactions as well. The Audit Committee of the Company has also assigned the independent internal audit team the task to ensure that the Company's internal control measures in respect of the Haidilao (Shuhai) and JV Continuing Connected Transactions remain effective and complete. With these internal control measures, the independent non-executive Directors could therefore assess and give the confirmations in respect of the above implementation status on a yearly basis.

In view of the above, the Board considers that sufficient and effective internal control measures are in place to ensure that the Haidilao (Shuhai) and JV Continuing Connected Transactions contemplated under the Haidilao Master Sales Agreement and the Framework Sales and Purchase

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Agreements will be conducted on normal commercial terms or better, and at prices not more favourable to the relevant members of the Haidilao Group than transactions entered into with independent third parties, and hence will not be prejudicial to the interests of the Group and the Shareholders as a whole.

As disclosed in the Annual Report, the independent non-executive Directors have confirmed that the above Haidilao (Shuhai) and JV Continuing Connected Transactions for the Year 2017 were entered into by the Group: (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreement (including the pricing principle and guidelines set out therein) governing them and on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In addition, the auditors of the Group had reviewed the Haidilao (Shuhai) and JV Continuing Connected Transactions for the Year 2017 and confirmed to the Board that the Haidilao (Shuhai) and JV Continuing Connected Transactions: (i) have received the approval of the Board; (ii) were in accordance with the pricing policies of the Group; (iii) were entered into in accordance with the relevant agreement governing the transaction; and (iv) have not exceeded the relevant annual caps.

### RECOMMENDATION

Having taken into account the principal factors and reasons as referred to the above, we are of the view that the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps) contemplated under each of the Haidilao Master Sales Agreement, Shuhai Sales Agreement and the Framework Sales and Purchase Agreements are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting to approve the Haidilao (Shuhai) and JV Continuing Connected Transactions (including their respective proposed annual caps) and the transactions contemplated thereunder pursuant to each of the Haidilao Master Sales Agreement, Shuhai Sales Agreement and the Framework Sales and Purchase Agreements.

Yours faithfully,  
For and on behalf of  
**First Shanghai Capital Limited**  
**Nicholas Cheng**  
*Director*

*Note:*

Mr. Nicholas Cheng has been the Responsible Officer of Type 6 (advising on corporate finance) regulated activity under the SFO and has over 16 years of experience in corporate finance industry. He has participated in the provision of independent financial advisory services for and completed numerous connected transactions involving companies listed in Hong Kong.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

As of the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company and their respective associates in the Shares, underlying Shares or debentures of the Company or any of the associated corporations of the Company (within the meaning of Part XV of the SFO), which were required (a) 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 were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director	Capacity/nature of interest	Number of Ordinary Shares	Approximate percentage of shareholding in the total issued share capital (%)
Mr. Zhang Yong <sup>(1)</sup>	Founder of a discretionary trust and interest of controlled corporation	372,547,021 (L)	35.59% (L)
Ms. Shu Ping <sup>(1)</sup>	Founder of a discretionary trust and interest of controlled corporation	372,547,021 (L)	35.59% (L)
Mr. Shi Yonghong <sup>(2)</sup>	Founder of a discretionary trust, interest of controlled corporation and interest of spouse	177,243,492 (L)	16.93% (L)
Ms. Dang Chunxiang <sup>(3)</sup>	Beneficiary of a trust	1,010,000 (L)	0.10% (L)
Mr. Sun Shengfeng <sup>(4)</sup>	Beneficiary of a trust	500,000 (L)	0.05% (L)

(L) denotes a long position

*Note:*

- (1) Mr. Zhang Yong and Ms. Shu Ping, as the settlors and protectors, established for their own benefit the ZYSP Trust, which holds the entire share capital of ZYSP YIHAI Ltd, which in turn holds 372,547,021 Shares. For the purpose of the SFO, Mr. Zhang Yong and Ms. Shu Ping are deemed to be interested in the Shares in which ZYSP YIHAI Ltd is interested.

Mr. Zhang Yong is the spouse of Ms. Shu Ping and is deemed to be interested in the same number of Shares in which Ms. Shu Ping is interested for the purpose of the SFO. Ms. Shu Ping is the spouse of Mr. Zhang Yong and is deemed to be interested in the same number of Shares in which Mr. Zhang Yong is interested for the purpose of the SFO.

- (2) Mr. Shi Yonghong and Ms. Li Haiyan, as the settlors and protectors, established for their own benefit the SL Trust, which indirectly holds the entire share capital of SYH YIHAI Ltd and LHY YIHAI Ltd, which in turn holds a total of 177,243,492 Shares. For the purpose of the SFO, Mr. Shi Yonghong and Ms. Li Haiyan are deemed to be interested in the Shares in which SYH YIHAI Ltd and LHY YIHAI Ltd are interested.

Mr. Shi Yonghong is the spouse of Ms. Li Haiyan and is deemed to be interested in the same number of Shares in which Ms. Li Haiyan is interested for the purpose of the SFO. Ms. Li Haiyan is the spouse of Mr. Shi Yonghong and is deemed to be interested in the same number of Shares in which Mr. Shi Yonghong is interested for the purpose of the SFO.

- (3) 1,010,000 RSUs were granted to Ms. Dang Chunxiang pursuant to the RSU Scheme on 28 December 2016.

- (4) 500,000 RSUs were granted to Mr. Sun Shengfeng pursuant to the RSU Scheme on 28 December 2016.

Save as disclosed above, as of the Latest Practicable Date, none of the Directors or chief executives of the Company and their respective associates has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will be 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 were taken or deemed to have taken under such provisions of the SFO); or which will be required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the followings are the persons, other than the Directors or chief executives of the Company, who had interests or short positions in the Shares and underlying Shares which would be required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name of substantial Shareholder	Capacity/nature of interest	Number of Ordinary Shares	Approximate percentage of shareholding in the total issued share capital
UBS Trustees (B.V.I.) Limited <sup>(1)</sup>	Trustee (other than a bare trustee)	372,547,021 (L)	35.59% (L)
ZYSP YIHAI Ltd <sup>(1)</sup>	Beneficial owner	372,547,021 (L)	35.59% (L)
Cititrust Private Trust (Cayman) Limited <sup>(2)</sup>	Trustee (other than a bare trustee)	177,243,492 (L)	16.93% (L)
Li Haiyan <sup>(2)</sup>	Founder of a discretionary trust, interest of controlled corporation and interest of spouse	177,243,492 (L)	16.93% (L)
Twice Happiness Limited <sup>(2)</sup>	Interest of controlled corporation	177,243,492 (L)	16.93% (L)
LHY YIHAI Ltd <sup>(2)</sup>	Beneficial owner	88,621,746 (L)	8.47% (L)
SYH YIHAI Ltd <sup>(2)</sup>	Beneficial owner	88,621,746 (L)	8.47% (L)
JLJH YIHAI Ltd <sup>(3)</sup>	Beneficial owner and nominee for another person	77,220,000 (L)	7.38% (L)
Vistra Fiduciary (HK) Limited <sup>(3)</sup>	Trustee (other than a bare trustee)	77,220,000 (L)	7.38% (L)

(L) denotes a long position; (S) denotes a short position

Note:

- (1) ZYSP Trust is a discretionary trust set up by Mr. Zhang Yong and Ms. Shu Ping as the settlors and protectors on 1 June 2016 for their own benefit. The entire share capital of ZYSP YIHAI Ltd is wholly owned by UBS Trustees (B.V.I.) Limited as the trustee of the ZYSP Trust. Mr. Zhang Yong and Ms. Shu Ping (as founders of the ZYSP Trust) and UBS Trustees (B.V.I.) Limited are deemed to be interested in the Shares held by ZYSP YIHAI Ltd for the purpose of the SFO.
- (2) SL Trust is a discretionary trust set up by Mr. Shi Yonghong and Ms. Li Haiyan as the settlors and protectors on 2 June 2016 for their own benefit. The entire share capital of SYH YIHAI Ltd and LHY YIHAI Ltd is wholly owned by Twice Happiness Limited and ultimately owned by Cititrust Private Trust (Cayman) Limited as the trustee of the SL Trust. Mr. Shi Yonghong and Ms. Li Haiyan (as founders of the SL Trust), Twice Happiness Limited and Cititrust Private Trust (Cayman) Limited are deemed to be interested in the Shares held by SYH YIHAI Ltd and LHY YIHAI Ltd for the purpose

of the SFO. Mr. Shi Yonghong is the spouse of Ms. Li Haiyan and is deemed to be interested in the same number of Shares in which Ms. Li Haiyan is interested for the purpose of the SFO. Ms. Li Haiyan is the spouse of Mr. Shi Yonghong and is deemed to be interested in the same number of Shares in which Mr. Shi Yonghong is interested for the purpose of the SFO.

- (3) Vistra Fiduciary (HK) Limited is the trustee and JLJH YIHAI Ltd is the nominee to administer the RSU Scheme. JLJH YIHAI Ltd holds the Shares underlying the RSU granted by us for the benefit of eligible participants pursuant to the RSU Scheme.

Save as disclosed above, as at the Latest Practicable Date, the Company is not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would be required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

#### 4. QUALIFICATIONS AND CONSENT

The following is the qualifications of the expert who has given its opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualifications</b>
First Shanghai	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO

- (a) As at the Latest Practicable Date, First Shanghai had not had any beneficial interest in the share capital of any member of the Group, did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and did not have any interest, either directly or indirectly, in any assets which had been, since 31 December 2017, being the date of the latest published audited accounts of the Company, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (b) First Shanghai has given and has not withdrawn its written consent to the issue of this circular with inclusion of its opinion and letter, as the case may be, and the references to its name included herein in the form and context in which they respectively appear.

#### 5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Company since 31 December 2017, being the date to which the latest published audited financial statement of the Company have been made up.



**6. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

**7. SERVICE CONTRACT OF THE DIRECTORS**

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any member of the Group referred to in Rule 13.68 of the Listing Rules (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

**8. INTERESTS OF DIRECTORS**

- (a) The Directors are not aware of any Director or his respective associates having, as at the Latest Practicable Date, any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would be required to be disclosed under the Listing Rules.
- (b) Save as disclosed in the section headed “Connected Transactions” of the Prospectus, the announcement of the Company dated 6 July 2018 and this circular, no Director was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant to the business of the Group taken as a whole.
- (c) Since 31 December 2017, being the date of the latest published audited consolidated accounts of the Company, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or which are proposed to be acquired, disposed of by or leased to, any member of the Group.

**9. GENERAL**

- (a) The registered office of the Company is P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands.
- (b) The corporate headquarters of the Company is 1st and 2nd Floors, Building 6, Songlei Office Building, Heng Song Yuan, Middle Road of South 3rd Ring Road, Fengtai District, Beijing, PRC.
- (c) The principal place of business of the Company is 18/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.
- (d) The Company’s share registrar is Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

- (e) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text in the case of any inconsistency.

#### **10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on Monday to Friday (other than public holidays) at the offices of Davis Polk & Wardwell at 18th Floor, The Hong Kong Club Building, 3A Chater Road, Hong Kong, from the date of this circular up to and including 3 August 2018:

- (a) the Haidilao Master Sales Agreement entered into between Yihai Shanghai and Singapore Haidilao;
- (b) the Shuhai Sales Agreement entered into between Yihai Shanghai and Shuhai Supply Chain;
- (c) the Hotpot Soup Flavouring Products Sales Agreement entered into between Yihai Shanghai and the Joint Venture;
- (d) the Small Hotpot Products Sales Agreement entered into between Yihai Shanghai and the Joint Venture;
- (e) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 37 of this circular;
- (f) the letter of advice issued by First Shanghai, being the Independent Financial Adviser, the text of which is set out on pages 38 to 73 of this circular; and
- (g) the written consent referred to in paragraph 4 of this Appendix I.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### YIHAI INTERNATIONAL HOLDING LTD.

### 頤海國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1579)

#### NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (“**Extraordinary General Meeting**”) of Yihai International Holding Ltd. (“**the Company**”) will be held at Conference Room 206, 2nd Floor, Building 6, Songlei Office Building, Heng Song Yuan, Middle Road of South 3rd Ring Road, Fengtai District, Beijing, PRC on Wednesday, 8 August 2018 at 10:00 a.m. for the following purposes:

#### AS ORDINARY RESOLUTIONS

##### 1. “THAT

- (i) the master sales agreement (the “**Haidilao Master Sales Agreement**”) dated 6 July 2018 entered into between Yihai (Shanghai) Food Co., Ltd. (“**Yihai Shanghai**”) and HAI DI LAO HOLDINGS PTE. LTD. (“**Singapore Haidilao**”) and together with its subsidiaries, the “**Haidilao Group**”) in relation to (a) the sale of hotpot soup flavouring and Chinese-style compound condiment products manufactured using formulas owned by the Haidilao Group for use in its hot pot restaurants (the “**Haidilao Customized Products**”); (b) the sale of retail hotpot soup flavouring, hotpot dipping sauce and Chinese-style compound condiment products manufactured using formulas owned by Yihai Shanghai for display and sale to consumers in hot pot restaurants of the Haidilao Group (the “**Haidilao Retail Products**”); (c) the sale of the self-serving small hotpot products (the “**Small Hotpot Products**”) to the Haidilao Group, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (ii) the proposed annual caps in relation to the transactions contemplated under the Haidilao Master Sales Agreement as specified below be and are hereby approved, ratified and confirmed;

	For the year ending 31 December	
	2019	2020
	(RMB'000)	(RMB'000)
Haidilao Customized Products	2,269,600	3,462,700
Haidilao Retail Products	45,000	65,000
Small Hotpot Products	23,300	39,600
<b>Aggregated amount</b>	<b><u>2,337,900</u></b>	<b><u>3,567,300</u></b>

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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(iii) any director of the Company be and is hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he may in his discretion consider necessary or desirable or expedient for the purpose of or in connection with the Haidilao Master Sales Agreement and to make and agree such variations of a non-material nature in or to the terms of the Haidilao Master Sales Agreement as he may in his discretion consider to be desirable and in the interests of the Company.”

### 2. “THAT

(i) the sales agreement (the “**Shuhai Sales Agreement**”) dated 6 July 2018 entered into between Yihai Shanghai and Shuhai (Beijing) Supply Chain Management Co., Ltd. (“**Shuhai Supply Chain**” and together with its subsidiaries, the “**Shuhai Supply Chain Group**”) in relation to the supply of products customized for Shuhai Supply Chain Group’s customers who are catering service providers (“**Shuhai Customized Products**”) and products targeting at the retail market (“**Shuhai Retail Products**”), and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(ii) the proposed annual caps in relation to the transactions contemplated under the Shuhai Sales Agreement as specified below be and are hereby approved, ratified and confirmed;

	<b>For the year ending 31 December</b>	
	<b>2019</b>	<b>2020</b>
	<i>(RMB’000)</i>	<i>(RMB’000)</i>
Shuhai Customized Products	18,600	27,900
Shuhai Retail Products	<u>1,060</u>	<u>1,600</u>
<b>Aggregated amount</b>	<b><u>19,660</u></b>	<b><u>29,500</u></b>

(iii) any director of the Company be and is hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he may in his discretion consider necessary or desirable or expedient for the purpose of or in connection with the Shuhai Sales Agreement and to make and agree such variations of a non-material nature in or to the terms of the Shuhai Sales Agreement as he may in his discretion consider to be desirable and in the interests of the Company.”

### 3. “THAT

(i) the hotpot soup flavouring products sales agreement (the “**Hotpot Soup Flavouring Products Sales Agreement**”) dated 6 July 2018 entered into between Yihai Shanghai and Fuhai (Shanghai) Food Technology Co., Ltd. (the “**Joint Venture**”) in relation to the sale of hotpot soup flavouring products by Yihai Shanghai and its subsidiaries to the Joint Venture, and the self-serving small hotpot products sales agreement (the “**Small Hotpot**

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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**Products Sales Agreement**”) dated 6 July 2018 entered into between the Joint Venture and Yihai Shanghai in relation to the sales of Small Hotpot Products by the Joint Venture to Yihai Shanghai and its subsidiaries (the Hotpot Soup Flavouring Products Sales Agreement and the Small Hotpot Products Sales Agreement are collectively referred to as the “**Framework Sales and Purchase Agreements**”), and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

- (ii) the proposed annual caps in relation to the transactions contemplated under the Framework Sales and Purchase Agreements as specified below be and are hereby approved, ratified and confirmed;

	<b>For the year ending 31 December 2020 (RMB'000)</b>
Sale of hotpot soup flavouring products	25,600
Purchase of Small Hotpot Products	<u>331,066</u>
<b>Aggregated amount</b>	<b><u><u>356,666</u></u></b>

- (iii) any director of the Company be and is hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he may in his discretion consider necessary or desirable or expedient for the purpose of or in connection with the Framework Sales and Purchase Agreements and to make and agree such variations of a non-material nature in or to the terms of the Framework Sales and Purchase Agreements as he may in his discretion consider to be desirable and in the interests of the Company.”

By order of the Board of Directors  
**Yihai International Holding Ltd.**  
**Shi Yonghong**  
*Chairman*

Beijing, China  
19 July 2018

*Notes:*

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies (if such member is the holder of two or more shares) to attend and to vote instead of them. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member of the Company from attending the Extraordinary General Meeting and vote in person. In such event, his form of proxy will be deemed to have been revoked.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (2) Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- (3) A form of proxy for use at the meeting is enclosed.
- (4) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.
- (5) The voting at the Extraordinary General Meeting will be taken by poll.
- (6) The register of members of the Company will be closed from Friday, 3 August 2018 to Wednesday, 8 August 2018, both days inclusive, in order to determine the eligibility of the shareholders to attend and vote at the Extraordinary General Meeting. The shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 2 August 2018 will be entitled to attend and vote at the Extraordinary General Meeting. In order to be eligible to attend and vote at the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Thursday, 2 August 2018.