



颐海國際控股有限公司

YIHAI INTERNATIONAL HOLDING LTD.

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1579

GLOBAL OFFERING



Sole Sponsor



Joint Global Coordinators



Joint Bookrunners and Joint Lead Managers



IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.



YIHAI INTERNATIONAL HOLDING LTD. 頤海國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	260,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	26,000,000 Shares (subject to reallocation)
Number of International Offer Shares	:	234,000,000 Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price	:	HK\$3.42 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	US\$0.00001 per Share
Stock code	:	1579

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection," has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

Our Company is incorporated in the Cayman Islands and all of our businesses are located in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the Cayman Islands, the PRC and Hong Kong and that there are different risk factors relating to the investment in our Company. Potential investors should also be aware that the regulatory frameworks in the Cayman Islands and the PRC are different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our Shares. Such differences and risk factors are set out in the sections headed "Risk Factors" and "Regulations."

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered and sold within the United States or to, or for the account or benefit of any U.S. person, except that Offer Shares may be offered or sold to qualified institutional buyers in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or outside the United States in accordance with Regulation S.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for itself and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 6 July 2016 and, in any event, not later than Tuesday, 12 July 2016, or such other date as agreed between parties. The Offer Price will be no more than HK\$3.42 per Offer Share and is currently expected to be no less than HK\$2.98 per Offer Share unless otherwise announced. If, for any reason, the Offer Price is not agreed by Tuesday, 12 July 2016, or such other date as agreed between parties between the Joint Global Coordinators (for itself and on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors."

The Joint Global Coordinators may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below as stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at www.yihchina.com not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Details of the arrangement will then be announced by us as soon as practicable. For further information, please refer to the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares."

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (for itself and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Please refer to the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination."

30 June 2016

EXPECTED TIMETABLE

If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published in English in South China Morning Post and in Chinese in Hong Kong Economic Times.

Latest time to complete electronic applications under White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾	11:30 a.m. on Wednesday, 6 July 2016
Application lists of the Hong Kong Public Offering open ⁽³⁾	11:45 a.m. on Wednesday, 6 July 2016
Latest time to lodge WHITE and YELLOW Application Forms	12:00 noon on Wednesday, 6 July 2016
Latest time to give electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Wednesday, 6 July 2016
Latest time to complete payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Wednesday, 6 July 2016
Application lists of the Hong Kong Public Offering close	12:00 noon on Wednesday, 6 July 2016
Expected Price Determination Date ⁽⁵⁾	Wednesday, 6 July 2016

(1) Announcement of:

- the Offer Price;
- an indication of the level of interest in the International Offering;
- the level of applications in the Hong Kong Public Offering; and
- the basis of allocation of the Hong Kong Offer Shares

to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at www.yihchina.com on or before⁽⁶⁾

Tuesday,
12 July 2016

EXPECTED TIMETABLE

(2) Announcement of results of allocations in the Hong Kong Public Offering (including successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company's website at www.yihchina.com (see paragraph entitled "Publication of Results" in the section headed "How to Apply for Hong Kong Offer Shares") from Tuesday, 12 July 2016

(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk⁽⁷⁾ and the Company's website at www.yihchina.com⁽⁸⁾ from Tuesday, 12 July 2016

Results of allocations for the Hong Kong Public Offering will be available at www.iporesults.com.hk with a "search by ID" function Tuesday, 12 July 2016

Dispatch of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before⁽⁶⁾ Tuesday, 12 July 2016

Dispatch of White Form e-Refund payment instructions/refund cheques on or before⁽⁹⁾ Tuesday, 12 July 2016

Dealings in Shares on the Hong Kong Stock Exchange to commence on Wednesday, 13 July 2016

Notes:

- (1) All times and dates refer to Hong Kong local time and date, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning at any time between 9:00 a.m. and 12:00 noon on Wednesday, 6 July 2016, the application lists will not open on that day. Please refer to the section headed "How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists."

EXPECTED TIMETABLE

- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS.”
- (5) The Price Determination Date is expected to be on or around Wednesday, 6 July 2016 (Hong Kong time) and, in any event, not later than Tuesday, 12 July 2016 (Hong Kong time) , or such other date as agreed between parties. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for itself and on behalf of the Underwriters) and us by Tuesday, 12 July 2016, or such other date as agreed between parties, the Global Offering will not proceed and will lapse.
- (6) **Share certificates are expected to be issued on Tuesday, 12 July 2016 but will only become valid provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is scheduled to be at around 8:00 a.m. on Wednesday, 13 July 2016. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates and before they become valid do so entirely of their own risk.**
- (7) The announcement will be available for viewing on the “Main Board — Allotment of Results” page on the Hong Kong Stock Exchange’s website www.hkexnews.hk and our Company’s website at www.yihchina.com.
- (8) None of the website or any of the information contained on the website forms part of this prospectus.
- (9) **e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the price per Offer Share payable on application.**

You should read carefully the sections headed “Underwriting,” “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” for details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Offer Shares and the expected timetable, including conditions, effect of bad weather and the dispatch of refund cheques and Share certificates.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by the Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, any of our or their respective directors or advisors, or any other person or party involved in the Global Offering. Information contained in our website, located at www.yihchina.com does not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading and fast-growing compound condiment manufacturer in China. The hot pot condiment sector, which consists of hot pot soup flavoring condiment and hot pot dipping sauce condiment, is the second largest segment in the compound condiment industry as measured by sales value. We are the second largest hot pot condiment manufacturer in China as measured by sales value in 2015, according to Frost & Sullivan. As the only hot pot condiment manufacturer primarily focused on China’s fast-growing mid- to high-end market, we are the largest mid- to high-end hot pot soup flavoring condiment manufacturer as measured by sales value in 2015, which accounts for over 30% market share, over three times that of the second largest market participant, according to Frost & Sullivan. In addition, during the Track Record Period, we achieved the highest sales value growth rate among the five largest hot pot condiment manufacturers in China.

We are the sole supplier of hot pot soup flavoring products for Haidilao Group in China, and our products have significantly contributed to the successful growth of Haidilao Group. Haidilao Group was the largest Chinese hot pot restaurant chain and the No.1 Chinese cuisine restaurant company in China as measured by sales value in both 2014 and 2015, according to Frost & Sullivan. In 2013, 2014 and 2015, Haidilao Group owned 93, 111 and 142 hot pot restaurants in 24, 29 and 39 cities across China, respectively, and owned two, four and seven hot pot restaurants in two, three and five overseas locations, respectively. In line with Haidilao Group’s successful expansion, our revenue derived from sales to Haidilao Group increased from RMB180.6 million in 2013 to RMB277.0 million in 2014 and further to RMB457.8 million in 2015.

We sell our condiment products under the “Haidilao” (海底捞) brand across product lines. We have the exclusive right to use the “Haidilao” (海底捞) brand for our condiment products on a royalty-free basis for a perpetual term commencing from 1 January 2007 to the extent permissible under the Listing Rules, relevant laws and regulations, see “— Reliance on Haidilao Group”. We believe that the “Haidilao” (海底捞) brand stands for stringent food safety standards, excellent quality and superior customer experience. Benefitting from the well established “Haidilao” (海底捞) brand as well as our market-oriented and solid innovation capabilities, extensive network coverage, advanced production techniques and stringent quality control mechanisms, we are one of the few Chinese compound condiment manufacturers with a nationwide reputation. We have been quickly expanding our market share by providing culinary condiment solutions to Chinese home cooking customers, catering service providers and food industry companies to meet their needs for convenient, nutritious and tasty meals in home cooking, standardized and consistent dishes in restaurant catering, and reliable flavoring products in food processing. During the Track Record Period, we have experienced substantial growth. Our revenue increased at a CAGR of 63.8% from RMB315.9 million in 2013 to RMB847.3 million in 2015, and our net profit increased at a CAGR of 137.6% from RMB22.1 million in 2013 to RMB124.5 million in 2015. Our gross profit margin increased from 22.0% in 2013 to 34.7% in 2015, and our net profit margin increased from 7.0% in 2013 to 14.7% in 2015.

Our market leadership is built upon the success of our products. We aim to provide comprehensive and high-quality products by relentlessly executing the following strategies (i) consistent focus on the mid- to high-end market, (ii) continuous expansion into new segments of the compound condiment market, and (iii) uncompromising commitment to product quality to keep abreast of the evolving customer expectations and food safety standards. We offer a wide range of condiment products, ranging from hot pot condiments to Chinese-style compound condiments such as spicy stir-fry pot and pickles and fish stew condiments. As of 31 December 2015, we had three major product lines with 56 products. In addition, with Chinese consumers’ growing consciousness of health and food safety and their rising acceptance of compound condiments as a result of their new consumption habits, there has been an increasing market demand for high-quality condiment products,

SUMMARY

including our vegetable-oil-based hot pot soup flavoring products. We spearheaded the development of the mid- to high-end hot pot soup flavoring condiment market by launching the high-quality vegetable-oil-based hot pot soup flavoring products in 2007. We believe that we are well-positioned to continuously take advantage of this trend in the foreseeable future.

We have established an extensive nationwide distribution network. As of 31 December 2015, our 339 distributors covered 31 provincial territories, all first-tier cities, 28 second-tier cities and 134 third- and fourth-tier cities in China as well as 11 overseas countries and markets, enabling our products to reach over 6,000 hypermarkets and supermarkets in China, including Walmart and Carrefour, and traditional retail channels, such as grocery stores, neighborhood stores, and butcher shops. In addition, we have established and have been continuously strengthening our presence in overseas markets through our distributors. Our physical network is further supplemented by e-commerce channels such as Tmall.com and JD.com. Our products are sold to 11 overseas countries and markets in North America, Europe and Asia. For the years ended 31 December 2013, 2014 and 2015, our revenue from sales to distributors increased rapidly from RMB125.1 million to RMB217.0 million and further to RMB370.4 million, representing a CAGR of 72.3%, accounting for 39.6%, 43.5% and 43.7%, respectively, of our total revenue.

OUR BUSINESS MODEL

We manufacture and sell compound condiment products to related-party customers including Haidilao Group and its affiliates and third-party customers such as distributors, catering service providers and online shoppers.

We are the sole supplier of hot pot soup flavoring products for Haidilao Group in China. We sell Haidilao Customized Products, which are manufactured using formulas owned by Haidilao Group for in-store consumption in its hot pot restaurants, and Haidilao Retail Products, which are manufactured using formulas we own for display and sale to consumers to take away in Haidilao hot pot restaurants, to Haidilao Group. In addition, we supply both retail and customized condiment products to Shuhai Supply Chain, an affiliate of Haidilao Group, which in turn sells these products to catering service providers through its distribution channels.

Our major third-party customers are distributors, who may also engage sub-distributors and retailers to sell our products. In addition, we sell our products to consumers through e-commerce channels, provide customized compound condiment products to third-party catering service providers and export our products to the overseas markets.

The table below sets forth information on our revenue, sales volume and average selling price, by product type, and distribution channels for the periods indicated:

	Year ended 31 December								
	2013			2014			2015		
	Revenue (RMB)	Sales Volume (Tons)	ASP ⁽¹⁾ (RMB per kg)	Revenue (RMB)	Sales Volume (Tons)	ASP ⁽¹⁾ (RMB per kg)	Revenue (RMB)	Sales Volume (Tons)	ASP ⁽¹⁾ (RMB per kg)
	(RMB in thousands, unless otherwise stated)								
Hot pot soup flavoring products:									
Related parties.....	169,690	9,998	17.0	266,328	12,804	20.8	446,743	16,566	27.0
Third parties ⁽²⁾	87,527	3,018	29.0	145,146	4,848	29.9	251,909	8,235	30.6
Sub Total	257,217	13,016	19.8	411,474	17,652	23.3	698,652	24,801	28.2
Hot pot dipping sauce products:									
Related parties.....	—	—	—	153	8	19.1	53	3	17.7
Third parties ⁽²⁾	9,084	503	18.1	12,584	719	17.5	41,157	2,259	18.2
Sub Total	9,084	503	18.1	12,737	727	17.5	41,210	2,262	18.2

SUMMARY

Year ended 31 December

	2013			2014			2015		
	Revenue (RMB)	Sales Volume (Tons)	ASP ⁽¹⁾ (RMB per kg)	Revenue (RMB)	Sales Volume (Tons)	ASP ⁽¹⁾ (RMB per kg)	Revenue (RMB)	Sales Volume (Tons)	ASP ⁽¹⁾ (RMB per kg)
(RMB in thousands, unless otherwise stated)									
Chinese-style compound condiment products:									
Related parties.....	2,566	222	11.6	3,715	233	15.9	7,511	383	19.6
Third parties ⁽²⁾	38,429	1,500	25.6	62,064	2,291	27.1	87,720	3,338	26.3
Sub Total	40,995	1,722	23.8	65,779	2,524	26.1	95,231	3,721	25.6
Other ⁽³⁾	8,567	791	10.8	8,241	954	8.6	12,246	1,264	9.7
Total	315,863	16,032	19.7	498,231	21,857	22.8	847,339	32,048	26.4

Note:

- (1) ASP refers to Average Selling Price.
- (2) Our products sold to third parties are under the “Haidilao” brand.
- (3) Primarily consist of our sales of certain raw materials, such as chili peppers, prickly ash and spices, to our related parties.

RELIANCE ON HAIDILAO GROUP

We have a strong, long-established and mutually beneficial relationship with Haidilao Group. We were founded as the exclusive, internal supplier of hot pot soup flavoring products to Haidilao Group in the PRC. Since completion of the Reorganization, we have been and will continue to be the sole supplier of hot pot soup flavoring products to Haidilao Group in China, and Haidilao Group has been our largest customer. Our revenue from sales attributable to Haidilao Group accounted for 57.2%, 55.6% and 54.0% of our total revenue for the three years ended 31 December 2013, 2014 and 2015, respectively, and our sales volume to Haidilao Group accounted for 68.5%, 61.9% and 55.0% of our total sales volume during the same periods, respectively. However, the hot pot restaurant chain sector has been facing increasing competition in recent years, and our business may be adversely affected if Haidilao Group’s market leading position is challenged by other competitors. Over the past decades, our adherence to stringent food safety control, high quality products, maintenance of stable supply and competitive prices have contributed to the success of Haidilao Group. Haidilao Group’s success also benefits our products, which we sell under the well-established “Haidilao” (海底捞) brand across all product lines.

It is clearly mutually beneficial for Haidilao Group and us to maintain a stable business relationship. To that end, we have entered into a number of agreements with Haidilao Group, including the Master Sales Agreement, the Trademark License Agreements, the Chengdu Lease Agreement, and the Haidilao Warehouse Storage Service Agreement. The Master Sales Agreement governs the sales of our products to Haidilao Group. The Trademark License Agreements govern our exclusive right granted by Sichuan Haidilao to use the “Haidilao” (海底捞) brand for all our products on a royalty-free basis for a perpetual term commencing from 1 January 2007 to the extent permissible under the Listing Rules, relevant laws and regulations. The Trademark License Agreements are only terminable with consent of our independent non-executive Directors. Unless any force majeure event occurs, if Sichuan Haidilao unilaterally terminates the Trademark License Agreements, we are entitled to sue for specific performance or damages for breach of contract under PRC laws. The Trademark License Agreements do not specify the amount of damages. The Chengdu Lease Agreement governs our rental of properties and fixtures from Haidilao Group where our Chengdu production facilities are located, and the Haidilao Warehouse Storage Service Agreement governs the provision of warehousing and related logistics services from Haidilao Group to us for products sold to Haidilao Group. Although Haidilao Group is expected to remain a key customer of our Group, we have established an extensive sales and distribution network with independent third-party customers and aim to continue to diversify our customer base. We believe our Group is able to operate independently from Haidilao Group. For further details, see “Relationship with Our Controlling Shareholders — Our Relationship with Haidilao Group” and “Connected Transactions”.

SUMMARY

PRICING FOR OUR SALES TO RELATED PARTIES

Haidilao Group and us have a long-term and close business relationship. Please see “— Reliance on Haidilao Group” and “Relationship with Our Controlling Shareholders — Our Relationship with Haidilao Group.”

Prior to August 2014, as the internal supplier to Haidilao Group and its affiliates, we sold Related-party Customized Products and Related-party Retail Products to Haidilao Group and its affiliates based on a cost-plus pricing formula that primarily consists of the cost of production and selling and administrative expenses of the condiment products. Since August 2014, we have adopted a new pricing policy applicable to both Related-party Customized Products and Related-party Retail Products, which allows us to retain commercially acceptable net profit margins that are the same as the net profit margin of sales to independent third parties, whilst still fostering a mutually beneficial, fair and long-term working relationship with Haidilao Group and its affiliates. However, our pricing for our sales to Haidilao Group and its affiliates is still different from our pricing for our sales to third parties mainly because the sales to Haidilao Group and its affiliates do not require material packaging costs or significant selling and distribution expenses, which constitute a major part of our cost structure with respect to sales to third parties.

We changed our pricing policy for sales to related parties in August 2014 in light of the Reorganization following which we are no longer the internal supplier to Haidilao Group and its affiliates, and in anticipation of new shareholders who do not own any interest in Haidilao Group through their pre-IPO investment as well as Listing following which we will be subject to the rules governing connected transactions. Initially in August 2014, we adopted the same pricing basis for both Related-party Customized Products and Related-party Retail Products because they were both related-party transactions with Haidilao Group and its affiliates and we did not consider it necessary to distinguish them in view of the small amount of sales of Related-party Retail Products. Based on this new pricing policy, prices are determined with reference to (i) historical sales price, (ii) our estimated overall net profit margin through sales to independent third party distributors in accordance with the pricing formula, (iii) our production costs including the costs of raw materials, selling and administrative expenses incurred in relation to the condiment products sold to Haidilao Group and its affiliates and (iv) the market price of similar products sold by comparable companies. Taking into account historical data and forecasts, our independent non-executive Directors regularly review and reassess the prices of our sales to Haidilao Group on a semiannual basis and adjust the prices as appropriate to maintain a net profit margin same as our sales to third-party distributors. We also adjust prices if there is any significant change in the cost of production and expenses in connection with the products sold to Haidilao Group and its affiliates.

In August 2015, we further increased the price of certain Related-party Customized Products and Related-party Retail Products in accordance with the pricing policy adopted in August 2014, mainly because the formulas of certain Related-party Customized Products were changed in 2015 pursuant to Haidilao Group’s then requirement, which significantly increased the amount of certain raw materials each product consumed, such as soybean oil and chili peppers, which in turn increased the production costs of those products. The price increase in August 2015 in response to Haidilao Group’s revised formula in 2015 is expected to have a positive impact on our revenue, gross profit and gross profit margin in 2016.

In 2015, we decided to increase the marketing efforts at Haidilao hot pot restaurants going forward with an aim to boost the sales of Related-party Retail Products, which will be ultimately sold to retail customers through Haidilao Group. With the expected increase in sales of Related-party Retail Products, we revisited the pricing policy for Related-party Retail Products and considered it appropriate to maintain a consistent pricing policy for our retail products sold through Haidilao Group and its affiliates and through other channels. As a result in January 2016, we further amended our pricing policies for Related-party Retail Products. Under the amended policies, pricing for Related-party Retail Products follows pricing of sales to third parties.

Primarily as a result of the new pricing policy as well as the increased sales volume to related parties, our revenue from sales to related parties increased from RMB180.7 million in 2013 to RMB278.4 million in 2014 and further to RMB465.1 million in 2015, which in turn also contributed to the rapid growth of our overall revenue and profit during the Track Record Period. In addition, as a result of the new pricing policy, the average selling price per kilogram of our hot pot soup flavoring

SUMMARY

products sold to related parties increased from RMB17.0 in 2013 to, RMB20.8 in 2014 and further to RMB27.0 in 2015, and the average selling price per kilogram of our Chinese-style compound condiment products sold to related parties increased from RMB11.6 in 2013 to RMB15.9 in 2014 and further to RMB19.6 in 2015. In addition, based on our management's judgment about the segregation of certain operating costs related to related parties sales and third parties sales and taking into account of the new pricing policy for related parties sales implemented in August 2014, we believe that the proportionate net profit contribution from our sales to related parties had increased significantly during the Track Record Period, which accounted for not more than 10%, 25% and 50% of the total net profit of the Company in 2013, 2014 and 2015 respectively, primarily as a result of the new pricing policy. However, the proportionate revenue and sales volume contribution from our sales to related parties had been in a downward trend during the Track Record Period primarily as a result of the rapid growth of our sales to third parties.

As the change of our pricing policy with respect to sales to related parties had significantly affected our result of performance, particularly our revenue, gross profit and net profit during the Track Record Period and we may not be able to increase the price of our products sold to related parties at similar rates in the future, our historical results may not be reflective of our future performance and we may not be able to maintain similar rates of growth in the future.

The following table sets forth an analysis illustrating the impact of changes on pricing policy for related parties sales on our revenue, gross profit and net profit during the Track Record Period, assuming all other variables remain unchanged.

	2013			2014			2015		
	Revenue	Gross Profit	Net Profit	Revenue	Gross Profit	Net Profit	Revenue	Gross Profit	Net Profit
(Unaudited, RMB in thousands, except for percentages)									
Assuming there was no change on pricing policy for related parties sales during the Track Record Period	315,863	69,416	22,064	485,464	106,711	32,935	765,457	212,351	63,299
(Decrease) from our audited financial performance	N/A	N/A	N/A	(2.6%)	(10.7%)	(22.5%)	(9.7%)	(27.8%)	(49.2%)
Assuming new pricing policy for related parties sales implemented since August 2014 was adopted at the beginning of the Track Record Period	355,145	108,698	51,526	542,539	163,786	75,741	847,339	294,233	124,547
Increase from our audited financial performance	12.4%	56.6%	133.5%	8.9%	37.1%	78.2%	N/A	N/A	N/A

OUR PRODUCTS

We engage in the research and development, manufacturing, distribution and sales of high-quality compound condiments, primarily including hot pot soup flavoring, hot pot dipping sauce and Chinese-style compound condiment products. As of 31 December 2015, we had three major product lines with 56 products, including 38 hot pot soup flavoring products, nine hot pot dipping sauce products and nine Chinese-style compound condiment products.

We seek to differentiate ourselves from our competitors by continuously expanding and optimizing our product portfolio. In the years ended 31 December 2013, 2014 and 2015, we launched one, four and ten new condiment products, respectively. We aim to provide comprehensive and high-quality products by relentlessly executing the following strategies: (i) consistent focus on the mid- to high-end sector, (ii) continuous expansion into new segments of the compound condiment market, and (iii) uncompromising commitment to product quality to keep abreast of the evolving customer expectations and food safety standards. Leveraging our market-oriented and solid innovation capabilities and targeted marketing activities, our new products have fueled our continuous business growth.

SUMMARY

The following table provides selected information about our products as of 31 December 2015:

Product Line	Number of Product Types	Unit Sales Price Range (RMB)	Typical Shelf Life (Months)
Hot Pot Soup Flavoring Products:			
Vegetable-oil-based spicy hot pot soup flavoring products	20	7.4 - 54.0	6 - 12
Animal-oil-based spicy hot pot soup flavoring products ...	2	5.5 - 62.6	6 - 12
Non-spicy nutritional hot pot soup flavoring products	16	0.4 - 29.0	6 - 12
Hot Pot Dipping Sauce Products:			
Premium dipping sauce products	2	7.8 - 8.8	12
Regular dipping sauce products	7	3.8 - 6.5	12
Chinese-style Compound Condiment Products:			
Seafood condiment products	2	11.9 - 13.8	12
Spicy blended condiment products	7	13.7 - 14.8	12

For further details, see the sections headed “Industry Overview — The Hot Pot Condiment Market in China — Competitive Landscape of Hot Pot Condiments in China” and “Business — Our Products” starting on page 87 and page 138 of this prospectus, respectively.

OUR SALES AND DISTRIBUTION NETWORK

Our major customers include Haidilao Group and its affiliates and our distributors. We also sell our products through e-commerce channels such as Tmall.com and JD.com and supply condiment products to a number of third-party catering service providers and other customers. In addition, we started to export our products to overseas markets in 2015.

We sell our retail products primarily through our distributors, who typically engage sub-distributors and retailers to sell our products primarily through hypermarkets, supermarkets, grocery stores, neighborhood stores and butcher shops across China. As of 31 December 2015, we engaged 339 distributors and established an extensive distribution network covering 31 provincial territories, all first-tier cities, 28 second-tier cities and 134 third- and fourth-tier cities in China as well as 11 overseas countries and markets. Our overseas distribution network spans 11 overseas countries and markets in North America, Europe and Asia through our distributors.

We are the sole supplier of hot pot soup flavoring products for Haidilao Group in China. The hot pot soup flavoring products we sell to Haidilao Group for use in Haidilao hot pot restaurants are customized pursuant to Haidilao Group’s specific requirements. In addition, our popular retail products are displayed and sold to consumers in Haidilao hot pot restaurants. We also supply both retail and customized products to Shuhai Supply Chain, our affiliated company specialized in providing “one-stop-shop” supply chain services to catering service providers. Shuhai Supply Chain in turn sells those products to their clients to meet catering service clients’ needs for consistent high-quality condiment products.

SUMMARY

The following table sets forth our revenue by customer type for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Related-party customers:						
Haidilao Group and its affiliates	180,698	57.2%	278,416	55.9%	465,103	54.9%
Third-party customers:						
Distributors ⁽¹⁾	125,105	39.6%	216,954	43.5%	370,420	43.7%
E-commerce	2,712	0.9%	1,389	0.3%	5,543	0.7%
Others	7,348	2.3%	1,472	0.3%	6,273	0.7%
Third-party catering service providers	956	0.3%	364	0.1%	1,547	0.2%
One-off sales events	6,392	2.0%	1,108	0.2%	4,726	0.5%
Total	<u>315,863</u>	<u>100.0%</u>	<u>498,231</u>	<u>100.0%</u>	<u>847,339</u>	<u>100.0%</u>

Notes:

(1) Include our revenue of RMB5.9 million from products made for export by distributors in 2015.

For further details, see the section headed “Business — Sales and Marketing” starting on page 147 of this prospectus.

RAW MATERIALS AND SUPPLIERS

Our major raw materials are vegetable oil (mostly soybean oil and a small amount of rapeseed oil), animal oil (beef tallow), chili peppers, prickly ash and other spices and ingredients, and packaging materials, including plastic bags, wrapping papers, cardboard boxes and product labels. Our procurement team formulates the procurement plans on an annual basis with reference to historical trends, sales forecast and the cultivation season of raw materials. We frequently monitor and adjust our procurement plans in response to actual orders from customers and the market trend of our products. For the three years ended 31 December 2013, 2014 and 2015, our cost of sales accounted for 78.0%, 76.0% and 65.3% of our total revenue, respectively.

Our raw materials are generally available from various suppliers. We minimize our reliance on any single source of supply for our raw materials by maintaining at least two suppliers for each type of raw materials. We also implement various measures to monitor the performance of our suppliers, such as selective examination and on-site inspections. During the Track Record Period, we had not experienced any significant shortage of raw materials that affected our normal operations.

For further details, see the section headed “Business — Raw Materials and Suppliers” starting on page 168 of this prospectus.

OUR STRENGTHS

We believe that the following strengths have distinguished us from our competitors, contributed to our success and are critical to our future prospects.

- Market leader in China’s fast-growing mid- to high-end hot pot soup flavoring condiment market
- Extensive distribution network and effective marketing strategy
- Diverse product portfolio supported by market-oriented and solid research and development capabilities, stringent cost management and industry-leading food safety control

SUMMARY

- Premium product supported by the well-recognized “Haidilao” (海底捞) brand
- Experienced management team and excellent corporate culture inherited from Haidilao

OUR STRATEGIES

We aspire to become a leading culinary condiment solutions provider in China. We will strengthen our leadership in the mid- to high-end hot pot soup flavoring condiment market and seek to further expand to wider compound condiment segments. To achieve this goal, we intend to:

- Strengthen our leading market position and expand into new products and markets
- Strengthen our research and development capabilities and expand our product portfolio
- Enhance our sales and distribution capabilities
- Pursue strategic acquisitions to supplement organic growth
- Attract, cultivate and retain talent

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

You should read the summary of historical consolidated financial statements set forth below in conjunction with our consolidated financial information included in the Accountant’s Report set forth in “Appendix I — Accountant’s Report” to this prospectus, together with the accompanying notes, which have been prepared in accordance with IFRS. The summary of the consolidated financial information as of and for the years ended 31 December 2013, 2014 and 2015 set forth below is derived from our consolidated financial information, including the notes thereto, which are set forth in “Appendix I — Accountant’s Report” to this prospectus.

Summary Consolidated Statements of Income

	Year ended 31 December					
	2013		2014		2015	
	RMB	% of revenue	RMB	% of revenue	RMB	% of revenue
	(in thousands, except percentages)					
Revenue	315,863	100.0%	498,231	100.0%	847,339	100.0%
Cost of sales	(246,447)	(78.0%)	(378,753)	(76.0%)	(553,106)	(65.3%)
Gross profit	69,416	22.0%	119,478	24.0%	294,233	34.7%
Distribution expenses	(29,709)	(9.4%)	(44,311)	(8.9%)	(93,898)	(11.1%)
Administrative expenses	(10,255)	(3.2%)	(17,309)	(3.5%)	(38,255)	(4.5%)
Other incomes and gains/(losses) — net	32	—	(691)	(0.1%)	3,479	0.4%
Operating profit	29,484	9.3%	57,167	11.5%	165,559	19.5%
Finance income/(expenses) — net	35	—	(11)	—	1,361	0.2%
Profit before income tax	29,519	9.3%	57,156	11.5%	166,920	19.7%
Income tax expense	(7,455)	(2.4%)	(14,646)	(2.9%)	(42,373)	(5.0%)
Profit for the year	22,064	7.0%	42,510	8.5%	124,547	14.7%

SUMMARY

Gross Profit and Gross Profit Margin

	Year ended 31 December					
	2013		2014		2015	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Hot pot soup flavoring products	49,446	19.2%	89,322	21.7%	238,170	34.1%
Related parties.....	10,697	6.3%	25,856	9.7%	108,175	24.2%
Third parties.....	38,749	44.3%	63,466	43.7%	129,995	51.6%
Hot pot dipping sauce products	3,145	34.6%	3,339	26.2%	13,316	32.3%
Related parties.....	—	—	8	5.2%	11	20.8%
Third parties.....	3,145	34.6%	3,331	26.5%	13,305	32.3%
Chinese-style compound condiment products	16,148	39.4%	26,673	40.5%	41,163	43.2%
Related parties.....	46	1.8%	274	7.4%	2,000	26.6%
Third parties.....	16,102	41.9%	26,399	42.5%	39,163	44.6%
Others	677	7.9%	144	1.7%	1,584	12.9%
Total	69,416	22.0%	119,478	24.0%	294,233	34.7%

Summary Consolidated Statements of Financial Position

	As of 31 December		
	2013	2014	2015
	(RMB in thousands)		
ASSETS			
Total non-current assets	134,523	153,384	136,089
Total current assets	90,218	132,253	453,275
Total assets	224,741	285,637	589,364
LIABILITIES			
Total non-current liabilities.....	—	—	186,667
Total current liabilities.....	187,055	239,899	260,773
TOTAL EQUITY	37,686	45,738	141,924

Summary Consolidated Statements of Cash Flow

	Year Ended 31 December		
	2013	2014	2015
	(RMB in thousands)		
Net cash (used in)/generated from operating activities	(5,822)	73,322	89,638
Net cash used in investing activities	(12,399)	(37,397)	(22,551)
Net cash (used in)/generated from financing activities	(30,958)	(28,935)	157,603
Net (decrease)/increase in cash and cash equivalents	(49,179)	6,990	224,690
Cash and cash equivalents at end of year	2,247	9,222	235,216

SUMMARY

Key Financial Ratios

The following table sets out a summary of certain financial ratios as of the dates or for the periods indicated:

	Year Ended/As of 31 December		
	2013	2014	2015
Current ratio ⁽¹⁾	48.2%	55.1%	173.8%
Quick ratio ⁽²⁾	16.5%	20.4%	134.4%
Asset-liability ratio ⁽³⁾	83.2%	84.0%	75.9%
Return on total assets ⁽⁴⁾	10.7%	16.7%	28.5%
Return on equity ⁽⁵⁾	98.0%	101.9%	132.7%
Gross profit margin ⁽⁶⁾	22.0%	24.0%	34.7%
Net profit margin ⁽⁷⁾	7.0%	8.5%	14.7%

- (1) Current ratio is our current assets divided by our current liabilities at the end of each financial period.
(2) Quick ratio is our current assets less inventories as a percentage of current liabilities at the end of each financial period.
(3) Asset-liability ratio is calculated by dividing total liabilities by total assets at the end of each financial period.
(4) Return on total assets is our profit divided by the arithmetic mean of the opening and closing balances of our total assets financial period.
(5) Return on equity is our profit divided by the arithmetic mean of the opening and closing balances of our equity at the end of each financial period.
(6) Gross profit margin is our gross profit divided by our revenue for each financial period.
(7) Net profit margin is our after-tax net profit before non-controlling interests divided by our revenue for each financial period.

Net Current Liabilities and Negative Net Operating Cash Flow

As of 31 December 2013 and 2014, our net current liabilities position was primarily because (i) we were part of Haidilao Group prior to the Reorganization, and most of our cash and cash equivalent had been distributed to Haidilao Group pursuant to its overall cash management practice, and (ii) there was a significant amount due to related parties under the account of current other payables as of 31 December 2013 and 2014 primarily associated with the construction of our Zhengzhou production facilities. Since 2015 and in connection with the Reorganization, we ceased distributing cash and cash equivalent to Haidilao Group, and we repaid a large amount due to related parties in 2015. In addition, we received a significant amount of equity investment from our Pre-IPO Investors in late 2015. As a result, we recorded net current assets as of 31 December 2015 and 30 April 2016.

For the year ended 31 December 2013, we recorded net cash used in operating activities of approximately RMB5.8 million, mainly due to the significant increase in our inventories in connection with our business growth. We recorded net cash generated from operating activities of RMB73.3 million and RMB89.6 million, respectively, for the years ended 31 December 2014 and 2015.

SHAREHOLDERS' INFORMATION

As of the Latest Practicable Date, Mr. Zhang and Ms. Shu, through ZYSP YIHAI, are interested in 47.76% of the total issued share capital of our Company (assuming all Series A Preferred Shares have been converted into our Shares on a one-for-one basis). Immediately following completion of the Capitalization Issue and the Global Offering, and on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis, Mr. Zhang and Ms. Shu, through ZYSP YIHAI, will be interested in approximately 35.82% of our total issued share capital (assuming the Over-allotment Option is not exercised). As a result, after the completion of the Capitalization Issue and the Global Offering, Mr. Zhang, Ms. Shu and ZYSP YIHAI will continue to be our Controlling Shareholders.

Mr. Zhang and Ms. Shu also directly held 68% interest in Jingyuan Investment, which indirectly held 56.25% interest in Shuhai Supply Chain. Shuhai Supply Chain primarily engages in the provision of “one-stop-shop” supply chain services (including warehouse storage, logistics, sales of food products) to catering service providers. Mr. Zhang and Ms. Shu are also controlling shareholders of

SUMMARY

Sichuan Haidilao and Singapore Haidilao (together, the “Haidilao Group”), which operate hot pot restaurant chain and ancillary businesses. There is a clear delineation of businesses between our Group and Haidilao Group. Haidilao Group does not engage in any business which competes or is likely to compete, directly or indirectly, with our Core Business, and which requires disclosure under Rule 8.10 of the Listing Rules. We believe our Group is able to operate independently from our Controlling Shareholders. For further details, see “Relationship with Our Controlling Shareholders” and “Connected Transactions”.

PRE-IPO INVESTORS

On 14 December 2015, (i) our Company and our Controlling Shareholders, among others, entered into the Series A Preferred Shares Purchase Agreement with Glorious Future and Charlin Holdings; and (ii) our Controlling Shareholders and Sky Ocean entered into the Common Shares Purchase Agreement. Immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised), Glorious Future, Charlin Holdings and Sky Ocean will hold approximately 4.50%, 3.00% and 1.50% of our total issued share capital, respectively. For further details, see “Our History, Reorganization and Corporate Structure — Pre-IPO Investments”.

DIVIDEND POLICY

Our Board has absolute discretion in whether to declare any dividend for any year and how much dividend to declare, if any. Neither the Company nor any of its subsidiaries has paid or declared any dividend since its inception. In the future, we expect to distribute no less than 20% of our annual distributable profit as dividends. There is, however, no assurance that we will be able to distribute dividends of such amount or any amount each year or in any year. We will continue to re-evaluate our dividend policy in light of our financial condition and the prevailing economic climate. However, the determination to pay dividends will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future.

RECENT DEVELOPMENTS

Our Directors confirm that, since 31 December 2015 and up to the Latest Practicable Date, there has been no material change in our business, results of operations and financial conditions, and no event has occurred that would materially affect the information shown in the Accountant’s Report sets out in Appendix I to this prospectus.

For the four months ended 30 April 2016, our revenue and gross profit were RMB272.8 million and RMB92.0 million, respectively, compared with RMB219.9 million and RMB60.3 million, respectively, in the same period of the prior year. Our unaudited financials as of and for the four months ended 30 April 2016 and 30 April 2015 have been reviewed by the reporting accountant in accordance with International Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board.

LISTING EXPENSES

During the year ended 31 December 2015, we have incurred about RMB9.8 million expenses for the Global Offering, and we expect to incur an additional RMB59.4 million until the completion of the Global Offering, of which approximately RMB14.7 million is expected to be charged to our 2016 consolidated income statement and approximately RMB44.8 million is expected to be capitalized as deferred expenses and charged against equity upon the Listing under the relevant accounting standards. We do not expect these expenses to have a material impact on our results of operation for 2016.

SUMMARY

RISK FACTORS

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. These risk factors can be broadly categorized into: (i) risks relating to our business and our industry; (ii) risks relating to China; and (iii) risks relating to the Global Offering. Among these risks, the ones we believe that could be relatively material include:

- We have experienced rapid growth in a relatively short period of time and may not be able to maintain similar rates of growth in the future.
- We sell and market our products under “Haidilao” (海底捞) brand. If we fail to maintain the exclusive rights to use “Haidilao” (海底捞) brand on our condiment products during the term of the licensing arrangement, our business may be materially and adversely affected.
- If “Haidilao” (海底捞) brand is harmed, our business may be materially and adversely affected.
- We derive significant revenue from Haidilao Group, and we will continue to conduct connected transactions with Haidilao Group in the foreseeable future. Any significant reduction in sales to or the loss of Haidilao Group could materially and adversely affect our business and results of operations.
- Inadequate or interrupted supply and price fluctuation for our raw materials and packaging materials could adversely affect our profitability.

A detailed discussion of all the risk factors involved is set forth in the section headed “Risk Factors” starting on page 34 of this prospectus and you should read the whole section carefully before you decide to invest in the Offer Shares.

QUALITY CONTROL

We stringently control each major step of our production process to ensure food safety. We adhere to a set of demanding criteria to select reliable raw materials, and we believe our procurement standards for major raw materials, such as vegetable oil, chili peppers and other spices, are higher than the average industry procurement standards. For example, we only purchase premium raw materials with superior quality, and as a result, our average procurement price for chili peppers in 2015 was RMB27,000 per ton, while the average industry procurement price for chili peppers was approximately RMB5,000 per ton in 2015 and our average procurement price for prickly ash in 2015 was RMB109,000 per ton, while the average industry procurement price for prickly ash ranged from RMB65,000 to RMB105,000 per ton in 2015, according to Frost & Sullivan. We also implement a strict quality control system that is certified by many domestic and international standards, including HACCP, QS and ISO certifications. In addition, our retail products are given a unique two-dimensional code to trace the full course of each product from production to storage to distribution as a quality control measure. As of 31 December 2015, we had 27 quality control personnel, all of whom had education background in food science, technology and quality inspection related areas and the majority of whom had over four years of work experience in the food industry. For further details, see the section headed “Business — Quality Control and Food Safety” starting on page 171 of this prospectus.

HEDGING

Prices of soybean oil, one of the major raw materials used in our production, experienced frequent short-term volatile fluctuations in the past ten years. We have entered into exchange-traded hedging activities in relation to the commodity prices of soybean oil. Our hedging policy is to hedge our exposure to price increases of soybean oil. We do not use derivatives for speculative purposes. As a result, historically, we only purchased long soybean oil futures contracts, and we had never taken short soybean oil futures positions. These contracts are purchased and traded on the Dalian Commodity Exchange, the only regulated commodity futures exchange in China offering soybean oil futures contracts. Our hedging activities not only reduce the impact of price increases of soybean oil on our production, thereby protecting us against adverse short-term price upward movements, but also limit the benefits of short-term price downward movements.

SUMMARY

We have formulated internal guidance on hedging activities, under which our Board supervises our hedging activities. The Board is primarily responsible for formulating and monitoring our hedging risk management procedures and a hedging team is further established to implement these procedures and conduct hedging activities.

In 2013, 2014 and 2015, our aggregated soybean oil hedged positions were 380 tons, 3,740 tons and 10,810 tons, with an aggregate contract value of RMB2.6 million, RMB25.2 million and RMB58.5 million, respectively. During the Track Record Period, our aggregated soybean oil hedged positions were equivalent to 4.5%, 50.2% and 76.3%, respectively, of our total actual soybean oil procurement volume. We are not obligated to pay the shortfall if the loss of the soybean oil futures contracts exceeds the deposit amount, in such event, the deposit will be forfeited and such soybean oil futures contracts will be terminated. During the Track Record Period, due to our prudent hedging strategy and policy, we did not experience any forfeiture of our deposit for soybean oil futures contracts. The maximum financial exposures on the outstanding positions of our soybean oil futures contracts as of 31 December 2013, 2014 and 2015 were the deposit amounts for soybean oil futures contracts we held at the respective date which were RMB32,000, nil and RMB0.9 million, respectively.

REGULATORY MATTERS

We were involved in certain regulatory non-compliance incidents during the Track Record Period, including failure to obtain the Environment Impact Assessment Approval and the Environmental Protection Acceptance before the commencement of production in Chengdu. As of the Latest Practicable Date, we had rectified or were in the process of rectifying all these non-compliance incidents or obtained confirmations from the competent government authorities or advised by our PRC legal advisor that the risk of us being penalized with respect to these non-compliance incidents is low. We have also implemented a series of internal control measures to minimize future reoccurrence of these non-compliance incidents.

Our Directors are of the view that (i) we have adequate and effective internal controls and the enhanced internal control measures are adequate and effective in preventing reoccurrence of similar non-compliance incidents in the future, (ii) except for the provisions we made for the outstanding social insurance and housing fund contributions during the Track Record Period, it is unnecessary to make any provision for other non-compliance incidents, and (iii) such incidents do not affect the suitability of our Directors and our suitability for listing. There is nothing that has caused the Sole Sponsor to disagree with our view after making reasonable inquiries to us about the non-compliance incidents and our remedial measures.

For further details, see the section headed “Business — Regulatory Matters — Non-compliance Matters” starting on page 186 of this prospectus.

GLOBAL OFFERING STATISTICS

The Global Offering comprises: (i) the Hong Kong Public Offering of 26,000,000 Shares (subject to reallocation) in Hong Kong; and (ii) the International Offering of 234,000,000 Shares (subject to reallocation and the Over-allotment Option) in the United States in reliance on Rule 144A or another available exemption from the registration requirements of the U.S. Securities Act, and outside the United States in reliance on Regulation S. The following table sets out certain offering related data, assuming that: (a) the Global Offering has been completed and 1,040,000,000 Shares are in issue; and (b) the Over-allotment Option has not been exercised.

	Based on minimum indicative Offer Price of HK\$2.98	Based on maximum indicative Offer Price of HK\$3.42
Market capitalization of our Shares ⁽¹⁾	HK\$3,099 million	HK\$3,557 million
Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽²⁾	HK\$0.87	HK\$0.99

SUMMARY

Notes:

- (1) The calculation of market capitalization is based on 1,040,000,000 Shares expected to be in issue immediately upon completion of the Global Offering.
- (2) The unaudited pro forma adjusted consolidated net tangible assets per Share is based on 985,777,778 Shares expected to be in issue immediately upon completion of the Global Offering (without taking into account the impact upon the Conversion of Series A Preferred Shares. If the Series A Preferred Shares were assumed to be converted on 31 December 2015, the unaudited pro forma adjusted consolidated net tangible assets of our Company will increase by RMB186,667,000, being the carrying amounts of the Series A Preferred Shares as at 31 December 2015. Accordingly, the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company would be RMB916,132,000 (based on the Offer Price of HK\$2.98 per share) and RMB1,009,321,000 (based on the Offer Price of HK\$3.42 per share) respectively. On the basis that 1,040,000,000 Shares are in issue after the conversion of Series A Preferred Shares, the unaudited pro forma adjusted consolidated net tangible assets per share would be RMB0.88 (equivalent to HK\$1.04) (based on the Offer Price of HK\$2.98 per share) and RMB0.97 (equivalent to HK\$1.15) (based on the Offer Price of HK\$3.42 per share) respectively).

USE OF PROCEEDS

Assuming an Offer Price of HK\$3.20 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$2.98 and HK\$3.42 per Offer Share), we estimate that we will receive net proceeds of approximately HK\$750.2 million from the Global Offering (after deducting the underwriting commissions, brokerage fee, taxes and levies and other estimated expenses and assuming the Over-allotment Option is not exercised).

In line with our business strategies, we intend to use the net proceeds from the Global Offering for the following purposes and in the amounts set out below:

- Approximately 30%, or HK\$225.1 million, will be used to construct Phase I of our Bazhou Production Base located in Bazhou, Hebei Province, of which approximately (i) 70% will be used for construction and engineering and (ii) 30% will be used for purchase of equipment. Our Bazhou Production Base will (i) increase our production capacity and reduce our need for contract manufacturers, particularly during our peak seasons, (ii) optimize our product portfolio to manufacture new product lines and utilize new packaging materials, (iii) upgrade our storage facilities, and (iv) help us better manage our logistics costs due to its central geographic location in Northern China.
- Approximately 25%, or HK\$187.5 million, will be used for potential strategic acquisition opportunities in the future. We will seek to acquire: (i) businesses with well-established e-commerce and overseas channels that can enhance our distribution capabilities and (ii) businesses that can complement our product portfolio and business growth. As of the Latest Practicable Date, we had not proposed to invest in any specific acquisition target or identified any such targets for the use of proceeds from the Global Offering.
- Approximately 25%, or HK\$187.5 million, will be used to promote our products and brand, of which approximately (i) 40% will be used for promotion efforts in relation to new product launch; (ii) 30% will be used for promoting our brand through different channels, (iii) 25% will be used for expanding our sales teams and (iv) 5% will be used for optimizing our management information system.
- Approximately 10%, or HK\$75.0 million, will be used to enhance our research and development capabilities.
- Approximately 10%, or HK\$75.0 million, will be used for working capital and general corporate purposes.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, and to the extent permitted by applicable laws and regulations, we intend to apply our net proceeds to short-term investments including short-term bank deposit and money market instruments. For further details, see “Future Plans and Use of Proceeds.”

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following words and expressions shall have the following meanings.

“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s) or where the context so requires, any of them, that are used in connection with the Hong Kong Public Offering
“AQSIQ”	General Administration of Quality Supervision, Inspection and Quarantine
“Articles of Association” or “Articles”	the articles of association of our Company, as amended from time to time, which shall become effective on the Listing Date, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Bazhou Production Base”	a production facility we plan to build in Bazhou, Hebei province
“Board” or “Board of Directors”	our board of Directors
“Board Lot”	means the board lot in which the Shares are traded on the Stock Exchange from time to time
“Business Day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are open generally for normal banking business to the public
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of 237,777,778 Shares upon capitalization of certain sums standing to the credit of the share premium account of our Company referred to in the section headed “Share Capital” in this prospectus
“Cayman Islands”	the Cayman Islands, a British Overseas Territory
“Cayman Islands Companies Law”	the Companies Law (as amended) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

DEFINITIONS

“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Charlin Holdings”	CHARLIN HOLDINGS LIMITED, a business company with limited liability incorporated in the BVI on 2 July 2015, which will directly hold approximately 3.00% of the issued share capital of our Company immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised). It is a wholly owned subsidiary of Greenwoods Bloom Fund II, L.P., which is principally engaged in equity investment and is controlled by Greenwoods Bloom II LTD.
“Chengdu Yueyihai”	Chengdu Yueyihai Co., Ltd.* (成都悦頤海商貿有限公司), a limited liability company incorporated in the PRC on 28 April 2014 and an indirectly wholly owned subsidiary of our Company
“Chengdu Lease Agreement”	the lease agreement dated 1 December 2015, as supplemented by a supplemental agreement dated 5 January 2016, which was entered into between Chengdu Yueyihai and Sichuan Haidilao in connection with the lease of a parcel of land together with the properties and fixtures thereon by Sichuan Haidilao to Chengdu Yueyihai
“China” or “PRC”	the People’s Republic of China and, except where the context requires, references in this prospectus to the PRC or China exclude Hong Kong, Macau or Taiwan
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Common Shares Purchase Agreement”	the common shares purchase agreement entered into by, among others, Sky Ocean, Mr. Zhang, Ms. Shu and ZYSP YIHAI on 14 December 2015 in connection with the Pre-IPO Investment by Sky Ocean

DEFINITIONS

“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Company,” “our Company,” “the Company,” “we,” “us” or “our”	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 (formerly known as YIHAI INTERNATIONAL INVESTMENT LTD.)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholders” or “our Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules, and unless the context otherwise requires, refers to Mr. Zhang, Ms. Shu and ZYSP YIHAI
“Core Business”	the business of research and development, manufacturing, distribution and sales of high-quality hot pot soup flavoring, hot pot dipping sauce and Chinese-style compound condiment products
“CY YIHAI”	CY YIHAI Ltd, a business company with limited liability incorporated in the BVI on 10 October 2013, which will directly hold approximately 0.03% of the issued share capital of our Company immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised)
“Defective Leased Properties”	leased properties with title defects
“Director(s)”	director(s) of the Company
“EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) passed by the National People’s Congress of the PRC on 16 March 2007 and taking effect on 1 January 2008, as amended, supplemented and otherwise modified from time to time

DEFINITIONS

“first-tier cities”, “second-tier cities” and “third- and fourth-tier cities”	Beijing, Shanghai, Shenzhen and Guangzhou are defined as first-tier cities, whereas other municipalities, capital cities of provinces, cities of sub-provincial level and regional centers with relatively developed economies, and planned individual cities with developed economies are defined as second-tier cities
	third- and fourth-tier cities are defined as the prefecture-level and county-level cities in the PRC, excluding the first-tier cities and second-tier cities, and township-level cities
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.
“GFA”	gross floor area
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Glorious Future”	Glorious Future Holding Limited, a business company with limited liability incorporated in the BVI on 27 March 2014, which will directly hold 4.50% of the issued share capital of our Company immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised). It is a wholly owned subsidiary of Yunfeng Fund II, L.P., which is principally engaged in private equity investment and is controlled by Yunfeng Investment GP II, Ltd.
“Green application form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group,” “our Group,” or “the Group”	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“GYQ YIHAI”	GYQ YIHAI Ltd, a business company with limited liability incorporated in the BVI on 10 October 2013, which will directly hold approximately 2.50% of the issued share capital of our Company immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised)

DEFINITIONS

“Haidilao” or “Haidilao Group”	Sichuan Haidilao Group and Singapore Haidilao Group, the principal business of which is to operate hot pot restaurant chain in the PRC and oversea countries
“Haidilao Customized Products”	the hot pot soup flavoring and Chinese-style compound condiment products manufactured using formulas owned by Haidilao Group for use in its hot pot restaurants
“Haidilao Retail Products”	the retail hot pot soup flavoring, hot pot dipping sauce and Chinese-style compound condiment products manufactured using formulas we own for display and sale to consumers in Haidilao hot pot restaurants, which are the same products as those sold by us through third-party distributors
“HKFRS”	Hong Kong Financial Reporting Standard
“HKICPA”	The Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“HK\$” or “HK dollars” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules” or “Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Hong Kong Offer Shares”	26,000,000 new Shares initially being offered by our Company for subscription pursuant to the Hong Kong Public Offering at the Offer Price, subject to reallocation as described in the section headed “Structure of the Global Offering”
“Hong Kong Public Offering”	the offer of Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus a brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on the terms and subject to the conditions described in this prospectus and the Application Forms relating thereto, as further described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering”

DEFINITIONS

“Hong Kong Share Register”	the register of members of our Shares maintained by the Hong Kong Share Registrar in Hong Kong
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong Takeovers Code” or “Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Hong Kong Underwriters”	the underwriters for the Hong Kong Public Offering as listed in the section headed “Underwriting — Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 29 June 2016 relating to the Hong Kong Public Offering entered into by our Company, our Controlling Shareholders, the Joint Global Coordinators, and the Hong Kong Underwriters, as further described in the section headed “Underwriting”
“IFRS”	the International Financial Reporting Standards, amendments and interpretations issued by the International Accounting Standards Board
“Independent Third Party(ies)”	any entity or person who is not a connected person within the meaning ascribed under the Listing Rules
“International Offering”	the conditional placing of the International Offer Shares (a) in the United States to qualified institutional buyers in reliance on Rule 144A or another exemption from the registration requirement under the U.S. Securities Act, and (b) outside the United States in offshore transactions in reliance on Regulation S, including to professional investors in Hong Kong, as further described in the section headed “Structure of the Global Offering”
“International Offer Shares”	234,000,000 new Shares initially being offered by our Company for subscription and purchase at the Offer Price under the International Offering, subject to any reallocation together with, where relevant, any additional Shares which may be offered by the Company pursuant to the Over-allotment Option as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — The International Offering”

DEFINITIONS

“International Underwriters”	the underwriters for the International Offering who are expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or around 6 July 2016 by, among other parties, our Company, our Controlling Shareholders, the Joint Global Coordinators (for themselves and on behalf of the International Underwriters), as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — The International Offering”
“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 and Ms. Shu (our Controlling Shareholders), 16% by Mr. Shi Yonghong (our non-executive Director) and 10% by Mr. Gou Yiqun (our non-executive Director)
“JLJH YIHAI”	JLJH YIHAI Ltd, a business company with limited liability incorporated in the BVI on 12 August 2015, which will directly hold approximately 7.43% of the issued share capital of our Company immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised)
“Joint Bookrunners”	China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司), Macquarie Capital Limited (麥格理資本股份有限公司), DBS Asia Capital Limited (星展亞洲融資有限公司), and China Merchants Securities (HK) Co., Limited (招商證券(香港)有限公司)
“Joint Global Coordinators”	China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司) and Macquarie Capital Limited (麥格理資本股份有限公司)
“Joint Lead Managers”	China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司), Macquarie Capital Limited (麥格理資本股份有限公司), DBS Asia Capital Limited (星展亞洲融資有限公司), and China Merchants Securities (HK) Co., Limited (招商證券(香港)有限公司)

DEFINITIONS

“Latest Practicable Date”	23 June 2016, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“LHY YIHAI”	LHY YIHAI Ltd, a business company with limited liability incorporated in the BVI on 10 October 2013, which will directly hold approximately 8.52% of the issued share capital of our Company immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised)
“Listing”	listing of the Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Committee”	the listing committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about 13 July 2016, on which the Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
“Master Sales Agreement”	the master sales agreement dated 24 June 2016, entered into among Yihai Shanghai, Sichuan Haidilao and Singapore Haidilao, each for itself and on behalf of its subsidiaries, in relation to the supply of Haidilao Customized Products and Haidilao Retail Products by our Group to Haidilao Group
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company, as amended from time to time, which shall become effective on the Listing Date, a summary of which is set out in Appendix III to this prospectus
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部) or its competent local branches
“Mr. Zhang”	Mr. Zhang Yong (張勇), our Controlling Shareholder and a non-executive Director
“Ms. Shu”	Ms. Shu Ping (舒萍), our Controlling Shareholder and the spouse of Mr. Zhang
“Nomination Committee”	the nomination committee of the Board

DEFINITIONS

“Northern China”	Heilongjiang, Jilin, Liaoning, Inner Mongolia, Beijing, Tianjin, Hebei, Shandong, Shanxi, Henan, Niangxia, Shannxi, Gansu, Qinghai, Xinjiang and Tibet
“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) at which the Offer Shares are to be subscribed pursuant to the Global Offering, as further described in the section headed “Structure of the Global Offering — Pricing and Allocation”
“Offer Share(s)”	the Hong Kong Offer Share(s) and the International Offer Share(s)
“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Underwriters’ Representative, pursuant to which our Company may be required to allot and issue up to an aggregate of 39,000,000 Shares at the Offer Price, as further discussed in the section headed “Structure of the Global Offering” in this prospectus
“PBOC”	The People’s Bank of China (中國人民銀行), the central bank of China
“PBOC Rate(s)”	the exchange rate for foreign exchange transactions set daily by PBOC based on the China interbank foreign exchange market rate of the previous day and with reference to current exchange rates on the world financial markets
“People’s Congress”	the PRC’s legislative apparatus, including the National People’s Congress of the PRC and all the local people’s congresses (including provincial, municipal and other regional or local people’s congresses) as the context may require, or any of them
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC government” or “State”	the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
“Pre-IPO Investment(s)”	the pre-IPO investment(s) in our Company, the details of which are set out in the section headed “Our History, Reorganization and Corporate Structure — Pre-IPO Investments”

DEFINITIONS

“Price Determination Agreement”	the agreement to be entered into between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or about 6 July 2016 on which the Offer Price is fixed for the purposes of the Global Offering, and in any event no later than 12 July 2016, or such other date as agreed between parties
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“Qualified Institutional Buyers” or “QIBs”	qualified institutional buyers as defined in Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“Related-party Customized Products”	Haidilao Customized Products, Shuhai Customized Products and Youdingyou Customized products
“Related-party Retail Products”	Haidilao Retail Products, Shuhai Retail Products and Youdingyou Retail Products
“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	Renminbi yuan, the lawful currency of the PRC
“Reorganization”	the reorganization arrangements conducted by our Group immediately before the Listing as described in the section headed “Our History, Reorganization and Corporate Structure — Reorganization”
“RSU”	restricted share unit
“RSU Scheme”	the RSU scheme approved and adopted by our Company on 24 February 2016 for the grant of RSUs to RSU participants following the completion of the Global Offering, a summary of the principal terms of which is set forth in the section headed “Appendix IV — Statutory and General Information — D. RSU Scheme”
“RSU Trustee”	Vistra Fiduciary (HK) Limited, a professional trustee and an Independent Third Party appointed by our Company to act as the trustee to administer the RSU Scheme
“Rule 144A”	Rule 144A under the U.S. Securities Act

DEFINITIONS

“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Securities and Futures Commission” or “SFC”	the Securities and Futures Commission of Hong Kong
“Series A Preferred Shares”	54,222,222 series A preferred shares of nominal value of US\$0.00001 each issued and allotted by our Company to Glorious Future and Charlin Holdings
“Series A Preferred Shares Purchase Agreement”	the series A preferred shares purchase agreement entered into by, among others, our Company, Mr. Zhang, Ms. Shu, ZYSP YIHAI, Glorious Future and Charlin Holdings on 14 December 2015 in connection with the Pre-IPO Investment by Glorious Future and Charlin Holdings
“Series A Preferred Shareholder(s)”	holder(s) of our Series A Preferred Shares, which are Glorious Future and Charlin Holdings
“Shareholder(s)”	holder(s) of our Shares
“Shareholders’ Agreement”	the shareholders’ agreement entered into by, among others, our Company, Mr. Zhang, Ms. Shu, ZYSP YIHAI, Glorious Future and Charlin Holdings in connection with the Pre-IPO Investments
“Share(s)” or “Ordinary Share(s)”	ordinary share(s) in the capital of our Company with nominal value of US\$0.00001 each
“Shuhai Sales Agreement”	the sales agreement dated 24 June 2016, which was entered into among Yihai Shanghai and Shuhai Supply Chain, each for itself and on behalf of its subsidiaries, in relation to the sale of hot pot soup flavoring products, hot pot dipping sauce products and other compound condiment products by our Group to Shuhai Supply Chain Group

DEFINITIONS

“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 an indirectly non-wholly owned subsidiary of Jingyuan Investment
“Shuhai Supply Chain Group”	Shuhai Supply Chain and its subsidiaries
“Sichuan Haidilao”	Sichuan Haidilao Catering Corporation Ltd.* (四川海底撈餐飲股份有限公司), a joint stock limited liability company established in the PRC on 25 June 2009, or its predecessor, Sichuan Jianyang Haidilao Catering Co., Ltd.* (四川省簡陽市海底撈餐飲有限責任公司), which was established in the PRC on 16 April 2001. Sichuan Haidilao is directly held as to 33.5% by Mr. Zhang and Ms. Shu (our Controlling Shareholders), 50% by Jingyuan Investment (which in turn is held as to 68% by Mr. Zhang and Ms. Shu), 8% by Mr. Shi Yonghong (our non-executive Director) and 0.1% by Mr. Gou Yiqun (our non-executive Director)
“Sichuan Haidilao Group”	Sichuan Haidilao and its subsidiaries or, where the context so requires, in respect of the period before Sichuan Haidilao became the holding company of its present subsidiaries, the present subsidiaries of Sichuan Haidilao and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“Singapore Haidilao”	HAI DI LAO HOLDINGS PTE. LTD., a limited liability company incorporated in Singapore on 1 March 2013 which is indirectly held as to approximately 62.7% by Mr. Zhang and Ms. Shu (our Controlling Shareholders), 14.9% by Mr. Shi Yonghong (our non-executive Director) and 2% by Mr. Gou Yiqun (our non-executive Director)
“Singapore Haidilao Group”	Singapore Haidilao and its subsidiaries or, where the context so requires, in respect of the period before Singapore Haidilao became the holding company of its present subsidiaries, the present subsidiaries of Singapore Haidilao and the businesses carried on by such subsidiaries or (as the case may be) their predecessors

DEFINITIONS

“Sky Ocean”	Sky Ocean Enterprise Limited, a business company with limited liability incorporated in the BVI on 20 April 2012, which will directly hold 1.50% of the issued share capital of our Company immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised). It is a wholly owned subsidiary of New Hope Agriculture and Food Fund II, L.P., which is principally engaged in equity investment and is controlled by New Hope Agriculture and Food Fund II GP, LTD.
“SL Trust”	a discretionary trust set up by Mr. Shi Yonghong and Ms. Li Haiyan with Cititrust Private Trust (Cayman) Limited acting as trustee, the beneficiaries of which are Mr. Shi Yonghong and Ms. Li Haiyan
“Sole Sponsor”	China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司)
“Southern China”	Jiangsu, Shanghai, Zhejiang, Anhui, Jiangxi, Fujian, Hubei, Hunan, Guangdong, Chongqing, Guizhou, Guangxi, Sichuan, Yunnan and Hainan
“Stabilizing Manager”	China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司)
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the agreement expected to be entered into on or about the Price Determination Date between ZYSP YIHAI as lender and China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司) as borrower, pursuant to which ZYSP YIHAI shall, upon request, make available to lend up to 39,000,000 Shares to cover, <i>inter alia</i> , over-allotment in the International Offering
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules

DEFINITIONS

“SYH YIHAI”	SYH YIHAI Ltd, a business company with limited liability incorporated in the BVI on 10 October 2013, which will directly hold approximately 8.52% of the issued share capital of our Company immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised)
“Track Record Period”	the three years ended 31 December 2015
“Trademark License Agreements”	the trademark license agreements each dated 1 December 2015, as supplemented by supplemental agreements each dated 24 June 2016, which were entered into between Yihai Shanghai and Sichuan Haidilao in relation to the license of certain trademarks which have been registered or are being registered in the PRC by Sichuan Haidilao to Yihai Shanghai and its subsidiaries
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriters’ Representative”	China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司)
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States,” “USA” “U.S.” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US dollar(s)”, “US\$” or “USD”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“VAT”	value-added tax; all amounts are exclusive of VAT in this prospectus except where indicated otherwise
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited

DEFINITIONS

“YB YIHAI”	YB YIHAI Ltd, a business company with limited liability incorporated in the BVI on 10 October 2013, which will directly hold approximately 0.02% of the issued share capital of our Company immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised)
“YHQ YIHAI”	YHQ YIHAI Ltd, a business company with limited liability incorporated in the BVI on 10 October 2013, which will directly hold approximately 0.86% of the issued share capital of our Company immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised)
“Yihai (China)”	Yihai (China) Food Co., Limited (頤海(中國)食品有限公司), a company with limited liability incorporated in Hong Kong on 6 December 2013 and an indirectly wholly owned subsidiary of our Company
“Yihai Bazhou”	Yihai (Bazhou) Food Co., Ltd.* (頤海(霸州)食品有限公司), a company with limited liability incorporated in the PRC on 11 June 2015 and an indirectly wholly owned subsidiary of our Company
“Yihai Beijing”	Yihai (Beijing) Trading Co., Ltd.* (頤海(北京)商貿有限責任公司), a company with limited liability converted from Haidilao Beijing Sales Branch on 24 November 2014 and an indirectly wholly owned subsidiary of our Company
“YIHAI LTD”	YIHAI LTD, a business company with limited liability incorporated in the BVI on 29 October 2013 and a directly wholly owned subsidiary of our Company
“Yihai Shanghai”	Yihai (Shanghai) Food Co., Ltd. (頤海(上海)食品有限公司), a foreign investment enterprise incorporated in the PRC on 1 December 2014 and an indirectly wholly owned subsidiary of our Company

DEFINITIONS

“YLJ YIHAI”	YLJ YIHAI Ltd, a business company with limited liability incorporated in the BVI on 10 October 2013, which will directly hold approximately 2.30% of the issued share capital of our Company immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised)
“Youdingyou”	Beijing Youdingyou Catering Management Co., Ltd.* (北京優鼎優餐飲管理有限公司), a company with Limited Liability established in the PRC on 30 July 2012, which is held as to approximately 31.9% by Mr. Shi Yonghong and 9.6% by Mr. Gou Yiqun, each a non-executive Director
“Zhengzhou Shuhai”	Zhengzhou Shuhai Enterprise Co., Ltd.* (鄭州蜀海實業有限公司), a company with limited liability incorporated in the PRC on 13 January 2012 and an indirectly wholly owned subsidiary of our Company
“ZYSP Trust”	a discretionary trust set up by Mr. Zhang and Ms. Shu with UBS Trustees (B.V.I.) Limited acting as trustee, the beneficiaries of which are Mr. Zhang and Ms. Shu
“ZYSP YIHAI”	ZYSP YIHAI Ltd, a business company with limited liability incorporated in the BVI on 10 October 2013, which is our Controlling Shareholder. It will directly hold approximately 35.82% of the issued share capital of our Company immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised)

For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in the prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail. English translations of company names and other terms from the Chinese language are marked with “” and are provided for identification purposes only.*

GLOSSARY

This glossary contains certain definitions and technical terms used in this prospectus in connection with our Company and our business. As such, some terms and definitions may not correspond to standard industry definitions or usage of such terms.

“compound condiment products”	condiments that are made of or composed of two or more materials
“CRM”	customer relationship management, an approach to managing a company’s interaction with current and future customers
“food additives”	synthetic or natural substances added into the food for the purpose of improving the quality, color, smell and taste of food, preservation and processing
“food industry companies”	the companies which are engaged in food processing and food production
“food processing”	the process by which manufacturers transform raw materials including condiments into food
“HACCP”	Hazard Analysis and Critical Control Points, a systematic preventative approach to food safety. HACCP is used in the food industry to identify potential food safety hazards, so that key actions, known as Critical Control Points can be taken to reduce to eliminate the risk of the hazards being identified. HACCP principles have been promoted and incorporated into food safety legislation in many countries around the world
“HALAL”	a recognition that the products are permissible under Islamic law and these products are edible, drinkable and usable by Muslims
“home cooking”	the behavior that customers cook cuisines at home
“home cooking customers”	the customer group who mainly do home cooking rather than out dining for meals
“hot pot condiment”	hot pot soup flavoring and hot pot dipping sauce, collectively
“hot pot”	a traditional cuisine in China
“hot pot dipping sauce”	a kind of compound condiment, which is mainly made of sesame paste and peanut paste and other condiment, usually used for hot pot foodstuff dipping
“hot pot soup flavoring”	used for making hot pot soup, usually adapting beef tallow or vegetable oil as its main components, mixed with other condiments such as pepper, chicken essence, spices, etc

GLOSSARY

“ISO”	the International Organisation for Standardisation, a non-governmental organization having a central secretariat based in Geneva, Switzerland, which gives world-class specifications for products, services and systems to ensure quality, safety and efficiency
“ISO 9001”	Quality Management: a member of the ISO 9000 family, standards of which are set by ISO for quality management systems when an organization needs to demonstrate its ability to provide products that fulfil customers and applicable regulatory requirements and aim to enhance customer satisfaction
“kg”	kilogram
“KPI”	key performance indicator, a business metric used to evaluate factors that are crucial to the success of an organization
“market size”	total sales value consumed
“mid- to high-end hot pot soup flavoring”	retail priced no less than RMB10.0 per package in 2015
“MSG”	monosodium glutamate, a food additive used as a flavor enhancer to balance, blend and round the total perception of other tastes
“O2O”	online-to-offline commerce, a business strategy that draws potential customers from online channels to physical stores
“QS”	a quality control certification for, among other, production of food throughout the production process
“restaurant catering”	the behavior that customers have meals in restaurants
“restaurant chain”	a catering business model that involves opening a series of restaurants under the same brand
“sales value”	the total sales by all ultimate customers including retail consumers, food processing manufacturers, catering service providers, etc. For direct sales to catering service providers, food processing manufacturers, sales value is measured by the direct sales. For the sales to retail consumers, sales value is measured by the retail sales
“single condiment products”	condiments that are composed of one major material
“SRM”	supplier relationship management, a comprehensive approach to manage an enterprise’s interactions with the organizations that supply the goods and services it uses

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS CONTAINED IN THIS PROSPECTUS ARE SUBJECT TO RISKS AND UNCERTAINTIES

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed “Summary,” “Risk Factors,” “Future Plans and Use of Proceeds,” “Industry Overview,” “Business” and “Financial Information.” These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section headed “Risk Factors,” which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements.

The words “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “seek,” “will,” “would” and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- our business strategies and our business plans;
- our future business development, results of operations and financial conditions;
- developments and trends in consumer preferences and consumption pattern;
- our ability to maintain an effective quality control system;
- our ability to attract customers and further enhance our brand recognition;
- our dividend distribution plans;
- trends and competition in China’s compound condiment industry; and
- changes in the general economic, regulatory and operating conditions in the markets in which we operate.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section headed “Risk Factors.”

RISK FACTORS

You should carefully consider all the information in this prospectus, including the risks and uncertainties described below and our financial statements and the related notes, prior to investing in our Shares. The risk factors relating to our business, industry and China may not typically be associated with investing in equity securities of similar companies from other jurisdictions. Our business, financial conditions, results of operations and cash flows could be materially and adversely affected by any of these risks. The trading price of our Shares could decrease due to any of these risks and you may lose all or part of your investment.

These risk factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date, will not be updated after the date hereof, and is subject to the cautionary statements in the section headed “Forward-Looking Statements” in this prospectus.

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. These risk factors can be broadly categorized into: (i) risks relating to our business and our industry; (ii) risks relating to China; and (iii) risks relating to the Global Offering.

RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

We have experienced rapid growth in a relatively short period of time and may not be able to maintain similar rates of growth in the future.

During the Track Record Period, we expanded significantly and our revenue increased from approximately RMB315.9 million for the year ended 31 December 2013 to approximately RMB847.3 million for the year ended 31 December 2015, representing a CAGR of approximately 63.8%. We expect to continue expanding our sales and operations. However, our expansion strategy may be hindered and there is no assurance that we would be able to manage our future expansion effectively or in a cost-effective manner. In addition, the growth of our business will impose substantial demands on our managerial, operational, financial and other resources and increase our working capital needs. Further, although we became profitable for the years ended 31 December 2013, 2014 and 2015 as a result of the rapid growth of our sales to third parties associated with the expansion of our distribution network and the new pricing policy with respect to our sales to related parties, we experienced net loss in 2012 primarily due to our then cost plus pricing policies with respect to our sales to related parties and the significant expenses we incurred associated with the construction of our Zhengzhou production facilities. We may not maintain profitability or avoid net losses in the future.

As the change of our pricing policy with respect to sales to related parties had significantly affected our result of performance, particularly our revenue, gross profit and net profit during the Track Record Period and we may not be able to increase the price of our products sold to related parties at similar rates in the future, our historical results may not be reflective of our future performance and we may not be able to maintain similar rates of growth in the future.

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During the Track Record Period, if there was no change on pricing policy for related parties sales in August 2014, our revenue, gross profit and net profit in 2014 would be RMB485.5 million, RMB106.7 million and RMB32.9 million, respectively, representing a decrease of 2.6%, 10.7% and 22.5%, respectively, from our results of performance in 2014, and our revenue, gross profit and net profit in 2015 would be RMB765.4 million, RMB212.4 million and RMB63.3 million, respectively, representing a decrease of 9.7%, 27.8% and 49.2%, respectively, from our results of performance in 2015.

In addition, during the Track Record Period, if new pricing policy for related parties sales implemented since August 2014 was adopted at the beginning of the Track Record Period, our revenue, gross profit and net profit in 2013 would be RMB355.1 million, RMB108.7 million and RMB51.5 million, respectively, representing an increase of 12.4%, 56.6% and 133.5%, respectively, from our results of performance in 2013, and our revenue, gross profit and net profit in 2014 would be RMB542.5 million, RMB163.8 million and RMB75.7 million, respectively, representing an increase of 8.9%, 37.1% and 78.2%, respectively, from our results of performance in 2014.

Our ability to grow our business is subject to other risks and uncertainties, including our ability to:

- compete effectively with companies in the condiment industry, particularly hot pot condiment manufacturers, some of which have longer operating histories and greater financial resources than we do;
- offer commercially successful products to attract a larger base of consumers;
- increase sales and marketing activities and promote customer awareness and acceptance of our products;
- successfully streamline our product offerings and focus on high-end premium products in accordance with our business strategies;
- continue our existing arrangements with suppliers and customers including distributors and enter into new arrangements with additional suppliers and customers including distributors;
- manufacture and deliver products in a timely manner and in sufficient quantities;
- expand manufacturing capacities efficiently and ramp up operations;
- manage our raw material supplies and cost of raw materials;
- maintain sufficient cash and financing to fund our expansion plans and business operations; and
- retain our management and skilled staff in research and development, production line operations, and sales and marketing and attract additional key qualified personnel in order to keep pace with our growth.

RISK FACTORS

If we are unsuccessful in addressing any of these risks and uncertainties, our business, financial conditions, cash flows, results of operations and growth may be materially adversely affected.

We sell and market our products under the “Haidilao” (海底撈) brand. If we fail to maintain the exclusive rights to use the “Haidilao” (海底撈) brand in our condiment products during the term of the licensing arrangement, our business may be materially and adversely affected.

We sell and market our products under the “Haidilao” (海底撈) brand. We entered into a Trademark License Agreement with Haidilao Group in December 2015, under which Haidilao Group agreed to license us the exclusive use of the trademark of “Haidilao (vertical)” (“海底撈(豎版)”) for condiment products, for a perpetual term commencing from 1 January 2007 to the extent permissible under the Listing Rules, relevant laws and regulations. The Trademark License Agreements are only terminable with consent of our independent non-executive Directors. See “Business — Intellectual Property — Trademark License from Haidilao Group.” As all of our products are branded under the “Haidilao” (海底撈) brand, if we fail to maintain the exclusive right to use the “Haidilao” (海底撈) brand for condiment products during the term of the Trademark License Agreement as a result of breach by Sichuan Haidilao (or the then owner(s) of the relevant trademarks), our business may be materially and adversely affected.

If the “Haidilao” (海底撈) brand is harmed, our business may be materially and adversely affected.

We sell and market our products under the “Haidilao” (海底撈) brand. Consumers’ strong recognition of “Haidilao” (海底撈) brand is critical to our continued success and growth. Nevertheless, “Haidilao” (海底撈) brand could be harmed by product defects, ineffective customer services, product liability claims, consumer complaints or negative publicity or media reports in relation to Haidilao Group’s business, which could materially and adversely affect the level of consumers’ recognition of, and trust in, us and our products. In addition, we may not be able to protect the “Haidilao” (海底撈) brand as we are not in a position to control or influence the conduct of the other parties that share the brand with us. Any failure to protect the “Haidilao” (海底撈) brand may reduce the value of goodwill associated with the brand and adversely affect our business and results of operations.

We derive significant revenue from Haidilao Group, and we will continue to conduct connected transactions with Haidilao Group in the foreseeable future. Any significant reduction in sales to or the loss of Haidilao Group could materially and adversely affect our business and results of operations.

We derive significant revenue from Haidilao Group. For the years ended 31 December 2013, 2014 and 2015, sales to Haidilao Group accounted for 57.2%, 55.6% and 54.0% of our revenue, respectively. It is thus essential for us to maintain close and mutually beneficial relationships with Haidilao Group. On 24 June 2016, our wholly owned subsidiary, Yihai Shanghai (for itself and on behalf of its subsidiaries) entered into a Master Sales Agreement with Sichuan Haidilao (for itself and on behalf of its subsidiaries) and Singapore Haidilao (for itself and on behalf of its subsidiaries), and according to the Master Sales Agreement, we are the sole supplier to Haidilao Group of (i) hot pot soup flavoring products for use in its restaurants in China, and (ii) all retail products for display and

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sale to consumers in its restaurants in China. The connected transactions conducted between us and Haidilao Group are in the best interest of us and our shareholders as a whole and do not undermine our ability to operate our business independently from Haidilao Group. For more details, please see “Connected Transactions.” However, there can be no assurance that Haidilao Group will continue their purchases, if at all, from us at the current levels. Our new pricing policy for our sales to Haidilao Group was adopted in August 2014 and subsequently amended in January 2016. We have also increased the price of certain Haidilao Customized Products and Haidilao Retail Products in August 2015. While we will review the sales prices every six months, such review frequency, however, may not timely reflect the market trend. Moreover, when determining the prices, we will take into account factors such as (i) historical sales price, (ii) our estimated overall net profit margin through sales to independent third party distributors in accordance with the pricing formula, (iii) our production costs including the costs of raw materials, selling and administrative expenses incurred in relation to the condiment products sold to Haidilao Group and its affiliates and (iv) the market price of similar products sold by comparable companies. As the parties may have different interpretations of these factors, we may fail to agree on the sales prices with Haidilao Group in a timely manner. Given a significant portion of our revenue is derived from Haidilao Group, if the sales prices cannot be adjusted timely and fairly, it might adversely affect our overall results of operations. For details of our pricing policy for sales to Haidilao Group, see “Business — Sales and Marketing — Pricing Policy — Pricing for Sales to Haidilao Group and its Affiliates”. In addition, the hot pot restaurant chain sector has been facing increasing competition in recent years and Haidilao Group’s business may be negatively impacted by any potential challenges to its business, which, in turn, may adversely affect our sales. Any significant reduction in sales to or the loss of Haidilao Group could materially and adversely affect our profitability and results of operations.

Inadequate or interrupted supply and price fluctuation of our raw materials and packaging materials could adversely affect our profitability.

Production volumes and costs for our products are dependent on our ability to purchase raw materials and packaging materials at acceptable prices and maintain a stable and sufficient supply of our major raw materials, including vegetable oil, animal oil, chili peppers and spices, and packaging materials. Our costs of raw materials constituted 76.0%, 64.9% and 59.2% of our cost of sales in the three years ended 31 December 2013, 2014 and 2015, respectively. Raw materials and packaging materials we use are subject to price volatility caused by external conditions, such as commodity price fluctuations, supply and demand dynamics, logistics and processing costs, our bargaining power with suppliers, inflation, and governmental regulations and policies. We expect that our raw material and packaging material prices will continue to fluctuate and be affected by inflation and other factors over which we have no control. Although we hedge the risks of price fluctuations in soybean oil, there is no guarantee that we will be able to do so in the future at a reasonable cost or at all. As such, commodity price increases may result in unexpected increases in our raw material and packaging material costs, and if we are unable to manage these costs or to increase the prices of our products to offset these increased costs, our margins and overall profitability may decrease.

If all or a significant number of our suppliers for any particular raw material or packaging material are unable or unwilling to meet our requirements, we could suffer shortages of raw material or packaging material or significant cost increases. Our raw material and packaging material suppliers could fail to meet our needs for various reasons, including fires, natural disasters, weather,

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manufacturing problems, disease, crop failure, strikes, transportation interruptions, government regulation, political instability or terrorism. A failure of supply could also occur due to suppliers' financial difficulties, including bankruptcy. Changing raw material or packaging material suppliers may require long lead time. We may not be able to locate alternative suppliers in sufficient quantities, of suitable quality, or at an acceptable price. Continued supply disruptions could exert pressure on our costs, and we cannot assure you that all or part of any increased costs can be passed along to our customers in a timely manner or at all, which could negatively affect our business, overall profitability and financial performance.

To maintain flexibility in our operations, we generally do not enter into long-term agreements with our suppliers. Instead, our supply agreements for key raw materials typically have a term of one year, subject to annual review and renewal. Our suppliers may reduce or cease their supplies to us at any time in the future, which could adversely affect our business and results of operations. There is no guarantee that our current or future contracts can be negotiated on terms and prices equivalent to or better than current terms and prices. In addition, if we face increased costs from our suppliers, we may not be able to pass on these higher costs along to our distributors and customers.

We may be exposed to risks from our hedging activities in relation to the commodity prices of soybean oil.

The price for soybean oil, one of the major raw materials for our production, has been volatile in the past ten years. Thus, we use certain hedging instruments to limit exposure to future soybean oil price changes. Our primary hedging method is to purchase soybean oil futures when we believe the prices are favorable to mitigate the impact of rising commodity prices on us.

While such hedging activities can provide protection against an adverse movement in market prices, it can also preclude our opportunity to benefit from a favorable market movement. The successful use of a hedging device depends on our ability to forecast correctly the direction and extent of market movements within a given time frame. To the extent market prices remain stable or such prices fluctuate in a direction opposite to that anticipated, we may realize a loss on the hedging transaction that is not offset by a decrease in the soybean oil price. The maximum financial exposure on the outstanding positions of our soybean oil futures contracts as of each of the year end date during the Track Record Period would be the deposit amount for soybean oil futures contracts we held at the respective date. In addition, if we fail to properly monitor and manage our hedging positions, we may be required to deposit and utilize additional amount that may adversely affect our cash and cash equivalent position. Although we have put in place certain risk control procedures aimed at reducing risks in relation to these hedging transactions, there can be no assurance that these procedures will be effective and adequate. There can be no assurance that we will not experience losses with respect to these hedging transactions in the future or that such losses will not have a material adverse effect on our business, financial conditions, results of operations and prospects.

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Any negative publicity or media reports related to the compound condiment industry, our raw materials, products or products similar to ours could adversely affect our reputation and our ability to sell our products.

We are subject to risks affecting the compound condiment industry generally, including risks posed by the following:

- contamination of raw materials;
- consumer product liability claims;
- product labeling errors;
- the increase in the expense and the possible unavailability of product liability insurance; and
- the potential cost of product recalls.

If our raw materials or products are found to be spoiled, contaminated, tampered with, incorrectly labeled or reported to be associated with any of the above mentioned incidents, our consumers' perceptions of our products may be negatively affected, resulting in decreased demand for our products. Reports of contaminated or tainted compound condiment products produced by other manufacturers in China could negatively affect the compound condiment industry as a whole and our business, even if there is no association with our products. Such adverse publicity could negatively affect our sales, increase government oversight of our industry, and have a material adverse effect on our business, results of operations and financial conditions.

In addition to the risks caused by our processing operations and the subsequent handling of our products, we may encounter the same risks if a third party tampers with our products. Any product contamination could also subject us to product liability claims, adverse publicity and government scrutiny, investigation or intervention, product return, resulting in increased costs and any of these events could have a material and adverse impact on our reputation, business, financial conditions, results of operations and prospects.

We may be subject to warranty and recall claims, which may increase our overhead cost and adversely affect our reputation, financial conditions and liquidity.

We provide various quality warranties to our distributors and customers. We face an inherent business risk of exposure to warranty claims if our products actually or allegedly fail to meet certain standards as expected. There can be no assurance that our quality control measures will be sufficient to prevent against product defects. There can also be no assurance that we will not incur significant costs to replace or repair faulty products, make refunds for product returns or defend against such claims. In addition, if any of our products are or are alleged to be defective, we may be required to recall such products. We cannot assure you that the future cost associated with providing product warranties and/or bearing the cost of repair or replacement of our products or related damage to our brand image will not have a material adverse effect on our financial conditions and liquidity.

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Our business is affected by changes in consumer taste and discretionary spending, and our efforts in developing, launching and promoting new products may not successfully respond to such changes.

The compound condiment industry is affected by consumer taste and preference. Our success relies, in part, upon our ability to develop, launch, and promote new products, flavors and packaging successfully, which in turn depends on our ability to anticipate the consumer preferences, including the dietary habit of consumers, and to market our products in ways that would appeal to their preferences. Although we have a dedicated product development team who constantly develops new products to adapt to changes in dining trends, shifts in consumer taste and nutritional trends, we cannot assure you that we could continue to develop new products in response to these factors. In addition, if prevailing health or dietary preferences and perceptions cause consumers to avoid our products in favor of alternative products, our business could suffer. Our failure to anticipate, identify or react to these particular preferences or changes may limit the demand for any new products we introduce, which may result in us not being able to recover our development, production and marketing costs. If this occurs, our business, financial conditions and results of operations may be materially adversely affected.

Our success also depends, to a significant extent, on discretionary customer spending, which is influenced by general economic conditions. Accordingly, we may experience declines in sales during economic downturns or prolonged periods of high unemployment rates. Any material decline in the amount of discretionary spending in China may have a material adverse effect on our business, results of operations and financial conditions.

We face intense competition which may affect our market share and profit margins.

China's hot pot condiment products market is highly competitive and fragmented. According to Frost & Sullivan, in 2015, the market share of the five largest hot pot condiment manufacturers in China accounted for approximately 29.6% of China's hot pot condiment market share. We cannot assure you that our current or potential competitors will not provide products comparable to or superior than ours, offer products at competitive prices or adapt measures more quickly than we do to suit the evolving industry trends or changing market conditions. Besides, consolidation may occur in China's hot pot condiment industry and alliances may develop among our competitors, which may enable our competitors to acquire significant market share rapidly.

Furthermore, our competitors may substantially increase their advertising expenses and promotional activities or engage in irrational or predatory pricing behavior. We cannot assure you that our competitors will not actively engage in activities, whether legal or not, designed to undermine our brand and product quality or to influence consumer confidence in our products. Increased competition may result in price reduction, reduced sales volume, reduced profit margins and a loss of our market share, any of which may have a material adverse effect on our business, results of operations and financial conditions.

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We rely on our distributors to place our products into the market and we may not be able to control our distributors and their sub-distributors and retailers.

We rely on our distributors, who are all independent third parties to sell our products. As of 31 December 2015, our distribution and sales network covered 31 provinces and regions, all first-tier cities, 28 second-tier cities and 134 third- and fourth-tier cities in China as well as 11 overseas countries and markets and consisted of 339 distributors. For the years ended 31 December 2013, 2014 and 2015, sales to our distributors accounted for 39.6%, 43.5% and 43.8% of our total revenue, respectively. As we mainly sell and distribute our products through distributors, any one of the following events could cause fluctuations or declines in our revenue and could have an adverse effect on our financial conditions and results of operations:

- reduction, delay or cancellation of orders from one or more of our distributors;
- selection or increased sales of our competitors' products by our distributors;
- failure to renew distribution agreements and maintain relationships with our existing distributors;
- failure to establish relationships with new distributors on favorable terms; and
- inability to timely identify and appoint new distributors upon the loss of one or more of our existing distributors.

We may not be able to compete successfully against the sales and marketing campaigns of some of our current or future competitors, especially if these competitors provide their distributors with more favorable arrangements. We cannot assure you that we will not lose any of our distributors to our competitors, which could cause us to lose some or all of our favorable arrangements with such distributors and may result in the termination of our relationships with our distributors. In addition, we may not be able to successfully manage our distributors, and the cost of any consolidation or further expansion of our distribution and sales network may exceed the revenue generated from these efforts. There can be no assurance that we will be successful in detecting any non-compliance of our distributors with the provisions of their distribution agreements. Non-compliance by our distributors could negatively affect our brand, demand for our products and our relationships with other distributors. Furthermore, if the sales volumes of our products sold to consumers are not maintained at a satisfactory level or if our distributor orders fail to track consumer demand, our distributors may not place new orders from us, may decrease the quantity of their regular orders or may ask for discounted price. In addition, most of our distributors sell products produced by other manufacturers that may compete directly with us, which may, in certain circumstances, hinder or impact our distributors' ability or incentive to maximize sales of our products. The occurrence of any of these factors could result in a significant decrease in the sales volume of our products and therefore adversely affect our financial conditions and results of operations.

We do not have any contractual arrangements with any sub-distributors or retailers of our distributors, and we rely on our distributors to manage their sales practices. As a result, we have limited control over the ultimate sales by these distributors, sub-distributors or their retailers. There

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may be instances when these distributors, sub-distributors or their retailers take actions which are not consistent with our business strategies, such as failure to follow our pricing policy and participate in our marketing and promotional activities. These factors may in turn adversely affect our business, financial conditions and performance.

In addition, we sometimes extend credit terms ranging from 30 to 60 days to our distributors. Any significant delay in payment or default by our third party distributors could affect our liquidity and cash flows, which may materially adversely affect our financial conditions and results of operations.

Sales to some of our distributors with significant bargaining power account for a significant portion of our sales to third party distributors.

Our sales to large distributors with significant bargaining power account for a significant portion of our sales to third party distributors. For example, for the years ended 31 December 2013, 2014 and 2015, sales to our ten largest distributors accounted for approximately 52.0%, 42.0% and 37.6% of our sales to distributors, respectively. Our large distributors may have leverage to require us to provide larger, more tailored promotional and product delivery programs. If we do not successfully provide appropriate marketing or other service to these distributors, our sales could suffer.

We may not be able to accurately track our distributors' sales and inventory levels of our products, which could cause us to predict sales trends incorrectly.

Our distributors may be unable or unwilling to provide us with information in relation to their inventory levels and sales of our products in a timely manner, or at all. As we do not control the inventory and sales data belonging to our distributors, we rely on information provided to us by our distributors. As a result, our ability to accurately track the sales of our products by and the inventory level of our distributors is limited. Our sales to distributors may not be reflective of actual sales trends to consumers, and we may not be able to timely gather sufficient information and data regarding the market demand and consumers' preferences for our products. Failure to accurately track sales and inventory levels of our distributors and timely gather market information may cause us to incorrectly predict sales trends and impede us to quickly align our marketing and product strategies in response to market changes.

If our employees or distributors engage in corrupt practices or inappropriate promotion of our products, or if we engage in inappropriate marketing activities, our reputation could be harmed and we could be exposed to regulatory investigations, cost and liabilities.

We do not fully control the interactions of our employees and distributors, and they may try to increase sales volumes of our products through means that may violate the PRC anti-corruption and other related laws. If our employees or distributors engage in corrupt or other improper conduct that result in violation of applicable anti-corruption laws in the PRC or other jurisdictions, or if we engage in inappropriate marketing activities, our reputation could be harmed. Furthermore, we could be held liable for actions taken by us, our employees or our distributors, which could expose us to regulatory investigations, cost and liabilities.

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We had net current liabilities during the Track Record Period and we cannot assure you that we will not experience net current liabilities in the future.

Our current liabilities mainly comprise trade payables, other payables, and current income tax liabilities while our current assets mainly comprise inventories, cash and cash equivalents, and prepayments and other receivables. If we fail to generate current assets to the extent that the aggregate amount of our current assets on any given day exceeds the aggregate current liabilities on the same day, we will record net current liabilities. We had net current liabilities of approximately RMB96.8 million and RMB107.6 million as of 31 December 2013 and 2014, respectively. Such position was primarily attributable to (i) we were a wholly owned subsidiary of Haidilao Group prior to the Reorganization, and most of our current assets, particularly cash and cash equivalent had been distributed to Haidilao Group pursuant to its overall cash management practice, and (ii) there was a significant amount due to related parties in 2013 and 2014 primarily associated with the construction of our Zhengzhou production facilities. We cannot assure you that we will not have net current liabilities in the future. If we have significant net current liabilities, our working capital for purposes of our operations may be subject to constraints, which may have a material adverse effect on our business, financial conditions and results of operations.

Any significant liability claims and product contamination complaints from our distributors or consumers could adversely affect our reputation, business and operations.

Being in the condiment industry, we face an inherent risk of liability claims and product contamination complaints. Our product quality depends partly on quality of the raw materials provided by our suppliers and we may not be able to detect all defects in our supplies. Any product contamination occurring at our production facilities or during the transportation process that we fail to detect or prevent could adversely affect the quality of our products. Due to the scale of our operations, we also face the risk that certain of our employees may not adhere to our mandated quality procedures and requirements. Any failure to detect defective raw materials supplies, or observe proper hygiene, cleanliness and other quality control requirements or standards in our production process could adversely affect the quality of the products we offer, which could lead to liability claims, complaints and related adverse publicity, reduced sales volumes, imposition of penalties against us by relevant authorities and compensation awards by courts. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material incidents of non-compliance relating to environmental-related matters. There can be no assurance that we will not receive any product contamination claims or defective products claims from our distributors or consumers in the future. Any such incidents could materially harm our reputation, results of operations and financial conditions.

Our results of operations may fluctuate from period to period due to seasonality.

Since a majority of our revenue is derived from hot pot condiment products and there are seasonal patterns for hot pot consumption, our business is subject to seasonal fluctuations. Historically, we have experienced higher sales of our hotpot condiment products during the winter

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months and lower sales during the summer months, resulting in our higher revenues in the second half of each year. Such seasonality may also vary across different regions in China. Due to the seasonality of our business, the results of any period of a year are not necessarily indicative of the results that may be achieved for the full year.

Our sales are geographically concentrated in a few regional markets in China.

Approximately 33%, 28% and 25% of our revenue for the years ended 31 December 2013, 2014 and 2015 was contributed by sales in Beijing and Shaanxi. We expect our sales in these regions to continue to account for significant portions of our total sales of products in the near future, and we will continue to depend heavily on the general economic conditions and consumer preferences in these regions. If there is any material adverse change in the economic and social conditions or sudden change in consumer preferences in these regions, and if we are unable to divert our sales to other regions in China in a timely manner, our business, financial conditions and results of operations may be materially adversely affected.

We are subject to risks associated with our sales to overseas markets.

Expanding our overseas sales is a part of our long-term business strategy. We sell our products to overseas markets, including North America, Europe and Asia, and we plan to expand our international sales in the future. For the year ended 31 December 2015, our revenue from products made for export was RMB5.9 million. Our overseas sales are subject to various risks related to economic or political uncertainties including:

- general economic and political conditions;
- import or export licensing requirements imposed by various foreign countries;
- the closing of borders by foreign countries to the import of our products due to perceived health or safety issues;
- difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex domestic and international laws, treaties and regulations;
- different regulatory structures and unexpected changes in regulatory environments;
- distribution costs, disruptions in shipping or reduced availability of freight transportation; and
- fluctuations in selling prices and margins of our overseas sales.

Negative consequences relating to these risks and uncertainties could jeopardize or limit our overseas sales and could materially and adversely affect our business, financial conditions, results of operations and prospects, and our efforts to expand our overseas sales may not be successful.

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We may not be able to adequately protect our intellectual property rights and industrial know-how, which could harm the value of our brands and adversely affect our business and operation.

We have developed trademarks, patents, industrial know-how, product formulas, production processes, technologies and other intellectual property rights that are of significant value to us. As of the Latest Practicable Date, we had three pending trademark applications in Hong Kong, five registered patents issued by the State Intellectual Property Office of the PRC and were in the process of applying for five additional patents in the PRC. We also had 15 domain names, including our primary website, www.yihchina.com. Our products are sold under the “Haidilao” (海底捞) brand, which is critical to our continued success and growth. Counterfeiting and imitation of popular branded products occur from time to time in China and we cannot assure you that we will be able to promptly detect the presence of counterfeited products in the market. In addition, third parties may infringe upon our intellectual property rights or misappropriate our proprietary knowledge, primarily our proprietary formulas for hot pot soup flavoring and hot pot dipping sauce products, which could have a material adverse effect on our business, financial conditions or results of operations.

In addition, we rely on trade secrets protection to secure our product formulas and production processes. Besides legal and statutory protections, we rely on contractual responsibilities and confidentiality restrictions in our agreements with employees and contract manufacturers, to which we disclose our product formulas, to safeguard our proprietary rights. Any confidentiality breach by our employees, our contract manufacturers or any other entities having access to our formulas and other trade secrets could result in third parties, including our competitors, gaining access to such formulas and trade secrets. If our competitors are able to successfully imitate our product formulas and/or our product packaging while managing to provide comparable products at competitive prices, our market share may decrease.

In addition, we may engage contract manufactures to manufacture Haidilao Customized Products and we rely on the contractual confidentiality arrangement with our contract manufacturers to protect the Haidilao Group Formulas. If there is any leak of the Haidilao Group Formulas by our contract manufacturers, we may be held liable and our business relationship with Haidilao Group may be adversely affected.

If the steps we have taken and the protection provided by law do not adequately safeguard our intellectual property rights and industrial know-how, we could suffer losses in profits due to the sales of competing products, which exploit our intellectual property rights and industrial know-how and materially and adversely affect our financial conditions, results of operations and prospects.

Our contract manufacturers’ failure to adhere to quality control measures and standards would result in loss to us and could adversely affect our reputation and brand.

As part of our strategy to increase capacity in a cost-effective manner and maximize production flexibility, we manufacture some of our products through independent third party contract manufacturers. In 2013, 2014 and 2015, costs related to our contract manufacturing activities were approximately RMB1.9 million, RMB16.5 million and RMB73.1 million, respectively.

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We cannot guarantee that our contract manufacturers will consistently manufacture our products in accordance with the quality control measures and standards set forth in our contracts with them. Failures by contract manufacturers to adhere to these quality control measures and standards or consistently manufacture products according to the specifications we set could damage our reputation and brand image and may lead to product liability claims or product recalls.

Similarly, any failure on the part of our contract manufacturers to provide products to us on a timely basis could adversely affect our sales if we are unable to obtain such products from an alternative source.

We have adopted a share incentive plan, which may materially impact our future results of operations.

In February 2016, we adopted the RSU Scheme that permits the granting of RSUs to (i) the directors, officers, senior management and certain employees of the Group; and (ii) any person who, in the sole opinion of the Board, has contributed or will contribute to any member of the Group. An award of restricted share units under the RSU Scheme gives the grantee a conditional right upon vesting of the award obtain either Shares or an equivalent value in cash with reference to the market value of the Shares on or about the date of vesting, as determined by the Board in its absolute discretion, less any tax, fees, levies, stamp duty and other charges applicable. We reserved 53,680,000 Shares under the RSU Scheme. These Shares are held by the RSU Trustee on trust for the benefit of the participants to the scheme and will be released to participants upon vesting of each RSU under the RSU Scheme (when vesting in the form of Shares). For more details, see “Appendix IV — Statutory and General Information — D. RSU Scheme”. As of the Latest Practicable Date, no RSU had been granted or agreed to be granted by the Company pursuant to the RSU Scheme.

As a result of the grant of the RSUs under the RSU Scheme, we expect to incur significant share-based compensation expenses in the future based on the fair value of the share-based awards, which will be recognized in our consolidated statement of incomes and adversely affect our net income.

Our business, financial conditions and results of operations could be materially adversely affected by claims from third parties for possible infringement of their intellectual property rights.

Third parties, including our competitors, may claim that one or more of our products infringe their intellectual property rights. If a third party asserts that our products are infringing upon its intellectual property rights, this could cause expenses and, if successfully asserted against us, could require us to pay substantial damages and/or prevent us from selling our products. Although we may succeed in defending against these claims, any litigation regarding intellectual property rights could be costly and time-consuming, and could divert the attention of our management and key personnel from our business operations.

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Our future growth depends on our ability to increase the number of distributors and to maintain and enhance their performance.

We generally do not enter into long-term distribution agreements, and we cannot assure you that we will be able to renew such agreements with our preferred distributors on terms favorable to us or at all when our existing distribution agreements expire. In the event that a significant number of our distributors terminate their relationships with us, or if we are unable to maintain and expand our distribution network effectively, our sales volume and business prospects could be adversely affected.

We have limited ability to manage the activities of our distributors, who are independent from us. Our distributors could take actions, including one or more of the following, which could have an adverse effect on our business, prospects and brands:

- fail to meet the sales targets for our products in accordance with relevant agreements;
- sell products that compete with our products;
- sell our products outside their designated territories;
- fail to adequately promote our products;
- fail to maintain the requisite licenses or fail to comply with applicable regulatory requirements when selling our products; or
- violate anti-corruption and other laws of the relevant countries.

Any failure to maintain effective quality control systems for our products could have a material adverse effect on our reputation, results of operations and financial conditions.

The quality and safety of our products is critical to our success. Maintaining consistent product quality depends significantly on the effectiveness of our quality control systems, which in turn depends on a number of factors, including the design of our quality control systems and our ability to ensure that our employees adhere to and implement those quality control policies and guidelines. Our quality control system covers each phase of our operation including procurement, production, inventory and logistics processes. For more details on our quality control systems, see “Business — Quality Control and Food Safety”. There can be no assurance that our quality control systems will prove to be effective. Any significant failure or deterioration of our quality control systems could have a material adverse effect on our reputation, results of operations and financial conditions.

Our operations may be interrupted by production difficulties due to mechanical failures, utility shortages or stoppages, fire, acts of God or other calamities at or near our facilities.

We rely on machines and equipment to achieve mass production of our products. Any mechanical failures or breakdown could materially disrupt our production and cause us to incur additional costs to repair or replace the affected mechanical system. There can be no assurance that we will not experience problems with our machines and equipment or that we will be able to address any such

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problems or obtain replacements in a timely manner. Problems with key machines and equipment in one or more of our production facilities may affect our ability to manufacture our products or cause us to incur significant expenses to repair or replace the affected machines or equipment. Any of these could have a material adverse effect on our business, financial conditions, results of operations and prospects.

Furthermore, our production and operations depend on a continuous and adequate supply of utilities, such as electricity, water and gas. If there are any shortages of power, water, gas or other utilities, the relevant authorities may require our production facilities to be shut down periodically. Any disruption in the supply of electricity, water or gas at our production facilities would disrupt our production, and could cause deterioration or loss of our products. This could adversely affect our ability to fulfill our sales orders and consequently may have an adverse effect on our business and operations. In addition, our facilities and operations are subject to various risks. Fire, earthquakes, natural disasters, pandemic or extreme weather, including droughts, floods, excessive cold or heat, typhoons or other storms, damage to our production and processing facilities or disruption of transportation channels, among other events, could significantly interfere with our operations. Any failure to take adequate steps to mitigate the potential impact of such unforeseeable events, or to effectively respond to such events, could adversely affect our business, financial conditions and results of operations.

We are exposed to certain risks in respect of the development and construction of the Bazhou Production Base.

We are planning to construct Bazhou Production Base to meet the increasing market demand for our products. There is no assurance that we will be able to complete the construction and development of Bazhou Production Base within budget or in a timely manner, or at all. As a result, we may not expand as rapidly as we expect, and our competitiveness may be adversely affected.

The development and construction of Bazhou Production Base require substantial capital expenditure. There is no assurance that we will be able to obtain sufficient funding. We may also incur a significant amount of depreciation expenses associated with the Bazhou Production Base, which may adversely affect our profitability. Furthermore, the development and construction of Bazhou Production Base also face other risks commonly associated with construction projects, such as shortage or delay in the supply of labor, materials and equipment, cost overruns, natural disasters, accidents or other unforeseen circumstances. In addition, the development and construction of Bazhou Production Base are also subject to various regulatory approvals from local and provincial governments, including local counterparts of the Ministry of Environmental Protection of the PRC, the Ministry of Land and Resources of the PRC and the National Development and Reform Commission of the Government of the PRC. There is no assurance that relevant regulatory authorities would grant such approvals or that there will not be a delay in obtaining such approvals.

Although we conducted a detailed business analysis with respect to the development and construction of Bazhou Production Base, the general economic conditions and development of the industries that we operate in are beyond our control and cannot be predicted with certainty. As a result,

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we cannot assure you that demand for our products, solutions or services will continue to grow at the historical rates or grow at our expected rates to justify our investment for Bazhou Production Base. If future demand for our products does not match our growth in capacity, our business, financial conditions and results of operations will be materially and adversely affected.

We may be unable to receive compensation from suppliers for contaminated ingredients used in our products and indemnity provisions in our supply contracts may be insufficient.

In the event that we become subject to food safety claims caused by contaminated or otherwise defective ingredients or raw materials from our suppliers, we can attempt to seek compensation from the relevant suppliers. However, indemnity provisions in our supply contracts may be insufficient to cover lost profits and indirect or consequential losses. If no claim can be asserted against a supplier, or amounts that we claim cannot be recovered from the supplier, to the extent that our insurance coverage is insufficient, we may be required to bear such losses and compensation at our own costs. This could have a material adverse effect on our business, financial conditions and results of operations.

Our facilities and operations may require substantial investment and upgrading.

We have an advanced research and development team to develop new products and new techniques and to improve existing production technologies and processes. Our facilities and operations may require substantial investment and upgrading to apply those research results or to expand our production capacity or optimize our existing production capability. We expect to incur substantial costs to upgrade our facilities and equipment. If the upgrading costs exceed the anticipated costs or the upgrade does not bring increase of revenue as anticipated, our financial conditions could be adversely affected.

We rely on third party logistics service providers to deliver our products.

We deliver our products directly from our logistics centers to each distributor by land transportation through independent third party logistics service providers. As of 31 December 2015, we had four logistics service providers. Disputes with or a termination in our contractual relationships with one or more of our logistics service providers could result in delayed delivery of products or increased costs. There can be no assurance that we can continue or extend relationships with our current logistics service providers on terms acceptable to us, or that we will be able to establish relationships with new logistics service providers to ensure accurate, timely and cost-effective delivery services. If we are unable to maintain or develop good relationships with logistics service providers, it may inhibit our ability to offer products in sufficient quantities, on a timely basis, or at prices acceptable to our consumers. If there is any breakdown in our relationships with our preferred logistics service providers, we cannot guarantee that no interruptions would occur or that they would not materially and adversely affect our business, prospects and results of operations.

As we do not have any direct control over these logistics service providers, we cannot guarantee their quality of services. If there is any delay in delivery, damage to products or any other issue, we may lose consumers and sales and our brand image may be tarnished. In addition, our contract

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manufacturers sometimes deliver products to us by land transportation through engaging independent third party logistics service providers. Delays in delivery due to transportation shortages, infrastructure congestion or other factors could adversely impact our contract manufacturers' ability to timely deliver products to us.

Our success depends on the continuing efforts of our senior management team and other key personnel and our business may be harmed if we lose their services.

Our future success depends on the ability of our senior management team to work together and successfully implement our growth strategy while maintaining the strength of our brand. Our future success also depends heavily upon the continuing services and performance of our key management personnel. We must continue to attract, retain and motivate a sufficient number of qualified management and operating personnel to meet our expansion needs.

If our senior management team fails to work together successfully, or if one or more of our senior managers are unable to effectively implement our business strategy, we may be unable to grow our business at the speed or in the manner we expect. Competition for experienced management and operating personnel in the compound condiment industry is intense, and the number of qualified candidates is limited. We may not be able to retain the services of our key management and operating personnel or attract and retain high-quality senior executives or key personnel in the future.

In addition, if one or more of our key personnel are unable or unwilling to continue their present positions, we may not be able to replace them easily or at all, and our business may be disrupted and our results of operations may be materially and adversely affected. In addition, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing business, we may lose trade secrets and know-how as a result. Any failure to attract, retain and motivate these key personnel may harm our reputation and result in a loss of business.

Our performance depends on favorable labor relations with our employees, and any deterioration in labor relations, shortage of labor or material increase in wages may have an adverse effect on our results of operation.

The manufacturing of our products requires skilled labor, and our success depends on our ability to hire, train, retain and motivate our employees. We consider favorable labor relations as a significant factor that can affect our performance, and any deterioration of our labor relations could cause labor disputes or shortage, which could result in disruption of production and operations.

China's rapid economic growth has resulted in significantly increased labor costs, and average labor wages are expected to increase. In addition, we may need to increase our total compensations to attract and retain experienced personnel required to achieve our business objectives. Any material increase in our labor costs may have an adverse effect on our results of operations.

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Our failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

Companies operating in China are required to participate in various government sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations. See “Regulations — Employment and Social Insurance.” We did not make adequate employee benefit payments as required under applicable PRC labor laws until December, 2015, and as of 31 December 2013, 2014 and 2015, we have made provision of RMB0.8 million, RMB1.6 million and RMB2.6 million for the outstanding employee benefit payments, respectively. Our failure to make contributions to various employee benefit plans and comply with applicable PRC labor-related laws may subject us to late payment, penalties or fines. We may also be ordered to pay the cumulative amount of the under-contributed social insurance, housing fund and other employee benefits. If we are subject to such penalties in relation to the underpaid employee benefits, our financial conditions and results of operations may be adversely affected.

Our employees are subject to risks of serious injury caused by the use of production equipment and machinery.

We use heavy machinery and equipment such as packing machine, which are potentially dangerous and may cause industrial accidents and personal injury to our employees. Any significant accident caused by the use of such equipment or machinery could interrupt our production and result in legal and regulatory liabilities. Although we have purchased work-related injury insurance for our employees, insurance coverage related to accidents resulting from the use of our equipment or machinery may be inadequate to offset losses arising from claims related to such accidents. We cannot assure you that accidents will not happen in the future. In addition, potential industrial accidents leading to significant property loss or personal injury may subject us to claims and lawsuits, and we may be liable for medical expenses and other payments to the employees and their families as well as fines or penalties. As a result, our reputation, brands, business, results of operations and financial conditions may be materially and adversely affected.

We require various licenses and permits to operate our business. The loss of or failure to obtain or renew any or all of these licenses and permits may have a material adverse effect on our business, financial conditions and results of operations.

Pursuant to the relevant PRC laws and regulations, we are required to obtain and maintain various licenses and permits, such as the food production permits and the food distribution permits, in order to commence and operate our business at our production facilities, and distribute our products. We are also required to comply with the applicable PRC health and hygiene and production safety standards in relation to our production processes. Our production plants and facilities are subject to regular and random inspections by the regulatory authorities for compliance with many laws and regulations, such as the Regulations on the Administration of Production Licenses for Industrial Products of the PRC (《中華人民共和國工業產品生產許可證管理條例》), which were promulgated on 9 July 2005 and became effective on 1 September 2005, the Measures for the Implementation of the Administration of Production Licenses for Industrial Products of the PRC (《中華人民共和國工業產品生產許可證管理條例實施辦法》), which were promulgated on 15 September 2005 and became effective on 1 November 2005 and amended on 21 April 2010 and 21 April 2014, the Food Safety Law

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of the PRC (《中華人民共和國食品安全法》), which were promulgated on 28 February 2009 and became effective on 1 June 2009 and amended on 24 April 2015. Failure to pass these inspections, or the loss of or failure to obtain or renew our licenses and permits could result in a temporary or permanent suspension of some or all of our production activities. If this occurs, our business, financial conditions and results of operations may be materially adversely affected.

Changes in food-safety laws may affect our business.

As a manufacturer of compound condiment products, we are subject to extensive food-safety laws and regulations of China and other countries to which we distribute our products. If we fail to comply with food-safety laws in China or other jurisdictions in which we distribute our products, we may be subject to fines, suspension of operations, loss of food production licenses and, in more extreme cases, criminal proceedings against us and our management. Any of these events would have an adverse impact on our production, business, results of operations and financial conditions.

There can be no assurance that the Chinese government or the governmental authorities of other jurisdictions in which we distribute or sell our products will not impose additional or stricter laws or regulations on food safety, providing for stricter and more comprehensive monitoring and regulation of food manufacturers and distributors in areas including food production and distribution, which may lead to an increase in our costs of complying with such laws or regulations. We may be unable to pass these additional costs on to our customers, which may result in an adverse effect on our results of operations.

We are required to adhere to national health and safety standards, and in the event that we fail to meet these standards, our business, results of operation and brand image would be negatively affected.

We cannot guarantee that our procedures, safeguards and training will be completely effective in meeting all relevant health and safety requirements and preventing all contaminations. A failure to meet relevant government requirements or any instance of contamination could occur in our operations or those of our distributors or suppliers. This could result in fines, suspension of operations, loss of production permits, and in more extreme cases, criminal proceedings against us and our management. Moreover, negative publicity could be generated from false, unfounded or nominal liability claims or limited recalls. Any of these failures or occurrences could negatively affect our business and financial performance.

We are subject to the food safety laws and regulations of the PRC. Please refer to the section “Regulations — Laws and Regulations in relation to Food Production” for more information concerning the relevant food safety laws and regulations. In light of recent food safety concerns in China, there may be increasingly stringent enforcement of food safety rules and regulations and implementation of new food safety rules and regulations. In the event that the government increases the stringency of such laws, our production and distribution costs may increase, and we may be unable to pass these additional costs on to our customers.

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Our environmental related costs may increase if the Chinese environmental protection laws become more onerous, and non-compliance with relevant environmental protection laws could lead to imposition of fines and penalties and harm our business.

Our business is subject to China's environmental protection laws and regulations. These laws and regulations requires us to adopt effective measures to control and properly dispose of waste materials, waste water and other environmental waste materials, as well as to make fee payments for discharging waste substances. Fines may be levied against us if we cause pollution in excess of permitted levels. If we fail to comply with such laws or regulations, the administrative department for environmental protection can levy fines. For example, some of our production facilities in Chengdu failed to obtain the Environment Impact Assessment Approval (環評批覆) and the Environmental Protection Acceptance (環保驗收) before the commencement of production, and the relevant competent government authorities may impose a fine with the amount of less than RMB300,000. If the circumstances of the breach are serious, the Chinese government may suspend or close any operation failing to comply with such laws or regulations. Any environmental non-compliance incidents could materially adversely affect our business and financial conditions.

Our operations may be negatively affected by any industry wide food safety related concerns even if such concerns are not attributable to our fault or related to our business.

The condiment industry in China as a whole is subject to concerns over food safety and quality related issues. In particular, there have been numerous reports and negative publicities related to food safety and quality incidents in China's food industry. While the reports and allegations are not targeted at us, the compound condiment industry as a whole can be negatively impacted by these incidents and associated reports. Our prospects, business, results of operations and financial conditions can be negatively impacted if the condiment industry experiences a slower growth.

Legal defects relating to certain properties owned or leased by us could materially and adversely affect our ability to use such properties.

We, or our lessors, have not yet obtained valid title certificates for some of the properties we occupy in the PRC that would allow us to use or freely transfer such properties. For example, we leased from Haidilao Group one parcel of land in Chengdu with a total site area of approximately 9,656.5 sq.m. and properties that were built on such land for the use as production facilities and warehouses for three years. As of the Latest Practicable Date, Haidilao Group obtained the land use right certificate for the parcel of land but had not obtained title certificates for the properties built on such land as Haidilao Group failed to submit the required Construction Project Planning Permit (建設工程規劃許可證) and Construction Project Construction Permit (建設工程施工許可證).

We use these properties for various purposes, including manufacturing, offices, and storage facilities. We cannot predict how our rights as owner, lessee or occupier of these properties and our business operations may be adversely affected as a result of the absence of vested legal title in these properties or right to lease these properties. We may be required to cease some of our business

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operations currently carried out on properties that we do not have unassailable legal rights to use or occupy temporarily or permanently, and such relocation could adversely affect our business, financial conditions and results of operations. See “Business — Properties” in this prospectus for details of the properties we occupy.

Litigation or legal proceedings could expose us to liability, divert our management’s attention and negatively impact our reputation.

We may be involved in litigation or legal proceedings during the ordinary course of business operations related to product or other types of liability, labor disputes or contract disputes that could have a material and adverse effect on our financial conditions. These actions could also expose us to adverse publicity, which might adversely affect our brands, reputation and customer preference for our products. If we become involved in any litigation or other legal proceedings in the future, the outcome of these types of proceedings could be uncertain and could result in settlements or outcomes that adversely affect our financial conditions. In addition, any litigation or legal proceedings could incur substantial legal expenses as well as significant time and attention of our management, diverting their attention from our business and operations.

We may require additional capital and any failure by us to raise additional capital on terms favorable to us, or at all, could limit our ability to expand our business.

We may require additional capital to finance our operations and to support our expansion plans, and to that end, we may need to issue additional equity or debt securities or obtain credit facilities. The sale of additional equity securities may have a dilution effect to the percentage of ownership of our Shareholders. The incurrence of indebtedness would result in increased debt service obligations and we may be required to agree to operating and financing covenants that may restrict our operations. In particular, our ability to raise additional funds in the future is subject to a variety of uncertainties, including our future financial conditions, results of operations and cash flows, general market conditions for capital-raising activities by China-based companies, as well as economic, political and other conditions in China and elsewhere, including the global financial market volatility and credit tightening in China.

There is no assurance that we may be able to obtain the necessary capital that we require on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could limit our ability to grow our business and develop or enhance our product offerings to respond to market demand or competitive challenges. In these circumstances, our business, financial conditions and results of operations may be materially adversely affected.

Failures or security breaches of our information technology systems could disrupt our operations and negatively impact our business.

Information technology is an important part of our business operations and we increasingly rely on information technology systems to monitor and manage business data and increase efficiencies in our production and distribution facilities and inventory management processes. We also use information technology to process financial information and results of operations for internal reporting purposes and to comply with regulatory, legal and tax requirements. Our information

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technology systems may be vulnerable to a variety of interruptions, including natural disasters, telecommunications failures, computer viruses, cyber-attacks, hackers, unauthorized access attempts and other security issues. The technology security initiatives and disaster recovery plans we have implemented to address these concerns may not be adequate. Any significant failure of our systems, including failures that prevent our systems from functioning as intended, could cause transaction errors, processing inefficiencies, loss of customers and sales, resulting in a negative impact on our operations or business reputation. For more details of our information technology system, see “Business—Our Technology Platform”.

Our insurance policies may not provide adequate coverage for all claims associated with our business operations.

As of the date of this prospectus, we have obtained insurance policies that we believe are customary for businesses of our size and type and in line with the standard commercial practice in China. For more details on our insurance policies, see “Business — Insurance” in this prospectus. However, there are types of losses we may incur that cannot be insured against or that we believe are not commercially reasonable to insure, such as loss of reputation. If we were held liable for uninsured losses or amounts and claims for insured losses exceeding the limits of our insurance coverage, our business and results of operations may be materially and adversely affected.

We may be subject to fines as a result of unregistered leases.

Under PRC laws, lease agreements are required to be registered with the relevant government authorities. However, as of the Latest Practicable Date, the lessors of all our five leased properties have not registered such leases with competent government authorities. As advised by our PRC Legal Adviser, registration of the lease agreement shall be made, failing which either party to the lease agreement is subject to a fine ranging from RMB1,000 to RMB10,000 per lease agreement.

RISKS RELATING TO CHINA

Changes in political, social and economic policies in China may materially and adversely affect our business, financial conditions, results of operations and prospects.

We conduct our business operations primarily in China. Accordingly, our business, financial conditions, results of operations and prospects are significantly dependent on the economic, political and social conditions in China. The Chinese economy differs from the economies in most developed countries in many aspects, including the level of government involvement, degree of development, economic growth rate, control of foreign exchange and allocation of resources. Since 1978, the Chinese government has implemented many economic and social reform measures. As a result, China is experiencing a transition from a planned economy to a more market-oriented economy. Many of the reforms are exploratory or experimental, and they are expected to be modified as the economic and social situation develops. This refining and adjustment process may not necessarily have a positive effect on our operations and business development.

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China has been one of the world's fastest growing economies as measured by GDP growth in the past 30 years and has become the world's second largest economy by gross GDP since 2010. However, there is no assurance that China's economy can sustain historical growth rates. Since the second half of 2008, the global economic slowdown, the weak U.S. economy and the sovereign debt crisis in Europe have collectively increased downward pressure on China's economic growth. China's annual GDP growth rate has declined from 7.7% in 2013 to 7.3% in 2014, and further to 6.9% in 2015, according to National Bureau of Statistics of China (中華人民共和國國家統計局). There is no assurance that future growth will be sustained at similar rates or at all. If the economic growth of China continued to slow down, our business, financial conditions, results of operations and prospects will be materially and adversely affected.

The Chinese tax authorities have strengthened their scrutiny over transfers of equity interests in a PRC resident enterprise by a non-resident enterprise, which may negatively affect our business and our ability to conduct mergers, acquisitions or other investments and the value of your investment in us.

On 3 February 2015, the PRC State Administration of Taxation issued the Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (“**Circular 7**”). This regulation repealed certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises (關於加強非居民企業股權轉讓企業所得稅管理的通知) (“**Circular 698**”) and certain rules clarifying Circular 698. Circular 698 was issued by the PRC State Administration of Taxation on 10 December 2009. Circular 7 provides comprehensive guidelines relating to, and heightened the Chinese tax authorities' scrutiny on, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (“**PRC Taxable Assets**”). For example, when a non-resident enterprise transfers equity interests in an overseas holding company that directly or indirectly holds certain PRC Taxable Assets and if the transfer is believed by the Chinese tax authorities to have no reasonable commercial purpose than to evade enterprise income tax, Circular 7 allows the Chinese tax authorities to reclassify this indirect transfer of PRC Taxable Assets into a direct transfer and impose on the non-resident enterprise a 10% rate of PRC enterprise income tax. Circular 7 contains certain exemptions from this tax where, for example, (i) a non-resident enterprise derives income from an indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company in the public market, or (ii) a non-resident enterprise transfers PRC Taxable Assets that it directly holds and an applicable tax treaty or arrangement exempts this transfer from PRC enterprise income tax. It remains unclear whether any exemptions under Circular 7 will be applicable to any future mergers, acquisitions or other investments that we may make outside China involving PRC Taxable Assets or to transfers of our Shares by our Shareholders outside the public market. If the Chinese tax authorities impose PRC enterprise income taxes on these activities, our ability to expand our business or seek financing through these transactions and the value of your investment in our Shares may be adversely affected.

RISK FACTORS

The PRC legal system has inherent uncertainties that could limit the legal protection available to you.

PRC laws and regulations govern our operations in China. We and many of our operating subsidiaries are organized under PRC laws. China's legal system is based on written statutes. While prior court decisions may be cited for reference, they have limited precedential value. Since 1979, China has promulgated laws and regulations dealing with economic matters, such as corporate organization and governance, issuance and trading of securities, shareholder rights, foreign investment, commerce, taxation and trade. However, many of these laws and regulations, in particular with respect to the condiment industry, are relatively new and evolving and may be inconsistently implemented, interpreted or enforced. In addition, because of the relatively limited volume of published court decisions and their non-binding nature, there are significant uncertainties relating to the interpretation and enforcement of the PRC laws and regulations. As a result, the legal remedies and protections available to you under the PRC legal system may be limited.

The Company or any of its non-PRC subsidiaries may be deemed to be a PRC tax resident under the EIT Law and our non-PRC shareholders may be subject to PRC withholding tax on dividends and PRC taxes on gains from transfers of our Shares.

We are incorporated under the laws of the Cayman Islands and indirectly hold interests in our PRC operating subsidiaries through non-PRC holding companies. The EIT Law provides that if an enterprise incorporated outside the PRC has its "de facto management bodies" within the PRC, such enterprise may be deemed a "PRC resident enterprise" for tax purposes and be subject to an enterprise income tax rate of 25% on its worldwide income. "De facto management body" is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation promulgated a circular to clarify certain criteria for the determination of the "de facto management bodies" for foreign enterprises controlled by PRC enterprises. Criteria include: (i) the enterprise's day-to-day operational management is primarily exercised in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in the PRC; and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. Substantially all members of our management are located in the PRC. However, there has been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises which are not controlled by PRC enterprises (including companies like ourselves). Therefore, it remains unclear how the tax authorities will treat a company such as the Company or our non-PRC subsidiaries. We cannot assure you that the Company or any of its non-PRC subsidiaries will not be considered a PRC resident enterprise for PRC enterprise income tax purposes and be subject to the uniform 25% enterprise income tax on our worldwide income. In addition, although the EIT Law provides that dividend payments between qualified PRC resident enterprises are exempted from enterprise income tax, the detailed qualification requirements for this exemption are subject to uncertainty and it is unclear whether dividend paid by our PRC incorporated subsidiaries to the Company or its non-PRC incorporated subsidiaries will meet such qualification requirements if the Company or such subsidiaries were considered PRC resident enterprises for tax purposes.

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Furthermore, the EIT Law provides that, (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interest of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income. It is not clear how “domicile” may be interpreted under the EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered a PRC resident enterprise for tax purposes, any dividends we pay to our non-PRC corporate Shareholders may be subject to PRC withholding tax at a rate of 10% (or 20% in the case of non-PRC individual Shareholders) and gains realized from the transfer of our Shares may be subject to PRC tax at a rate of 10% in the case of non-PRC corporate Shareholders (or 20% in the case of non-PRC individual Shareholders), in each case subject to the provisions of any applicable tax treaty.

PRC regulations of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We may transfer funds to our PRC subsidiaries or finance our PRC subsidiaries by means of shareholders’ loans or capital contributions upon completion of this offering. Any loans to our PRC subsidiaries, which are foreign-invested enterprises, or FIEs, cannot exceed statutory limits based on the difference between the registered capital and the investment amount of such subsidiaries, and shall be registered with the State Administration of Foreign Exchange, or SAFE, or its local counterparts.

Furthermore, any capital contributions we make to our PRC subsidiaries shall be approved by the Ministry of Commerce, or MOFCOM, or its local counterparts. We may not be able to obtain these government registrations or approvals on a timely basis, if at all. If we fail to receive such registrations or approvals, our ability to provide loans or capital contributions to our PRC subsidiaries in a timely manner may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Government control of currency conversion and fluctuation in the exchange rates of the Renminbi may adversely affect our business and results of operations and our ability to remit dividends.

Substantially all of our revenue and operating costs are denominated in Renminbi. The Chinese government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing Chinese foreign exchange regulations, payments of current account items, including dividend payments, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE is required for foreign currency conversions for payment under capital account items such as equity investments. The Chinese government may also at its discretion restrict our access in the future to foreign currencies for current account transactions. Under our current corporate structure, our revenue is primarily derived from dividend payments from our Chinese subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our Chinese subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining

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sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders. In addition, since a significant amount of our future cash flows from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of China or otherwise fund our business activities that are conducted in foreign currencies.

The exchange rates of the Renminbi against foreign currencies, including the Hong Kong dollar, are affected by changes in China's political and economic conditions. Any fluctuations in exchange rates of the Renminbi against the U.S. dollar, Euro or other foreign currencies may cause our costs for importing raw materials and equipment and our revenue from exporting our hot pot condiments products to be volatile. In addition, to the extent that we need to convert Hong Kong dollars that we will receive from the Global Offering into Renminbi for our operations, appreciation of Renminbi against the Hong Kong dollar would have an adverse effect on the Renminbi amount that we will receive. Conversely, if we decide to convert our Renminbi into Hong Kong dollars for the purpose of making dividend payments on our Shares or for other business purposes appreciation of the Hong Kong dollar against Renminbi would reduce the Hong Kong dollar amount available to us.

Deterioration of economic conditions could negatively impact our business.

Our business may be adversely affected by changes in national or global economic conditions and local economic conditions in China, including GDP growth, inflation, interest rates, availability of and access to capital markets, consumer spending rates and the effects of governmental initiatives to manage economic conditions. In particular, as China transitions to a consumption-based economy, China's forecast growth rate is expected to be lower than its average growth rate over the past 30 years. Any such changes could adversely affect the demand for our products or the cost and availability of our needed raw materials, thereby negatively affecting our financial results.

There may be difficulties in effecting service of process or seeking recognition and enforcement of foreign judgments in the PRC.

Our business operations are conducted in the PRC and substantially all of our assets are located in the PRC. In addition, all of our Directors and executive officers reside outside of the U.S. As a result, it may not be possible to effect service of process within the U.S. or elsewhere upon some of our Directors and senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Furthermore, our PRC Legal Advisers have advised us that the PRC does not have treaties with the U.S. or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. Therefore, it may be difficult for you to enforce against us in the PRC any judgments obtained from non-PRC courts.

On 14 July 2006, the Supreme People's Court of the PRC and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil or Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》). Under this arrangement, which came into effect on 1 August 2008, whenever a designated People's Court of the PRC or a designated

RISK FACTORS

Hong Kong court has made an enforceable final judgment requiring payment of money in a civil or commercial case pursuant to any written agreement between the parties on choice of forum for dispute resolution, the party concerned may apply to the relevant Hong Kong court or People's Court of the PRC for reciprocal recognition and enforcement of the judgment. However, we understand that the rights under the arrangement may be limited and the interpretation of and cases decided under the arrangement have not been fully developed, and, therefore, the outcome and effectiveness of any action brought under the arrangement remain uncertain.

We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries in China to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company incorporated in the Cayman Islands and operate our businesses through our operating subsidiaries in the PRC. Therefore, the availability of funds to pay dividends to our Shareholders depends upon dividends received from these subsidiaries. If our subsidiaries incur debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends will be restricted. PRC laws and regulations require that dividends be paid only out of the net profit calculated according to PRC accounting principles. PRC accounting principles differ in certain aspects from generally accepted accounting principles in other jurisdictions, including HKFRS and International Financial Reporting Standards. PRC laws and regulations also require foreign-invested enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders. In addition, the dividends paid by our PRC subsidiaries are subject to the withholding tax imposed by the PRC laws.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and the liquidity and market price of our Shares may be volatile.

Prior to the completion of the Global Offering, there has been no public market for our Shares. The Offer Price is the result of negotiations between us and the Joint Global Coordinators (on behalf of the Underwriters), which may not be indicative of the price at which our Shares will be traded following completion of the Global Offering. In addition, there can be no guarantee that an active trading market for our Shares will develop; or, if it does develop, that it will be sustained following completion of the Global Offering; or that the market price of our Shares will not decline below the Offer Price.

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The trading price of our Shares may be volatile, which could result in substantial losses to you.

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Shares. Recently, a number of PRC-based companies have listed their securities, or are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards PRC-based companies listed in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, earnings and cash flow could cause the market price of our Shares to change substantially. Any of these factors may result in large and sudden changes in the volume and trading price of our Shares.

There will be a time gap of several business days between pricing and trading of our Shares offered under the Global Offering. The market price of the Shares after trading begins could be lower than the Offer Price.

The Offer Price of our Shares will be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several Business Days after the Price Determination Date. Investors are unlikely to be able to sell or otherwise deal in our Shares before they commence trading. Accordingly, holders of our Shares are subject to the risk that the price of our Shares after trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse development that may occur between the Price Determination Date and the time trading begins.

You will incur immediate and substantial dilution and may experience further dilution in the future.

As the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution. If we issue additional Shares in the future, purchasers of our Shares in the Global Offering may experience further dilution in their shareholding percentage.

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The sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and current shareholders, could adversely affect the market price of our Shares.

Future sales of a substantial number of our Shares by our existing shareholders, or the possibility of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares to be held by our existing shareholders upon completion of the Pre-IPO Reorganization are subject to certain lock-up periods beginning on the date on which trading in our Shares commences on the Hong Kong Stock Exchange. While we currently are not aware of any intention of such existing shareholders to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

Future sales or major divestment of our Shares by any of our Controlling Shareholders could adversely affect the prevailing market price of our Shares.

The market price of our Shares may be adversely affected by future sales of a significant number of our Shares in the public market after the Global Offering, or the possibility of such sales, by our Controlling Shareholders. The Shares held by our Controlling Shareholders are subject to certain lock-up arrangements; please see the sections headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings Pursuant to the Hong Kong Underwriting Agreement” in this prospectus for a detailed description of the restrictions. After the restrictions of the lock-up arrangements expire, our Controlling Shareholders may dispose of our Shares. Sales of a substantial amount of our Shares could adversely affect the market price of our Shares, which could negatively affect our ability to raise equity capital.

Our future financing may cause dilution of your shareholding or place restrictions on our operations.

In order to raise capital and expand our business, we may consider offering and issuing additional Shares or other securities convertible into or exchangeable for our Shares in the future other than on a pro rata basis to our then existing Shareholders. As a result, the shareholdings of those Shareholders may experience dilution in net asset value per Share. If additional funds are to be raised through debt financing, certain restrictions may be imposed on our operations, which may:

- further limit our ability or discretion to pay dividends;
- increase our risks in adverse economic conditions;
- adversely affect our cash flows; or
- limit our flexibility in business development and strategic plans.

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You may experience difficulties in enforcing your Shareholder rights because we are incorporated in the Cayman Islands; the law of the Cayman Islands is different from the law of Hong Kong and other jurisdictions and may not provide the same protections to minority shareholders.

We are an exempted company incorporated in the Cayman Islands with limited liability, and the law of the Cayman Islands differs in some respects from that of Hong Kong or other jurisdictions where investors may be located.

Our corporate affairs are governed by our memorandum and articles of association, the Cayman Islands Companies Law and the common law of the Cayman Islands. The rights of shareholders to take legal action against us and our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive but not binding authority in a court in the Cayman Islands. The rights of our Shareholders and the fiduciary responsibilities of our Directors under Cayman Islands law may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong, the United States or other jurisdictions where investors may be located. In particular, the Cayman Islands has a less developed body of securities law.

As a result, our Shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, Directors or major Shareholders than they would as shareholders of a Hong Kong company, a United States company or companies incorporated in other jurisdictions. For example, the Cayman Islands does not have a statutory equivalent of section 724 of the Hong Kong Companies Ordinance, which provides a remedy for shareholders who have been unfairly prejudiced by the conduct of the company's affairs.

There is no assurance whether and when we will pay dividends. Dividends declared in the past may not be indicative of our dividend policy in the future.

We cannot guarantee when, if or in what form and amount dividends will be paid on our Shares following the Global Offering. Distribution of dividends must be proposed by our Board and is subject to a number of factors, including the results of operations, cash flows, financial situation and capital expenditure requirements of our Group, distributable profits of our subsidiaries and dividends they pay to us, our future plans and business prospects, market conditions, our Articles of Association, regulatory restrictions and our contractual obligations. As a result, our historical dividend distributions are not indicative of dividends that we may pay in the future. For further details of our dividend policy, see the section headed "Financial Information—Dividend Policy" of this prospectus.

RISK FACTORS

Certain facts, forecasts and other statistics contained in this prospectus are obtained from government sources and other third parties and may not be accurate or reliable, and statistics in the prospectus provided by Frost & Sullivan are subject to assumptions and methodologies set forth in the “Industry Overview” section of this prospectus.

In this prospectus, certain facts, forecasts and other statistics concerning China, its economic conditions and the industries are derived from publications of Chinese government agencies or industry associations, or an industry report commissioned by us. Although we have taken reasonable care in extracting those facts, forecasts and statistics, they have not been independently verified by us, the Sole Sponsor, the Joint Global Coordinators, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering. We cannot assure you that those facts, forecasts and statistics are accurate and reliable. We cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy in other jurisdictions. You should consider carefully that how much weight you should place on those facts, forecasts and statistics.

This prospectus contains forward-looking statements relating to our plans, objectives, expectations and intentions, which may not represent our overall performance for periods of time to which such statements relate.

This prospectus contains certain future plans and forward-looking statements about us that are made based on the information currently available to our management. The forward-looking information contained in this prospectus is subject to certain risk and uncertainties. Whether we implement those plans, or whether we can achieve the objective described in this prospectus, will depend on various factors including the market conditions, our business prospects, actions by our competitors and the global financial situations.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering. Prior to the Latest Practicable Date, there could have been press and media coverage regarding us or the Global Offering, which may include certain financial information, financial projections, valuations, and other information about us that do not appear in this prospectus. We have not authorized the disclosure of any such information in the press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and you should not rely on such information.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Hong Kong Listing Rules for the purpose of giving information to the public with regard to the Group. Our Directors, having made all reasonable inquiries confirm that, to the best of their knowledge and belief, the information contained in this prospectus 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 prospectus misleading.

FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. The Global Offering comprises the International Offering of initially 234,000,000 Offer Shares and the Hong Kong Public Offering of initially 26,000,000 Offer Shares, each subject to the reallocation on the basis as described in the section headed “Structure of the Global Offering” in this prospectus and without taking into account the Over-allotment Option.

The Listing is sponsored by the Sole Sponsor and the Global Offering is managed by the Joint Global Coordinators. Subject to the terms of the Underwriting Agreements, the Hong Kong Offer Shares are fully underwritten by the Hong Kong Underwriters and the International Offer Shares are fully underwritten by the International Underwriters. Further information regarding the Underwriters and the underwriting arrangements are set out in the section headed “Underwriting” in this prospectus.

INFORMATION ON THE GLOBAL OFFERING

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the related Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized in connection with the Global Offering to give any information or to make any representation not contained in this prospectus and the related Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorized by the Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters and any of their respective directors, officers, employees, agents or representatives or advisors or any other persons involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

Further information regarding the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering,” and the procedures for applying for our Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and in the related Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on or around 6 July 2016 and in any event no later than 12 July 2016.

If the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price on or before 12 July 2016 or such later date or time as may be agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us, the Global Offering will not become unconditional and will lapse.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares will be required to, or be deemed by his acquisition of the Hong Kong Offer Shares to, confirm that he is aware of the restrictions on offers of the Hong Kong Offer Shares described in this prospectus and the related Application Forms.

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus, and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Hong Kong Offer Shares have not been publicly offered or sold directly or indirectly, in the PRC or the U.S.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue, the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and conversion of the Series A Preferred Shares upon completion of the Global Offering.

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on 13 July 2016. Save as disclosed in this prospectus, no part of the Company's share or loan capital is listed or dealt in on any other stock exchange and no listing or permission to deal in the Shares is being or is proposed to be sought on any other stock exchange as of the date of this prospectus. All the Offer Shares will be registered on the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Hong Kong Stock Exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Hong Kong Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Hong Kong Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors as to the taxation implications of subscribing for, purchasing, holding or disposing of, and/or dealing in the Shares or exercising any rights attached to them. Our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or advisors or any other person or party involved in the Global Offering do not accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the Shares or exercising any rights attached to them.

OVER-ALLOTMENT AND STABILIZATION

Details of the arrangement relating to the Over-allotment Option and stabilization are set out under the section headed “Structure of the Global Offering” in this prospectus.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” of this prospectus and on the related Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Particulars of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” of this prospectus.

SHARE REGISTRAR AND HONG KONG STAMP DUTY

Our Company does not maintain a principal share registrar in the Cayman Islands. All of the Shares allocated pursuant to the Global Offering will be registered on the Company’s register of members to be maintained in Hong Kong by its Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong. Dealings in the Shares registered in our Company’s Hong Kong Share Registrar will be subject to Hong Kong stamp duty. Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the shareholders listed on the Hong Kong share register of our Company, by ordinary post, at the shareholders’ risk, to the registered address of each shareholder.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or on any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

COMMENCEMENT OF DEALINGS IN SHARES

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on 13 July 2016. Shares will be traded in board lots of 1,000 Shares each.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all. Unless indicated otherwise, (i) the translations between Renminbi and HK dollars were made at the rate of RMB0.8464 to HK\$1.00, being the PBOC rate prevailing on 23 June 2016 and (ii) the translations between U.S. dollars and Hong Kong dollars were made at the rate of HK\$7.7613 to US\$1.00, being the noon buying rate as set forth in the H.10 statistical release of the United States Federal Reserve Board on 17 June 2016. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. However, the English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like, as marked with “*,” are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese name prevails.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies in any table, chart or elsewhere between totals and sums of amounts listed therein are due to rounding.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, our Company must have sufficient management presence in Hong Kong. This usually means that at least two of our executive Directors must be ordinarily resident in Hong Kong.

Our headquarters and most of our business operations are based, managed and conducted in the PRC. As the executive Directors play very important roles in our Company's business operations, it is in our best interests for them to be based in the places where our Group has significant operations. Therefore, our Company does not, and in the foreseeable future will not, have sufficient management presence in Hong Kong. Currently, both of our executive Directors, Ms. Dang Chunxiang and Mr. Sun Shengfeng, are ordinarily resident in the PRC.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Rule 8.12 of the Listing Rules. We have made the following arrangements in order to maintain regular and effective communication between the Hong Kong Stock Exchange and us:

- we have appointed Mr. Sun Shengfeng, our executive Director, chief financial officer and joint company secretary, and Mr. Gou Yiqun, our Chairman and non-executive Director, as our authorized representatives and they will serve as our Company's principal channel of communication with the Hong Kong Stock Exchange and will be readily contactable by phone, facsimile and email to deal promptly with enquiries from the Hong Kong Stock Exchange, and if required, will be able to meet with the Hong Kong Stock Exchange to discuss any matters in relation to our Company on short notice. Their contact details (including mobile phone numbers, office phone numbers, email addresses, facsimile numbers and correspondence addresses) have been provided to the Hong Kong Stock Exchange. As and when the Hong Kong Stock Exchange wishes to contact the Directors on any matters, each of the authorized representatives will have the means to contact all of the Directors promptly at all times. We will also inform the Hong Kong Stock Exchange promptly in respect of any change in authorized representatives;
- we have provided the authorized representatives and the Hong Kong Stock Exchange with the contact details of each Director, including mobile phone numbers, office phone numbers, email addresses and facsimile numbers. Both of our authorized representatives, the joint company secretaries and the compliance adviser have the means to contact all Directors (including the independent non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the Directors for any reason;
- each of our Directors who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong to meet with the Hong Kong Stock Exchange within a reasonable period of time as and when required;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- we have appointed Somerley Capital Limited as our compliance adviser who will, from the Listing Date to the date when our Company announces its financial results and distributes our annual reports to our Shareholders for the first full financial year immediately after the Listing, serve as an additional channel of communication of our Company with the Hong Kong Stock Exchange and be available to answer enquires from the Hong Kong Stock Exchange. The contact person of the compliance adviser will be fully available to answer enquiries from the Hong Kong Stock Exchange;
- we will ensure that there are adequate and efficient means of communication between us, our authorized representatives, Directors and other officers and the compliance advisor, and will keep the compliance advisor fully informed of all communications and dealings between the Stock Exchange and ourselves. We will also inform the Stock Exchange promptly in respect of any change in the compliance advisor;
- meetings with the Stock Exchange and the Directors can be arranged through our authorized representatives or the compliance advisor, or directly with the Directors with reasonable notice; and
- in addition to the compliance advisor's role and responsibilities after the Listing (i) to inform us on a timely basis of any amendment or supplement to the Listing Rules and any new or amended law, regulations or codes in Hong Kong applicable to the Company, and (ii) to provide advice to us on the continuing requirements under the Listing Rules and applicable laws and regulations, we will retain a Hong Kong legal advisor to advise us on the compliance with the Listing Rules and other applicable Hong Kong laws and regulations relating to securities after the Listing.

WAIVER IN RESPECT OF APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, we must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules. According to Rule 3.28 of the Listing Rules, we must appoint as our company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary.

Note 1 to Rule 3.28 of the Listing Rules sets out the academic and professional qualifications considered to be acceptable by the Hong Kong Stock Exchange:

- a) a Member of The Hong Kong Institute of Chartered Secretaries;
- b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and
- c) a certified public accountant (as defined in the Professional Accountants Ordinance).

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Note 2 to Rule 3.28 of the Listing Rules sets out the factors that the Hong Kong Stock Exchange considers when assessing an individual's "relevant experience":

- a) length of employment with the issuer and other issuers and the roles he played;
- b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, Companies Ordinance, Companies (Winding up and Miscellaneous Provisions) Ordinance, and the Takeovers Code;
- c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- d) professional qualifications in other jurisdictions.

We have appointed Mr. Sun Shengfeng ("**Mr. Sun**") as one of our joint company secretaries. He is currently an executive Director and the chief financial officer of our Company. Further biographical details of Mr. Sun are set out in "Directors and Senior Management". We have appointed him as one of our joint company secretaries due to his past management experience within our Group and his thorough understanding of the internal administration, business operations and corporate culture of our Group.

Mr. Sun, however, does not possess the qualifications set out in Rule 3.28 of the Listing Rules. Given the important role of the company secretary in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the Listing Rules and other relevant laws and regulations, we have made the following arrangements:

- Mr. Sun will endeavor to attend relevant training courses, including briefing on the latest changes to the applicable Hong Kong laws and regulations and the Listing Rules organized by our Company's Hong Kong legal advisors and seminars organized by the Stock Exchange from time to time, in addition to the minimum requirement under Rule 3.29 of the Listing Rules;
- we have appointed Mr. Wong Yat Tung ("**Mr. Wong**") who meets the requirements under Note 1 to Rule 3.28 of the Listing Rules, as one of our joint company secretaries to assist Mr. Sun in the discharge of his duties as a company secretary for an initial period of three years commencing from the Listing Date, so as to enable Mr. Sun to acquire the relevant experience (as required under Note 2 to Rule 3.28 of the Listing Rules) to discharge the duties and responsibilities as company secretary and to become familiar with the requirements of the Listing Rules and other applicable Hong Kong laws and regulations. Given Mr. Wong's professional qualification and experience, he will be able to explain to both Mr. Sun and us the relevant requirements under the Listing Rules and other applicable Hong Kong laws and regulations. He will also assist Mr. Sun in organizing our board meetings and shareholders' meetings as well as other matters of ours which are incidental

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

to the duties of a company secretary. Mr. Wong is expected to work closely with Mr. Sun, and will maintain regular contact with Mr. Sun and our Directors and senior management. Furthermore, both Mr. Sun and Mr. Wong will seek and have access to advice from our Hong Kong legal and other professional advisors as and when required; and

- upon expiry of the three-year period, the qualifications and experience of Mr. Sun will be re-evaluated. Mr. Sun is expected to demonstrate to the Hong Kong Stock Exchange's satisfaction that he, having had the benefit of Mr. Wong's assistance for three years, would then have acquired the "relevant experience" within the meaning of Note 2 to Rule 3.28 of the Listing Rules.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 3.28 and Rule 8.17 of the Listing Rules. Upon the expiry of the initial three-year period, the qualifications of Mr. Sun will be re-evaluated to determine whether the requirements as stipulated in Note 2 to Rule 3.28 of the Listing Rules can be satisfied. In the event that Mr. Sun has obtained relevant experience under Note 2 to Rule 3.28 of the Listing Rules at the end of the said initial three-year period, the above joint company secretaries arrangement would no longer be necessary.

WAIVER IN RESPECT OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue after the Listing, certain transactions, which will constitute non-exempt continuing connected transactions under the Listing Rules upon Listing. Our Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver under Rule 14A.105 of the Listing Rules from strict compliance with the announcement, circular and independent shareholders' approval requirements (as applicable) in respect of certain non-exempt continuing connected transactions. For details of the non-exempt continuing connected transactions, see "Connected Transactions" in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
Executive Director		
Ms. Dang Chunxiang (黨春香)	No. 147, Five Group Wujie Baiyian Street Changli Town, Changli County Qinhuangdao City, Hebei Province PRC	PRC
Mr. Sun Shengfeng (孫勝峰)	No. 2, 9/F Phase 2, Block 16 No.85 Xingfu South Road Xincheng District Xi'an City, Shaanxi Province PRC	PRC
Non-Executive Directors		
Mr. Gou Yiqun (苟軼群)	Sheng Shang Zhuan Ji No. 81 Xiaozhai East Road Yanta District Xi'an City, Shaanxi Province PRC	PRC
Mr. Zhang Yong (張勇)	47A Binjai Park Singapore	Singapore
Mr. Shi Yonghong (施永宏)	No. 4, Building 10 No. 1 Hebin Road Jinjiang District Chengdu City, Sichuan Province PRC	PRC
Mr. Pan Di (潘迪)	Room 1405 No. 860 Qinzhou Road Xuhui District Shanghai PRC	PRC

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Independent Non-Executive Directors		
Mr. Yau Ka Chi (邱家賜)	502 River Garden 7 Yuyang Road Shunyi District Beijing China	Canada
Mr. Qian Mingxing (錢明星)	No. 411 Apartment 316 Yanbei Park Peking University Haidian District Beijing City China	PRC
Ms. Ye Shujun (葉蜀君)	No. 302, Door 3, Building 16 Huangsi Avenue 24 Xicheng District Beijing City China	PRC

Please refer to the section headed “Directors and Senior Management” in this prospectus for further information with respect to our Directors.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

China International Capital Corporation
Hong Kong Securities Limited
29th Floor, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Joint Global Coordinators

China International Capital Corporation
Hong Kong Securities Limited
29th Floor, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Macquarie Capital Limited
Level 18
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Bookrunners

China International Capital Corporation
Hong Kong Securities Limited
29th Floor, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Macquarie Capital Limited
Level 18
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

DBS Asia Capital Limited
17th Floor, The Center
99 Queen's Road Central
Central
Hong Kong

China Merchants Securities (HK) Co., Limited
48th Floor, One Exchange Square
8 Connaught Place
Central
Hong Kong

Joint Lead Managers

China International Capital Corporation
Hong Kong Securities Limited
29th Floor, One International Finance Centre
Harbour View Street
Central, Hong Kong

Macquarie Capital Limited
Level 18
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

DBS Asia Capital Limited
17th Floor, The Center
99 Queen's Road
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

China Merchants Securities (HK) Co., Limited
48th Floor, One Exchange Square
8 Connaught Place
Central
Hong Kong

Legal advisors to the Company

As to Hong Kong and United States law
Davis Polk & Wardwell
Hong Kong Solicitors
18th Floor, The Hong Kong Club Building
3A Chater Road
Hong Kong

As to PRC law
Jingtian & Gongcheng
34/F, Tower 3, China Central Place
77 Jianguo Road
Chaoyang District
Beijing 100025
PRC

As to Cayman Islands law
Maples and Calder
53/F, The Center
99 Queen's Road Central
Hong Kong

Legal advisors to the Underwriters

As to Hong Kong and United States law
Paul Hastings
21-22/F, Bank of China Tower
1 Garden Road
Hong Kong

As to PRC law
Tian Yuan Law Firm
10/F, China Pacific Insurance Plaza
28 Fengsheng Hutong, Xicheng District
Beijing, 100032
PRC

Reporting Accountant

PricewaterhouseCoopers
Certified Public Accountants
22/F Prince's Building
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Independent Industry Consultant	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. Room 1018, Tower B No. 500 Yunjin Road Xuhui District Shanghai, 200232 PRC
Receiving Bank(s)	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong
Compliance Adviser	Somerley Capital Limited 20/F, China Building 29 Queen's Road Central Hong Kong

CORPORATE INFORMATION

Registered Office	Floor 4, Willow House Cricket Square P O Box 2804 Grand Cayman KY1-1112 Cayman Islands
Corporate Headquarters	No. 13 Liu Jia Yao Nan Li Nan San Huan Zhong Road Feng Tai District Beijing, PRC
Principal Place of Business in Hong Kong	18/F, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong
Company's Website	www.yihchina.com (the contents of this website do not form part of this prospectus)
Joint Company Secretaries	Mr. Sun Shengfeng No. 2, 9/F Phase 2, Block 16 No. 85 Xingfu South Road Xincheng District Xi'an City, Shaanxi Province PRC Mr. Wong Yat Tung 18/F, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong <i>(an associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators)</i>
Authorized Representatives	Mr. Sun Shengfeng No. 2, 9/F Phase 2, Block 16 No. 85 Xingfu South Road Xincheng District Xi'an City, Shaanxi Province PRC

CORPORATE INFORMATION

Mr. Gou Yiqun
Sheng Shang Zhuan Ji
No. 81 Xiaozhai East Road
Yanta District
Xi'an City, Shaanxi Province
PRC

Audit Committee

Mr. Yau Ka Chi (邱家賜) (Chairman)
Mr. Shi Yonghong (施永宏)
Ms. Ye Shujun (葉蜀君)

Remuneration Committee

Ms. Ye Shujun (葉蜀君) (Chairman)
Mr. Gou Yiqun (苟軼群)
Mr. Qian Mingxing (錢明星)

Nomination Committee

Mr. Gou Yiqun (苟軼群) (Chairman)
Ms. Ye Shujun (葉蜀君)
Mr. Qian Mingxing (錢明星)

Hong Kong Share Registrar

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

Principal Banker

China Merchants Bank
Block D, Global Trade Center
No. 36 North Third Ring East Road
Fengtai District, Beijing City
PRC

INDUSTRY OVERVIEW

The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the market research report prepared by Frost & Sullivan, which was commissioned by us. We believe that the information has been derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. The information has not been independently verified by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers or their respective directors, officers or representatives or any other person involved in the Global Offering nor is any representation given as to its accuracy or completeness. The information and statistics contained in this section may not be consistent with other information and statistics compiled within or outside of China.

REPORT COMMISSIONED FROM FROST & SULLIVAN

We commissioned Frost & Sullivan, an independent market research and consulting company, to analyze and prepare a report on, the compound condiment market in China for the period from 2010 to 2020 (the “**Frost & Sullivan Report**”). We agreed to pay Frost & Sullivan a total fee of RMB0.78 million, which we believe reflects market rate. Founded in 1961, Frost & Sullivan has 40 offices with more than 2,000 industry consultants, market research analysts and technology analysts around the world. Entering the Chinese market in 1990s, Frost & Sullivan conducts industry research, which covers food and consumer product industries.

We have included certain information from the Frost & Sullivan Report in this prospectus because we believe this information facilitates the understanding of the compound condiment market in China for prospective investors. Frost & Sullivan’s independent research can be classified into two categories: primary research and secondary research. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports and independent research reports in Frost & Sullivan’s own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. On this basis, our Directors are satisfied that the disclosure of future projections and industry data in this section is not biased or misleading. We believe that the sources of this information are appropriate and we have taken reasonable care in extracting and reproducing this information. We have no reason to believe that this information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect.

Except as otherwise noted, all the data and forecasts contained in this section are derived from the Frost & Sullivan Report, official government publications or other publications.

In compiling and preparing the research report, Frost & Sullivan assumed that (i) the Chinese economy is likely to maintain steady growth in the next decade; the social, economic and political environment in the relevant markets are likely to remain stable in the forecast period; and (ii) market drivers such as growing preference for packaged hot pot condiments and establishment of new retail channels are likely to boost the hot pot condiment market in China during the forecast period.

INDUSTRY OVERVIEW

Our Directors confirm that after taking reasonable care, there is no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information set out in this section.

OVERVIEW OF THE CHINESE CONDIMENT MARKET

China Is the Largest Condiment Market in the World

The condiment market in China achieved strong growth from 2010 to 2015. Based on a CAGR of 12.6%, the total sales value of the condiment market in China increased from RMB227.8 billion in 2010 to RMB413.0 billion in 2015. For the forecast period, the size of the condiment market in China is expected to continue to grow at a relatively fast pace. Based on an expected CAGR of 9.9% from 2015 to 2020, the total sales value of China's condiment market is expected to reach RMB661.3 billion in 2020, according to Frost & Sullivan.

China was the largest condiment consumption country in 2015 in terms of sales value. Given the large population base and the rapid development of the condiment market, China is likely to retain its leading position over the next few years, according to Frost & Sullivan.

The U.S. and Japan are two other main condiment consumption countries, where compound condiments take up their condiment markets. According to Frost & Sullivan, in 2015, compound condiments contributed to 50.5% and 49.8% of the total condiment industry in the U.S. and Japan, respectively, whereas the percentage was 18.2% in China. In 2015, the sales value of condiments in the U.S. was US\$53.3 billion. Other main condiment consumption countries include Japan, the UK and South Korea, whose sales value of condiments in 2015 was US\$21.8 billion, US\$11.9 billion and US\$4.2 billion, respectively.

Comparison of Per Capita Annual Expenditure on Compound Condiments among Leading Condiment Markets

China's per capita annual expenditure on condiments increased from RMB169.8 in 2010 to RMB300.4 in 2015, representing a growth of 77.0%, and is expected to realize a growth of 56% from 2015 to 2020, reaching RMB468.6 in 2020. In addition, China's per capita annual expenditure on compound condiments increased from RMB26.5 in 2010 to RMB54.6 in 2015, representing a CAGR of 15.6%. Per capita expenditure on compound condiments is expected to realize a growth of 93% from 2015 to 2020, reaching RMB105.4 in 2020. Despite this significant growth, there are still large gaps between China and other major developed countries in terms of the consumption of compound condiments. To illustrate, per capita annual expenditure on compound condiments in China was US\$8.8 in 2015, while such expenditure in the U.S. and Japan in 2015 was US\$83.3 and US\$85.3, respectively.

THE COMPOUND CONDIMENT MARKET IN CHINA

A condiment is a sauce or seasoning added to food to impart a particular flavor or, in some cultures, to complement the dish. Single-component condiments refer to condiments that are composed of one major raw material, and the typical products include MSG (Monosodium Glutamate), soy sauce,

INDUSTRY OVERVIEW

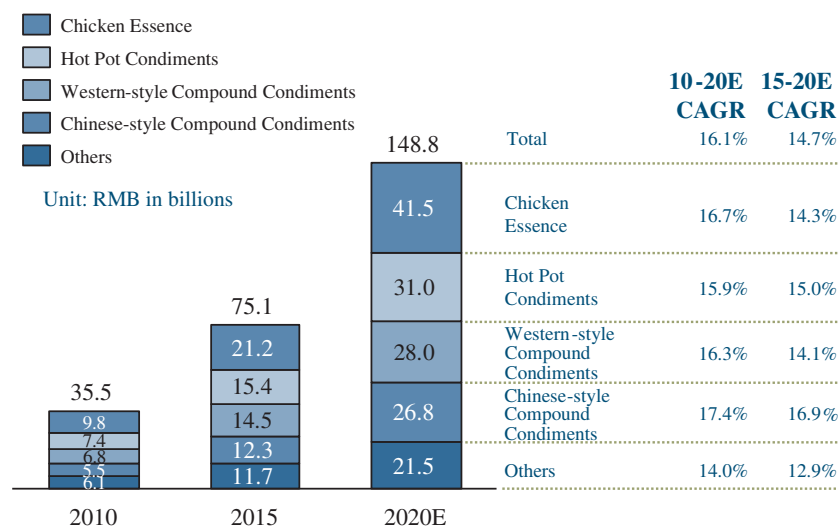
vinegar, preserved bean curd, spices, seasoning wine, and oyster sauce. Compound condiments refer to condiments that are made of or comprise two or more raw materials, and typical compound condiments include hot pot condiments, Chinese-style compound condiments, chicken essence, Western-style compound condiments, and others.

Overview of the Compound Condiment Market in China

The condiment market consists of a single-component condiment market and a compound condiment market. In 2015, the market size of compound condiments in China was RMB75.1 billion, representing 18.2% of the total condiment market size in China. In 2015, the Company's market share in the overall compound condiment market is 1.7%. According to Frost & Sullivan, the market size of China's compound condiments is expected to reach higher growth in the future because (i) there is an increasing trend to use compound 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 CAGR of 14.7% since 2015, representing 22.1% of the total condiment market size in China.

The compound condiment market in China can be divided into five segments, including chicken essence, hot pot condiments, Chinese-style compound condiments, western-style condiments and others.

Breakdown of Market Size for Compound Condiment Market in China, 2010-2020E



Note: Market size refers to total sales value consumed.

Source: Frost & Sullivan

In 2015, chicken essence was the largest segment in China's compound condiment market, while hot pot condiments was the second. Frost & Sullivan estimates that Chinese-style compound condiments is the fastest-growing segment in China's compound condiment market with a CAGR of

INDUSTRY OVERVIEW

16.9% from 2015 to 2020, and the hot pot condiments market is expected to grow at a CAGR of 15.0% from 2015 to 2020. This trend is mainly driven by the increasing consumption by retail consumers in urban areas, as people in urban areas have strong purchasing power but are usually not skilled at cooking, which makes Chinese-style compound condiments a good choice for them.

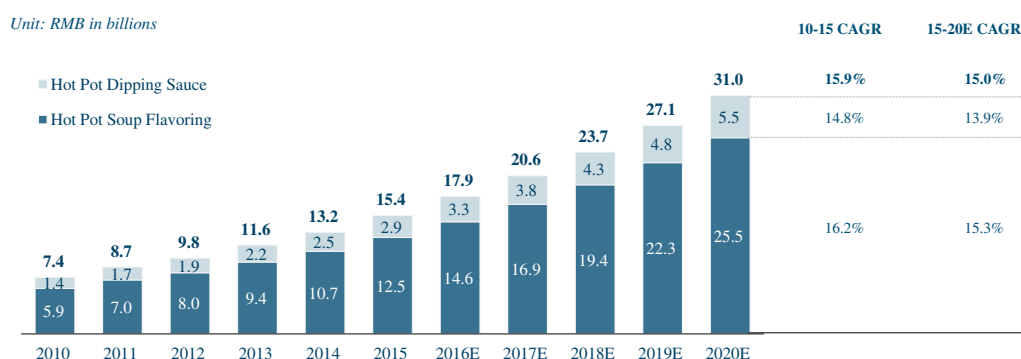
THE HOT POT CONDIMENT MARKET IN CHINA

Overview of the Hot Pot Condiment Market in China

Hot pot condiments is a major segment within the compound condiments market. Hot pot condiments can be divided into two sub-segments, hot pot soup flavoring and hot pot dipping sauce. As hot pot has become one of the favorite dining options, both home cooking consumers and catering service providers began to purchase hot pot condiments. Moreover, hot pot condiments could be used in making Chinese-style dishes.

The following chart shows information on the market size and growth rate of the hot pot condiment market in China in the periods indicated:

Market Size of Hot Pot Soup Flavoring and Hot Pot Dipping Sauce in China, 2010-2020E



Note: Market size refers to total sales value consumed

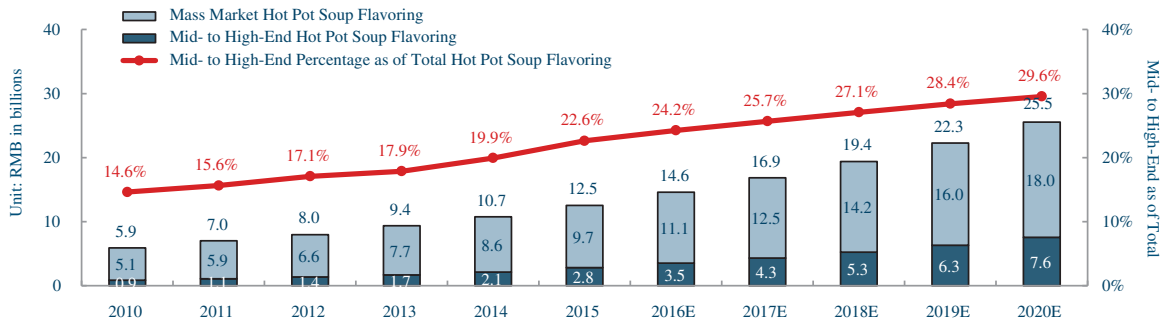
Source: Frost & Sullivan

The hot pot soup flavoring market could be subdivided into the mid- to high-end hot pot soup flavoring market and the mass market hot pot soup flavoring market, where the majority of mid- to high-end hot pot condiments are vegetable oil based. In 2015, the price of mid- to high-end hot pot soup flavoring products were no less than RMB10.0 per package. With the rising demand for quality brand products, more customers are willing to pay a premium for hot pot condiments from industry renowned manufacturers and suppliers with strong quality assurance and food safety records. Moreover, many customers may consider certain brands as symbols of mid- to high-end products and are thus more willing to purchase products under such brands. In 2015, the mid- to high-end hot pot soup flavoring products accounted for 22.6% of the total market share. The following chart shows

INDUSTRY OVERVIEW

information on the market size and growth rate of the mid- to high-end hot pot soup flavoring market in China in the periods indicated:

Breakdown of Hot Pot Soup Flavoring Market Size in China, 2010-2020E



Note: Market size refers to total sales value consumed. A package of soup flavoring refers to net weight between 180 grams and 230 grams for fried products, and between 100 grams and 120 grams for powder products.

Source: Frost & Sullivan

According to Frost & Sullivan, in 2015, only a small portion of hot pot restaurants were using packaged hot pot soup flavoring products while the majority of them chose to fry and combine hot pot condiments themselves. However, more and more catering service providers are starting to use packaged compound condiments for its standardization and the accompanying quality consistency. Thus, the addressable market for hot pot soup flavoring products could potentially be much larger than in the past. Assuming all hot pot restaurants engaged packaged hot pot soup flavoring products, the addressable market size could reach RMB38.9 billion in 2015 (approximately 3.1 times the market size currently exhibited), growing from RMB19.9 billion in 2010 (approximately 3.4 times the market size currently exhibited) with a CAGR of 14.4%, and is likely to reach RMB65.8 billion in 2020 (approximately 2.6 times the market size currently exhibited), with a CAGR of 11.1% from 2015 to 2020.

Key Drivers of Hot Pot Condiment Market in China

According to Frost & Sullivan, the hot pot condiment market in China, especially mid- to high-end hot pot soup flavoring segment, is expected to experience high growth rate. With the improvement of living standards in China, hot pot condiments are becoming increasingly popular. Rising urbanization rates and expanded retail channels are also driving factors of the market.

The key drivers of China's hot pot condiment market are as follows:

- *Growing preference for packaged hot pot condiments and diversified usage of hot pot condiments*

Before packaged hot pot condiments were introduced to the marketplace, hot pot restaurants and home cooking customers could only prepare compound hot pot condiments themselves. Nowadays, more and more hot pot restaurants choose packaged hot pot condiments for

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standardization and convenience purposes. The growing preference for packaged hot pot condiments is likely to stimulate further growth of the hot pot condiment market. Besides, the diversified usage of hot pot condiments also contributes to their popularity. In the past, hot pot condiments were mainly used for making hot pot dishes. Nowadays, they are also used for cooking various Chinese-style dishes, such as spicy stir-fry pot (麻辣香鍋) and spicy hotchpotch (麻辣燙).

- *Growing trend of hot pot catering service market*

Hot pot catering service is a major component of catering service market in China. In 2015, the hot pot catering service market in China reached RMB355.3 billion in terms of consumption value. While the hot pot catering service market is relatively fragmented with thousands of hot pot restaurants scattered around China, according to Frost & Sullivan, this market is likely to have a steady growth given China's rapid urbanization progress and Chinese residents' increasing disposable income. Frost & Sullivan estimates that the hot pot catering service market is likely to reach approximately RMB577.4 billion in 2020, representing a CAGR of 10.2% during that period. The growing trend in hot pot catering service market in China is likely to drive the growth of hot pot condiment market.

- *Establishment of new sales channels and increasing popularity of hot pot catering among Chinese consumers worldwide*

With the popularity of e-commerce channels, hot pot condiments could have a greater customer base. Consumers who are unwilling to purchase hot pot condiments from the traditional channels could purchase hot pot condiments through e-commerce channels. The establishment of this new sales channels is expected to drive the growth of the hot pot condiment market in China. Furthermore, overseas hot pot catering service market is growing quickly, mainly driven by the increasing number of Chinese people living and studying overseas.

- *Increasing health consciousness of consumers and the increasing popularity of healthy hot pot condiments*

Chinese consumers are becoming increasingly health-conscious, making healthy hot pot condiments appealing to them. For example, beef tallow was once widely used in producing hot pot condiments because of its tasty flavor, but recently, hot pot condiments made from vegetable oils such as soybean oil and rapeseed oil are becoming attractive because they are considered healthier. Therefore, the mid- to high-end hot pot condiment market in China, which mainly consist of vegetable-oil-based hot pot condiments, is highly driven by health consciousness appeal from the demand side, which further drives the overall market growth. On the other hand, because of the increasing popularity and availability of healthy hot pot condiments, an increasing number of consumers who rarely ate hot pot dishes in the past are now attracted to consume hot pot dishes, which further stimulates the market demand.

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Sales Channels for Hot Pot Condiments in China

In 2015, hot pot condiments were sold through three main channels in China, namely, the retail channel, catering service channel and other channels such as e-commerce channel. In 2015, the retail channel was the largest channel, accounting for 50.1% of total market size of hot pot condiments in China. The catering service channel was the second largest, accounting for 46.1% of the market. Other channels accounted for 3.8% of the market.

Retail Channel

The retail channel mainly refers to the hot pot condiments counter displayed in modern channels such as supermarkets and hypermarkets, as well as in traditional channels, such as grocery stores. Major market participants sell hot pot condiments through distributors in retail channels.

The growth of the retail channel has benefited from the continuing urbanization in China as well as the expansion of distribution network to cover lower-tier cities in China. The entry barriers for sales through the retail channel are (i) good brand image and reputation, (ii) well-established sales teams, and (iii) extensive relationships with the distributors. As a result, the hot pot condiment market is expected to become increasingly concentrated in the retail channel in the future.

Catering Service Channel

The catering service channel mainly refers to hot pot restaurants purchasing hot pot condiments. Large hot pot restaurant chains usually purchase directly from the hot pot condiment manufacturers. Some also purchase from franchisers and retailers. That said, more and more hot pot restaurants begin to use packaged hot pot condiments. Leading hot pot restaurants are also expected to increase their sales and acquire a larger share in the catering segment, which in turn boost the demand for hot pot condiments.

The key drivers for the catering service channel are (i) the development of China's hot pot restaurant market, which is expected to achieve a CAGR of approximately 10% from 2015 to 2020, and (ii) the increasing trend of adopting packaged hot pot condiments for catering service use. The entry barriers for sales through the catering service channel are (i) superior quality of hot pot condiments to ensure a good dining experience and a proven track record of food safety, and (ii) extensive industry experience provided by affiliates engaging in catering services. To further expand sales in the catering service channel, compound condiment manufacturers need to further diversify their products by launching products specifically designed for customers in the catering service channel and strengthening research and development capabilities to develop formulas that suit catering service clients' needs.

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Other Channels

Other channels mainly refer to e-commerce channel, through which consumers can purchase the products they need directly through e-commerce channels. The e-commerce channel is one of the main focuses for major compound condiment manufacturers, which can be viewed as an alternative to retail counter sales. Some major players in the hot pot condiment market have set up their flagship online stores to sell hot pot condiment products. The key drivers for other channels are (i) the expansion of e-commerce platforms driven by deeper internet penetration and enhanced logistics infrastructure, and (ii) the changing consumption pattern of Chinese customers who have started to switch to e-commerce sales channels. The entry barriers for sales through other channels are (i) streamlined e-commerce sales and distribution network; and (ii) good brand image and reputation. It is expected that with further development in the e-commerce channel, hot pot condiment manufacturers will develop differentiated production lines exclusively for customers in the e-commerce sales to cater for the different requirements between online and offline sales and to better coordinate and manage the e-commerce sales network.

Competitive Landscape of Hot Pot Condiments in China

Competitive Landscape of the Hot Pot Condiment Market in China

The competition in the hot pot condiment market in China, which consists of hot pot soup flavouring and hot pot dipping sauce, has always been fierce, resulting in a fragmented market. According to Frost & Sullivan, the top five market participants account for approximately 29.6% of the total market share.

The following table shows the major players and rankings in China's hot pot condiment market in 2015.

Rank	Hot Pot Condiment Manufacturer	Sales Value (RMB in billions)	Market Share in Hot Pot Condiment Market
1	Hong Jiujiu (紅九九)	1.16	7.5%
2	Yihai (頤海)	1.05	6.8%
3	Red Sun (紅太陽)	0.97	6.3%
4	Teway (天味)	0.87	5.7%
5	Dezhuang (德莊)	0.52	3.4%
	Top 5	4.56	29.6%
	Total	15.4	100.0%

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Competitive Landscape of the Hot Pot Soup Flavoring Market in China

The hot pot soup flavoring market is also fragmented, with the top five market participants accounting for 30.9% of the total market share. The following table shows the major players and rankings in China's hot pot soup flavoring market in 2015.

Rank	Hot Pot Soup Flavoring Manufacturer	Sales Value (RMB in billions)	Market Share in Hot Pot Soup Flavoring Market
1	Hong Jiujiu (紅九九)	1.16	9.2%
2	Yihai (頤海)	0.99	7.9%
3	Teway (天味)	0.87	7.0%
4	Dezhuang (德莊)	0.52	4.1%
5	Red Sun (紅太陽)	0.34	2.7%
	Subtotal	3.87	30.9%
	Total	12.5	100.0%

Competitive Landscape of the Mid- to High-End Hot Pot Soup Flavoring Market in China

China's mid- to high-end hot pot soup flavoring market is concentrated. In 2015, the top three market participants, Yihai, Dezhuang and Little Sheep, generated a sales value of RMB990 million, RMB300 million and RMB160 million, respectively, which collectively accounted for 51.1% of the total market share. The following table shows the major market participants and rankings in China's mid- to high-end hot pot soup flavoring market in 2015.

Rank	Mid- to High-End Hot Pot Soup Flavoring Manufacturer	Sales Value (RMB in billions)	Market Share in Mid- to High-End Hot Pot Base Flavoring Market
1	Yihai (頤海)	0.99	34.7%
2	Dezhuang (德莊)	0.30	10.7%
3	Little Sheep (小肥羊)	0.16	5.7%
	Top 3	1.45	51.1%
	Total	2.8	100.0%

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Key Success Factors for Hot Pot Condiment Manufacturers in China

Well-Recognized Brand Name

Retail channels of hot pot condiments are becoming increasingly important, and a well-recognized brand name is critical to the success of a hot pot condiment market participant. A good brand image enables the company to charge premium prices for its products, which could enhance the company's competitiveness in the market.

Marketing Network

With the rising living standards of Chinese people, the customer base for hot pot condiments in China is increasing in size. As a result, hot pot manufacturers should try to cover more channels to enhance their presence in the market. With the increasing penetration of packaged hot pot condiments in the catering service market, catering service channels should be well-covered. The overseas market is also important for hot pot condiment market participants considering the huge market potential arising from the very large group of target customers.

The Penetration into Lower-tier Cities

The hot pot condiment market in China has great potential in lower-tier cities with the increasing purchasing power of Chinese consumers, and leading market participants have established retail channels and e-commerce channels to attract consumers from lower-tier cities.

High-quality and Healthy Products

Product quality and healthiness are gaining more market attention nowadays as people increasingly seek food safety and health. Consumers increasingly focus on the formula of hot pot condiments as to whether they are made from high-quality ingredients. In other words, high-quality and healthy products are key to a company's success.

Product Diversification

Because of the differing preference of hot pot diners, the flavors of hot pot condiments are highly diversified. Hot pot manufacturers should have hot pot condiments in different flavors. In addition, some hot pot condiment manufacturers expanded their production lines to produce compound condiments, which further increases their customer base.

CHINESE-STYLE COMPOUND CONDIMENT MARKET IN CHINA

Overview of the Chinese-style Compound Condiment Market in China

Chinese-style compound condiments are well-blended and ready-to-use condiments for famous Chinese-style dishes that require the preparation of a relatively complex mix of condiments, and the taste of which is easily affected by seasoning and flavoring. Therefore, customers are more willing to pay a premium for Chinese-style compound condiments from well-known manufacturers to receive

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restaurant-like tastes and food safety assurance from branded products. Those condiments are consumed on a regular basis, particularly by the catering service providers and home cooking consumers. In 2015, the total market size of Chinese-style compound condiment market in China was RMB12.3 billion.

The Chinese-style compound condiment market in China could be classified into six categories based on recommended usage, including soup, aquatic, spicy blended, poultry, livestock and other Chinese-style compound condiments.

In 2015, the Chinese-style compound condiment market in China was growing rapidly and remained fragmented. That said, given the deficiency in quality and product diversity, the production scale of local producers is usually limited. As the national manufacturers, such as Teway and us, enter into this market, it is expected that the Chinese-style compound condiment market will become more concentrated. Backed by their strong brand awareness and distribution networks, these national market participants are expected to facilitate the development of the industry.

Market Size and Breakdown of Chinese-style Compound Condiments in China

The Chinese-style compound condiment market in China achieved rapid growth from 2010 to 2015, with sales value increasing from RMB5.5 billion to RMB12.3 billion, representing a CAGR of 17.4%. Based on a CAGR of 16.9%, the size of the market is expected to reach RMB26.8 billion in 2020.

Major Market Drivers for Chinese-style Compound Condiment Market in China

The major market drivers for the Chinese-style compound condiment market in China include:

Younger Generation Becoming Major Consumer Group due to Their Rapid Pace of Life

The younger generation in China is becoming a major consumer group of consumer goods, including condiments. This is considered to be a major driver for the Chinese-style compound condiment market, as young people prefer ready-to-use compound condiments which suit their rapid pace of life. In addition, the younger generation generally welcomes diversity in dining while being less experienced in cooking. Therefore, well-blended and ready-to-use compound condiments are likely to appeal to this consumer group.

Increasing Product Diversity and Development of Quality Branded Products

From the supply side, the increasing product diversity and the development of quality branded products are expected to drive the development of the Chinese-style compound condiments market. As more choices and better quality products become available to the increasingly affluent consumers, demand is expected to rise further.

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Competitive Landscape of the Chinese-style Compound Condiment Market

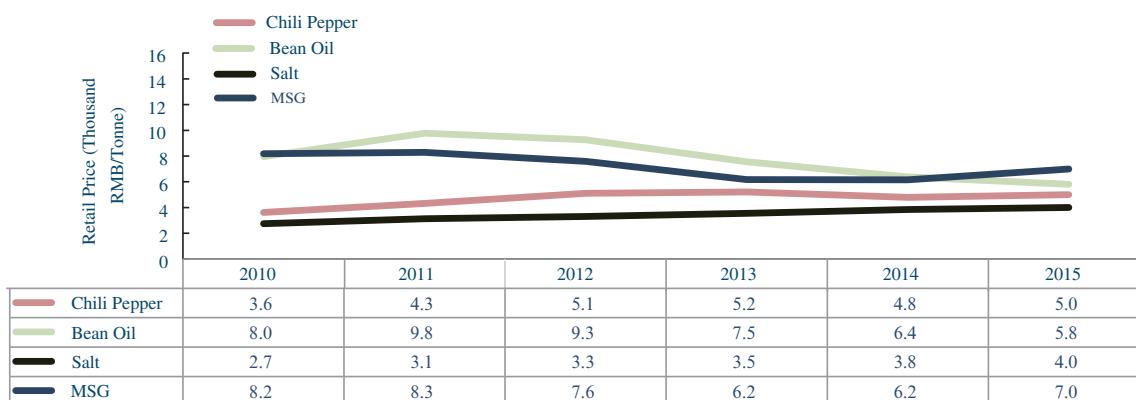
The Chinese-style compound condiments market in China was fragmented and competitive in 2015. Currently, there is no dominant player in this market and few companies covered all segments of the Chinese-style compound condiments market. Major market participants were regional players with specific focus on certain types of condiments which are favored by their target customers.

HISTORICAL PRICE TRENDS OF MAIN RAW MATERIALS OF COMPOUND CONDIMENTS

Compound condiments require multiple types of raw materials. Common major raw materials of compound condiments include soybean oil, beef tallow, salt, MSG, and spices such as prickly ash. For spicy flavor products, chili peppers is also a common raw material.

From 2010 to 2015, soybean oil witnessed a twisted and severely decreasing trend in retail price. In 2015, the retail price of soybean oil was RMB5,800 per ton. The retail price of chili peppers was on an upward trend from 2010 to 2015 and was priced at about RMB5,000 per ton on average. Retail price of beef tallow showed an upward trend from 2010 to 2014 and remained stable in 2015. In 2015, retail price of beef tallow ranged from RMB7,000 to RMB11,000 per ton. Retail price of prickly ash increased steadily from 2010 to 2015, and ranged from RMB65,000 to RMB105,000 per ton.

Retail Price of Major Raw Materials of Compound Condiments (China), 2010-2015



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Our business operations are based in the PRC and are subject to extensive supervision and regulation by the PRC Government. This section summarizes the main laws, rules and regulations which impact key aspects of our business.

LAWS AND REGULATIONS IN RELATION TO FOOD PRODUCTION

License for Food Production

In accordance with Food Safety Law of the PRC (中華人民共和國食品安全法) (the “**Food Safety Law**”), which was promulgated by the Standing Committee of the NPC on 28 February 2009 and effective on 1 June 2009, licensing system was imposed by the State over food production and operation. To engage in food production, food circulation and catering services, the food production license, food circulation license, and catering service license shall be obtained in accordance with the law which was amended on 24 April 2015 and came into effect on 1 October 2015. Anyone who operates or engages in production of food, sales of food or catering service except sales of edible agricultural products shall obtain a license in compliance with law.

In accordance with provisions of the Regulations of the PRC for the Administration of Production License for Industrial Products (《中華人民共和國工業產品生產許可證管理條例》) (the “**Production License Regulations**”), which was promulgated by the State Council and came into effect on 1 September 2005, and the Measures for the Implementation of the Regulations of the PRC for the Administration of Production License for Industrial Products (《中華人民共和國工業產品生產許可證管理條例實施辦法》), which were promulgated by the General Administration of Quality Supervision, Inspection and Quarantine and came into effect on 1 November 2005 and amended on 21 April 2010, and 21 April 2014 the General Administration of Quality Supervision, Inspection and Quarantine is responsible for the centralized administration of production license for industrial products, whereas the competent authorities of the county level or above for industrial production license are responsible for the administration of production license for industrial products within their own jurisdictions and the imposition of penalties on acts that violate the production license pursuant to the relevant requirements.

In accordance with the Measures for the Administration of Food Production Licensing (《食品生產許可管理辦法》), which was promulgated by General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China on 31 August 2015, and came into effect on 1 October 2015, it shall apply for the food production license to manufacture food.

Pursuant to the Administration Measures for Food Circulation Licenses (食品流通許可證管理辦法) promulgated by the State Administration for Industry and Commerce and which came into effect on 30 July 2009, a food circulation permit shall be obtained in accordance with the law to be engaged in food trading in circulation links. Industry and commerce administration authorities at county level or above are the competent authorities for implementing the food circulation licensing system. Food operators shall apply file an application to the competent industry and commercial administration authorities for industry and commerce registration after obtaining the food circulation permit in accordance with the law. Any enterprise that has not obtained the food circulation permit and business license shall be prohibited from carrying on food operation. Such regulation was abolished by the

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Abolishing the Food Safety Supervision and Management Measures in Circulation and the Administration Measures for Food Circulation Licenses (《關於廢止〈流通環節食品安全監督管理辦法〉和〈食品流通授權管理辦法〉的決定》) promulgated by the State Administration for Industry and Commerce on 10 November 2015.

Pursuant to the Administrative Measures for the Licensing of Food Operations (《食品經營許可管理辦法》) promulgated by the China Food and Drug Administration on 31 August 2015 and implemented on 1 October 2015, anyone who engages in sales of food and catering service activities within the territories of the People's Republic of China shall obtain a food operation license in compliance with the law. Food operation licensing follows the principle of one license for one place, which means a food operator should obtain a food operation license when carrying out food operation activities in a premise of operation. An applicant of food operation license should have obtained a business license or other legal entity qualification first. The issue date of the food operation license shall be the date on which approval for the license is granted, and a license is valid for five years.

Pursuant to the Notice on Consistent Implementation of the "Administrative Measures for the Licensing of Food Operations" (《關於貫徹實施〈食品經營許可管理辦法〉的通知》) promulgated by the China Food and Drug Administration on 30 September 2015, the Food Operation License is the legal evidence of having obtained licensing for food operation by a food operator, anyone who carries out food operation should obtain a food operation license. Within the valid period of the original food circulation or catering service license, the license will continue to be valid and no renewal of Food Operation License is required.

Food Safety

Pursuant to the Food Safety Law and the Regulations for the Implementation of the Food Safety Law of the PRC (《中華人民共和國食品安全法實施條例》) promulgated and implemented on 20 July 2009 and further amended on 13 January 2016, and came into effect on 6 February 2016, food production operators shall carry out production operation activities in accordance with the laws, regulations and food safety standards, establish a sound food safety management system, adopt effective management measures and ensure food safety. The Food Safety Law and its Regulations for Implementation have stipulated that:

- 1) Food producers and distributors must apply for food production license and food operation license respectively;
- 2) Food production and operation shall comply with food safety standards and certain other requirements, and food producers shall not purchase or use raw materials not in compliance with food safety standards, food additives or food related products;
- 3) Each food producer or distributor shall establish and maintain an employee health management system. Any person who engages in production or distribution of ready-to-eat food must have medical check every year and obtain a health certificate before commencement of work;

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- 4) Food producers shall examine the suppliers' certificates and food qualification certificates before procurement of raw materials, food additives and food related products, while food production enterprises must examine and establish a record system before their procurement and shipping to ensure that the records are true and the files are kept for at least two years; and

Pre-packaged food shall have a label adhered to its packaging stating clearly the following particulars, including its name, specification, net content, date of production, list of ingredients or components, name, address and contact information of producers, shelf life, product standard code, storage conditions, the general name of the food additives used in the national standards, food production license number and other details prescribed by laws, regulations or food safety standards.

The Food Safety Law requires that food producers and distributors must establish a food recall system. Whenever a food producer discovers that its food product is not in compliance with food safety standards, it must cease production immediately and recall the food product from the market, inform the relevant producers, distributors and customers, and keeps records for recalls and notification. Whenever a food distributor discovers that its food product is not in compliance with food safety standards, it must stop distributing the relevant food products and inform the relevant producers, sub-distributors and customers, and keeps records of ceasing distribution and notification. Food producers are required to adopt measures for carrying out safety recall and destroy the food with problems and report to the competent quality supervision authority on the recall and disposal of food. On 11 March 2015, the China Food and Drug Administration promulgated the Administrative Measures for Food Recall (《食品召回管理辦法》) which came into effect on 1 September 2015. The Administrative Measures for Food Recall stipulated the implementation rules of the food recall system.

Pursuant to the new Food Safety Law which came into effect on 1 October 2015, China has established a food safety whole process retrospective tracing system, food production operators shall set up a food safety retrospective tracing system in accordance with the requirements of this law to ensure retrospective tracing on food products is possible. Food production operators should establish a food safety self-examination system to conduct review and appraisal on the conditions of food safety periodically.

Product Quality and Consumer Protection

Producers and suppliers of defective products in the PRC may incur liability for loss and injury caused by such products. Under the General Principles of the Civil Laws of the PRC (《中華人民共和國民法通則》), which became effective on 1 January 1987, and amended on 27 August 2009, the manufacturer or retailer of a defective product which causes property damage or physical injury to any person shall be subject to civil liability for such damage or injury.

In accordance with the Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the “**Product Quality Law**”), promulgated on 22 February 1993 and amended on 8 July 2000 and 27 August 2015, producers and sellers are responsible for the product quality according to the provisions of this law.

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Under the Product Quality Law, responsibilities and obligations of producers for the products include: (i) be responsible for the quality of products they produce; (ii) description of the products or description on the package of products shall be true to the fact; (iii) not to produce products expressly phased out by State laws or decrees; (iv) not to forge the place of origin or forge or falsely use the names and addresses of other producers; (v) not to forge or falsely use product quality marks, such as authentication marks; (vi) not to mix impurities or imitations into the products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the production; (vii) to ensure that, for products that are fragile, inflammable, explosive, toxic, erosive or radioactive and products that cannot be handled up-side-down in the process of storage or transportation or for which there are other special requirements, the packaging thereof must meet the corresponding requirements, carrying warning marks or warning notes written in Chinese to highlight the way of handling that calls for attention. Responsibilities and obligations of sellers for the products include: (i) to adopt a check-for-acceptance system for stock replenishment to examine the quality certificates and other identifications of such stock; (ii) to take measures in maintaining good quality of the products for sale; (iii) not to sell defective or deteriorated products or products which have been publicly ordered to cease sales; (iv) to sell products with labels that comply with the relevant provisions; (v) not to forge the place of origin or forge or falsely use the names and addresses of other producers; (vi) not to forge or falsely use product quality marks, such as authentication marks; (vii) not to mix impurities or imitations into the products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the sale of products.

A producer or seller in breach of the above responsibilities and obligations shall be liable to civil compensation. If bodily injury is caused by the defect of a product, the producer or seller shall pay for medical expenses, nursing expenses during medical treatment and lost income due to absence from work to the victim; if the bodily injury has resulted in disability, the producer or seller shall also be responsible for the expenses for self-supporting equipment, living allowances, compensation of the disabled person and the living expenses necessary for those under the support of the disabled person; if death is resulted, the producer or seller shall pay for the funeral expenses, compensation and the living expenses necessary for those who were supported by the deceased person. If the defect of a product causes losses in property of the victims, the producer or seller shall be responsible for restoring or compensating related major loss for it. The relevant authorities shall order the suspension of production or sale, confiscate the products illegally produced or sold, impose a fine and confiscate the unlawful proceeds (if any) therefrom. Where the case is serious, business licenses shall be revoked. Where a criminal offense is constituted, the offenders will be pursued for criminal liabilities.

The Consumer Protection Law of the PRC (《中華人民共和國消費者權益保護法》) (the “**Consumer Protection Law**”), promulgated on 31 October 1993 and amended on 25 October 2013 and came into effect on 15 March 2014 sets out standards of behavior for business operators in their dealings with consumers, including, among others, (i) compliance of goods and services with the Product Quality Law and other relevant laws and regulations, such as requirements regarding personal safety and protection of property; (ii) accurate information and advertising concerning goods and services and the quality and use of such goods and services; (iii) issuance of receipts to consumers in accordance with relevant national regulations, business practices or upon customer request; (iv) ensuring the actual quality and functionality of goods or services are consistent with advertising

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materials, product descriptions or samples; (v) assumption of the responsibilities related to repairing, replacing, returning or other liability in accordance with national regulations or any agreements with the consumer; and (vi) not stipulating unreasonable or unfair terms for consumers and not excluding themselves from civil liability to undermine the legal rights and interests of consumers.

Any seller which violates the Consumer Protection Law may be subject to fines, suspension of its business operations or revocation of its business license. A seller which violates the Consumer Protection Law may also be subject to criminal liabilities. According to the Consumer Protection Law, a consumer whose legal rights and interests are harmed during the purchase or use of goods may claim compensation from the seller. Where the liability lies with the manufacturer or supplier, the seller, after settling compensation with the consumer, has the right to recover such compensation from that manufacturer or the other seller. Consumers or other parties who suffer injury or property losses arising from product defects may claim compensation from the manufacturer or the seller. Where the liability lies with the manufacturer, the seller, after compensating the consumer, has the right to recover such compensation from the manufacturer, and vice versa.

Pursuant to the Supervision and Management Measures for Commodity in the Circulation Sector (《流通領域商品質量監督管理辦法》) promulgated by the SAIC on 17 March 2016, which will come into effect on 1 May 2016 (Order of the SAIC No. 85), the obligations of operators for the quality of products mainly include: (i) establish a sound management system for the quality of products in respect of check-for-acceptance, cease to sales and return and exchange of goods; (ii) strictly execute the check-for-acceptance system, truthfully record the check-for-acceptance, and take necessary safekeeping measures to maintain the quality of products to be sold according to their characteristics; (iii) labels on products to be sold or on their package should be real, exact and easy to recognize; (iv) sales for products prohibited by this Measures are not permitted; (v) sellers should perform the obligations in a timely manner on repair, redoing, replacement, return, making up the quantity of a product, refund of a product purchase price or service fee or claims for compensation, and shall not delay deliberately or reject without reason; (vi) if sellers come to know any defects in their products which may cause human injuries and property damages, they shall immediately report to industry and commerce regulatory authorities and inform their consumers, suspend the sale, issue warnings.

Operators in breach of the above obligations shall be fined according to the relevant provisions of the Product Quality Law of the PRC and the Consumer Protection Law of the PRC, and may be imposed a fine, confiscated the unlawful proceeds therefrom or the business licenses may be revoked.

Product Standardization

The Standardization Law of PRC (《中華人民共和國標準化法》), which came into effect on 1 April 1989, has formed the legal framework for the development of standard directives and their applications by all industries and sectors nationwide. The tasks of standardization work include the formulation of standards, the implementation of the standards and the supervision over the implementation of the standards.

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National standards and trade standards are classified into compulsory standards and voluntary standards. Those standards created for safeguarding human health and ensuring the safety of the person and of property as well as those standards for compulsory execution as prescribed by the laws and administrative rules and regulations shall be compulsory standards, while the others shall be voluntary standards.

According to the Regulations for the Implementation of the Standardization Law of the People's Republic of China (《中華人民共和國標準化法實施條例》) promulgated on 6 April 1990 (together with the Standardization Law of PRC, the Standardization Law and Regulations), the standards in the compulsory category include: (i) standards for pharmaceuticals, food hygiene and veterinary medicine; (ii) safety and hygiene standards for products and the production, storage and transportation and utilization of products; standards for the safety of labor and hygiene standards and safety standards for transportation; (iii) quality, safety and sanitation standards for project construction and other standards for project construction that must be controlled by the State; (iv) standards for the discharge of pollutants and standards for environmental quality; (v) important technical terms, symbols, codes and drafting methods in common use; (vi) standards on universal methods of experimentation and examination; (vii) standards for conversion and coordination; and (viii) quality standards for important products which need to be controlled by the State.

Enterprises producing, selling or importing products which do not conform with the compulsory standard may be ordered to stop operations. The competent government agency may also confiscate non-standardized products and illegal gains derived thereunder. Criminal liabilities may also be imposed for serious breach of the Standardization Law and Regulations. Standard certificates obtained by enterprises which are in breach of the Standardization Law and Regulations may be revoked.

LAWS AND REGULATIONS IN RELATION TO COMMODITY BAR CODE

The Measures on the Administration of Commodity Bar Code (《商品條碼管理辦法》) were issued by General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) on 30 May 2005 and came into effect on 1 October 2005. Pursuant to the aforesaid Measures, the manufacturer identification code is an important component of a bar code. The bar code used by any entity and individual must be approved and registered in accordance with the law to obtain a manufacturer identification code. If a subsidiary with independent legal entity qualification among members of a group needs to use a bar code, it should file a separate application for a manufacturer identification code in accordance with the provisions. An applicant who has obtained approval to register a manufacturer identification code will be issued a Member Certificate of the China Commodity Bar Code System (《中國商品條碼系統成員證書》) by the Code Centre (編碼中心) to qualify as a member of the commodity bar code system of China. The manufacturer identification code has a term of validity of 2 years.

LAWS AND REGULATIONS IN PRODUCT PACKAGING

As required by the General Principles on the Production License for Food Packaging, Containers, Tools, and Other Products(《食品用包裝、容器、工具等製品生產許可通則》) and the Detailed Examination Rules on Production License for Plastic-made Food Packaging, Containers, Tools, and Other Products(《食品用塑膠包裝、容器、工具等製品生產許可審查細則》), which were promulgated

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by the General Administration of Quality Supervision, Inspection and Quarantine on 18 July 2006, and the Implementation Rules on Production License for Paper-made Food Packaging, Containers, and Other Products (《食品用紙包裝、容器等製品生產許可實施細則》), which was promulgated by the General Administration of Quality Supervision, Inspection and Quarantine on 18 June 2007, any enterprise that needs to apply for a Production License for Food Packaging, Containers, Tools and Other Products should complete the application procedures for a production license at the provincial level Bureau of Quality Supervision, Inspection and Quarantine of the place where it operates.

LAWS AND REGULATIONS OF IMPORT AND EXPORT

The Measures for Filing and Registration of Foreign Trade Business Operators (《對外貿易經營者備案登記辦法》) were promulgated by the Ministry of Commerce on 25 June 2004 and came into effect on 1 July 2004, pursuant to which foreign trade operators who engage in imports and exports of goods or technologies shall submit filing for registration with the Ministry of Commerce of the People's Republic of the PRC (the "MOFCOM") or through an agency appointed by MOFCOM, but except for those filing for registration are not required as provided otherwise under the laws, administrative regulations and provisions of MOFCOM. If any foreign trade operators have not completed the filing for registration procedure, the General Administration of Customs will not handle the customs clearance procedure for imports and exports of such operators.

Pursuant to the Measures for Administration on Import and Export Food Safety (《進出口食品安全管理辦法》) implemented by the General Administration of Quality Supervision, Inspection and Quarantine ("AQSIQ") on 1 March 2012, AQSIQ conducted examination on import food products, administered filing for production enterprises of export food products, administered filing for planting of raw materials and farms for export food products, conducted supervision and random sampling inspection on export food products, implemented classification management on import and export food products and administered integrity management on production operators of import and export food products.

TRADEMARK ADMINISTRATION

The Trademark Law of the PRC (《中華人民共和國商標法》) (Order No. 6 of the President, effective from 1 March 1983 and amended on 22 February 1993, 27 October 2001 and 30 August 2013, and came into effect on 1 May 2014) and the Regulations for the Implementation of Trademark Law of the PRC (《中華人民共和國商標法實施條例》) (Order No. 651 of the State Council, effective from 15 September 2002 and amended on 29 April 2014) were promulgated to protect the trademark holders. In China, registered trademarks include commodity trademarks, service trademarks, collective trademarks and certification trademarks.

DOMAIN NAMES

The Measures for Administration of Internet Domain Names of China (《中國互聯網絡域名管理辦法》) ("Measures for Administration of Domain Names") were promulgated by the then Ministry of Information Industry on 5 November 2004 and came into effect on 20 December 2004. Pursuant to the Measures for Administration of Internet Domain Names of China, registration of domain names with internet country code ".cn" and domain names in Chinese was regulated and administered.

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PRODUCTION SAFETY

Pursuant to the PRC Production Safety Law (《中華人民共和國安全生產法》) which was promulgated on 29 June 2002 and amended on 27 August 2009 and 31 August 2014 and came into effect on 1 December 2014, the State Administration of Work Safety (國家安全生產監督管理總局) is in charge of the overall administration of production safety. The PRC Production Safety Law provides that any entity engaging in manufacturing must meet national or industry standards regarding safety in production and provide qualified working conditions required by laws, administrative rules and the national or industry standards. Entities engaging in manufacturing must install prominent warning signs at or on the relevant dangerous operation site, facility and equipment. The design, production, installment, use, test, maintenance, upgrade and disposal of safety equipment must comply with national and industry standards.

FOREIGN EXCHANGE

Foreign Exchange Administration

The principal law governing foreign currency exchange in the PRC is the Foreign Exchange Administration Regulations (《外匯管理條例》). The Foreign Exchange Administration Regulations was enacted by the State Council on 29 January 1996 and implemented on 1 April 1996. On 14 January 1997 and 5 August 2008, the State Council amended the Foreign Exchange Administration Regulations. According to the Foreign Exchange Administration Regulations currently in effect, regular international payments in foreign currencies and transfer of foreign currencies under current items shall not be restricted. Foreign currency transactions under the capital account are still subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities.

Pursuant to the Regulation of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》), promulgated on 20 June 1996 by the PBOC and which became effective on 1 July 1996, the Foreign-Invested Enterprises (“**FIE**”), may only buy, sell or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial supporting documents and, in the case of capital account item transactions, obtaining approvals from the SAFE.

On 29 August 2008, the SAFE promulgated the Notice of the General Affairs Department of the SAFE on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises (《國家外匯管理局綜合司關於完善外商投資企業外匯資金支付結匯管理有關業務操作問題的通知》) (the “**SAFE Circular 142**”) regulating the conversion by a foreign-invested enterprise of its foreign currency registered capital into Renminbi. The SAFE Circular 142 provides that the Renminbi fund converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. The use of such Renminbi fund may not be altered without approval, and such Renminbi fund may not in any case be used to repay any Renminbi loans that were taken out but that have not been utilized. Violations of the SAFE Circular 142 could result in severe monetary penalties. On 30 March 2015, the SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested

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Enterprises (關於改革外商投資企業外匯資金結匯管理方式的通知) (the “SAFE Circular 19”), which became effective on 1 June 2015 and replace the SAFE Circular 142. Under the SAFE Circular 19, the restriction is abolished that the using the Renminbi fund converted from foreign currency registered capital of a foreign-invested enterprise for equity investments within the PRC. Meanwhile, the use of such Renminbi should still obey the restrictions as set in this circular, such as it cannot be directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by national laws and regulations; investment in securities unless otherwise provided by laws and regulations; granting the entrust loans in Renminbi (unless permitted by the scope of business), repaying the inter-enterprise borrowings (including advances by the third party) or repaying the bank loans in Renminbi that have been sub-lent to the third party; and paying the expenses related to the purchase of real estate not for self-use, except for the foreign-invested real estate enterprises.

Dividend Distribution

The principal laws governing dividend distributions by our PRC Subsidiaries include the PRC Company Law (《中華人民共和國公司法》), which was promulgated on 29 December 1993 and became effective on 1 July 1994 and was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005 and on 28 December 2013. Dividend distribution by wholly foreign-owned enterprises (“WFOE”) and Sino-foreign equity joint ventures (“EJV”) are further governed by the PRC Law Concerning Wholly Foreign-Owned Enterprises (《中華人民共和國外資企業法》), which was promulgated on 12 April 1986 and revised on 31 October 2000, and its Implementation Regulations (《中華人民共和國外資企業法實施細則》) promulgated on 12 December 1990 and revised on 12 April 2001 and 19 February 2014, the PRC Law on Sino-foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》) promulgated on 1 July 1979 and revised on 15 March 2001 and the Implementation Regulations (《中華人民共和國中外合資經營企業法實施條例》) promulgated on 20 September 1983 and revised on 22 July 2001, 8 January 2011 and 19 February 2014.

Under these laws and regulations, PRC companies, including WFOEs and EJVs, may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting principles. In addition, PRC companies, including domestic companies, WFOEs and EJVs are required to set aside each year at least 10% of their after-tax profit based on PRC accounting principles to their statutory general reserves funds until the cumulative amount of such reserve fund reaches 50% of their registered capital. These reserves are not distributable as cash dividends. Furthermore, EJVs and WFOEs in the PRC may also be required to set aside individual funds for employee welfare, bonuses and development, at the discretion of such PRC companies and as stipulated in their articles of association. These reserves or funds are not distributable as dividends.

Circular No. 37

The SAFE promulgated the “Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Overseas Investment and Financing and in Return Investment via Special Purpose Companies” (“Circular 37”) on 14 July 2014 which rescinded the “Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies” (“Circular 75”). Subject to the Circular 37, domestic resident, individuals or institutions, are required to register with

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the bureau of foreign exchange administration before they invest in special purpose vehicles with legitimate assets or equity interests inside and outside the PRC. Failure to comply with the registration procedures set forth in the Circular 37 may result in restrictions imposed on the subsequent foreign exchange activities of the relevant domestic residents, including the remitting back of dividends and profits. Domestic residents who invest special purpose vehicles with legitimate assets or equity interests inside and outside the PRC prior to the implementation of the Circular 37, but fail to conduct the foreign exchange registration of overseas investments shall submit explanatory statement and state the reasons to the bureau of foreign exchange administration. The bureau of foreign exchange administration may allow complementary registration under the principles of legality and legitimacy. In the event of any violation of foreign exchange regulations by domestic residents who apply for the foresaid complementary registration, administrative penalty would be imposed in accordance with relevant laws. According to the Circular on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “SAFE Circular 13”) which was promulgated on 13 February 2015 and became effective on 1 June 2015, the above mentioned registration under Circular 37 will be handled directly by the bank that has obtained the financial institution identification codes issued by the foreign exchange regulatory authorities and that has opened the capital account information system at the foreign exchange regulatory authority in the place where it is located and the foreign exchange regulatory authorities shall perform indirect regulation over the direct investment-related foreign exchange registration via banks.

TAXATION

Enterprise Income Tax (“EIT”)

According to the PRC EIT Law, which was promulgated on 16 March 2007 and became effective from 1 January 2008, the income tax for PRC enterprises (whether or not foreign-invested) is at a uniform rate of 25%. The Regulation on the Implementation of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (the “EIT Rules”) was promulgated on 6 December 2007 and became effective from 1 January 2008.

Pursuant to the PRC EIT Law and the EIT Rules, a resident enterprise is subject to enterprise income tax for the income derived from both inside and outside the PRC. An organization or establishment set up by a non-resident enterprise in the PRC is subject to enterprise income tax for the income derived in the PRC and the income derived from outside the PRC but with actual connection with such organization or establishment in the PRC. For a non-resident enterprise which has not set up an organization or establishment in the PRC, or has set up an organization or establishment in the PRC but the income it derives has no actual connection with such organization or establishment, only its income derived in the PRC will be subject to enterprise income tax.

The enterprise income tax is being levied at the rate of 25%. Pursuant to the PRC EIT Law and the EIT Rules, income from equity investment between qualified resident enterprises such as dividends and bonuses, which refers to investment income derived by a resident enterprise from direct investment in another resident enterprise, is tax-exempt income.

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A non-resident enterprise without a permanent establishment in the PRC or a non-resident enterprise which has set up a permanent establishment in the PRC whose earning income is not connected with the abovementioned permanent establishment will only be subject to tax on its PRC-sourced income. The income of such enterprise will be taxed at the reduced rate of 10%. As a result, dividends paid by PRC resident enterprise to a non-PRC enterprise are subject to PRC withholding tax at a rate of 10% (unless a lower tax is provided under an applicable tax treaty).

Moreover, pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), a PRC resident enterprise which distributes dividends to its Hong Kong shareholders should withhold income tax according to PRC law. However, if the beneficial owner of the dividends is a Hong Kong resident enterprise, which directly holds no less than 25% equity interests of the aforesaid enterprise (i.e. the dividend distributor), the tax levied is at a rate of 5% of the distributed dividends. If the beneficial owner is a Hong Kong resident enterprise, which directly holds less than 25% equity interests of the aforesaid enterprise, the tax levied is at a rate of 10% of the distributed dividends. Circular of the State Administration of Taxation on the Interpretation and the Determination of the “Beneficial Owners” in the Tax Treaties (《國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知》) has stipulated some factors for the determination of “beneficial owner”.

In addition, pursuant to the Circular of the SAT on Relevant Issues Relating to the implementation of Dividend Clauses in Tax Treaty (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) issued by the SAT on 20 February 2009, all of the following requirements should be satisfied (if applicable under the relevant treaty) where a tax resident of the counterparty to the tax treaty applies for reduced tax rates treatment specified in the tax treaty for the dividends paid to it by a Chinese resident company: (1) such a tax resident that obtains dividends should be a company as provided in the tax treaty; (2) the equity interests and voting shares of the Chinese resident company directly owned by such a tax resident reach a specified percentage; and (3) the capital ratio of the Chinese resident company directly owned by such a tax resident reaches the percentage specified in the tax treaty at any time within 12 months prior to acquiring the dividends.

Value-added Tax (“VAT”)

Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994 and were further amended on 6 February 2016. The Provisional Regulations were amended on 10 November 2008 and the amended Provisional Regulations came into effect on 1 January 2009. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (Revised in 2011) (《中華人民共和國增值稅暫行條例實施細則(2011年修訂)》) were promulgated by the Ministry of Finance (財政部) and the SAT on 25 December 1993, and were amended on 15 December 2008 and 28 October 2011, respectively (collectively, the “VAT Law”). According to the VAT Law, all enterprises and individuals that engage in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay VAT.

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ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the “**Environmental Protection Law**”), which was promulgated by the Standing Committee of the NPC on 26 December 1989, revised on 24 April 2014 and came into effect on 1 January 2015, provides a regulatory framework to protect and develop the environment, prevent and reduce pollution and other public hazards, and safeguard human health. The environmental protection department of the State Council is in charge of promulgating national standards for environmental protection. The Environmental Protection Law requires any facility that produces pollutants or other hazards to adopt environmental protection measures in its operations and establish an environmental protection responsibility system. Enterprises that are in violation of the Environmental Protection Law may be subject to a warning, payment of damages, imposition of a fine, or limitation or suspension of production in accordance with the seriousness of the case. If a criminal offense is committed, the offender may be subject to criminal liabilities.

The Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部) has formulated a series of supporting regulations to ensure effective enforcement of the new environmental protection law. On 19 December 2014, the Ministry of Environmental Protection promulgated the Measures for the Disclosure of Environmental Information by Enterprises and Public Institutions (《企業事業單位環境信息公開辦法》)(the “**Measures**”), which came into effect on 1 January 2015. The Measures specifies units and scope of the environmental information disclosure, disclosure method, credit evaluation system establishment and legal liability. Enterprises and public institutions shall promptly and truthfully disclose their environmental information by the principle of combining the mandatory disclosure with the voluntary disclosure. The Measures specified the subject of liability to mandatory disclosure, which requires the environmental protection authorities to draw up a list of key pollutant-discharging units and supervise and guide the units to carry out the work. As to the content to disclosure, the environmental protection authorities are liable to supervise the disclosed contents according to the Measures.

On 19 December 2014, the Ministry of Environmental Protection promulgated the Measures for the Imposition of Consecutive Punishments on a Daily Basis by Environmental Protection Authorities (《環境保護主管部門實施按日連續處罰辦法》), which came into effect on 1 January 2015. The Measures specifies basis, principle, scope, procedure and method of calculating as to the consecutive punishments on a daily basis.

On 19 December 2014, the Ministry of Environmental Protection promulgated the Measures for the Imposition of Sealing up and Detaining by Environmental Protection Authorities (《環境保護主管部門實施查封、扣押辦法》), which came into effect on 1 January 2015. The Measures specifies the definition, scope of application, concrete object of sealing up and detaining, and the implementing procedures such as inspection, evidence collection, examination and approval, penalty decision enforcement, implementing period, retention and release.

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On 19 December 2014, the Ministry of Environmental Protection promulgated the Measures for the Imposition of Restrictions on Production and Cessation of Production for Rectification by Environmental Protection Authorities (《環境保護主管部門實施限制生產、停產整治辦法》), which came into effect on 1 January 2015. Environmental protection authorities at or above the county level shall take measures such as restricting production, suspending production for rectification and severely disciplining the pollutants discharging exceeding the pollutant discharge standard or the controlling indicators for total emission volume of major pollutants.

The Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), which was amended by the Standing Committee of the NPC on 28 February 2008 and came into effect on 1 June 2008, the Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), which was amended by the Standing Committee of the NPC on 29 April 2000 (On 29 August 2015 the Standing Committee of the NPC passed the amendments to this law which came into effect on 1 January 2016), and the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》), which was promulgated by the Standing Committee of the NPC on 29 October 1996 and became effective on 1 March 1997, as well as the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), which was amended by the Standing Committee of the NPC on 29 December 2004, 29 June 2013 and 24 April 2015, prescribe the details for the prevention and control of water pollution, atmospheric pollution, noise pollution and solid waste pollution.

The Environmental Impact Appraisal Law (《中華人民共和國環境影響評價法》), which was promulgated by the Standing Committee of the NPC on 28 October 2002 and became effective on 1 September 2003, the Administration Rules on Environmental Protection of Construction Projects (《建設項目環境保護管理條例》), which was promulgated by the State Council and became effective on 29 November 1998, and the Measures for the Administration of Examination and Approval of Environmental Protection Facilities of Construction Projects (《建設項目竣工環境保護驗收管理辦法》), which was promulgated by the former State Environmental Protection Administration of the PRC (中華人民共和國國家環境保護總局) on 27 December 2001, became effective on 1 February 2002 and further amended on 22 December 2010, require enterprises planning construction projects to engage qualified professional institution to provide assessment reports on the environmental impact of such projects. The assessment report must be approved by the competent environmental protection authorities prior to commencement of any construction work. Enterprises shall file an application for examination and acceptance of the environmental protection facilities upon the completion of the construction project. A construction project may be formally put into production or use only if the corresponding environmental protection facilities have passed the acceptance examination.

EMPLOYMENT AND SOCIAL INSURANCE

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) (the “**Labor Contract Law**”), which was promulgated by the Standing Committee of the NPC on 29 June 2007 and became effective on 1 January 2008 and whose amendments made on 28 December 2012 and came into effect on 1 July 2013, governs the relationship between employers and employees and provides for specific provisions in relation to the terms and conditions of an employment contract. The Labor Contract Law

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stipulates that employment contracts must be in writing and signed if labor relationships are to be or have been established between enterprise or entities on one hand and the laborers on the other hand. It imposes more stringent requirements on employers in relation to entering into fixed-term employment contracts, hiring of temporary employees and dismissal of employees.

As required under the Regulation of Insurance for Labor Injury (《工傷保險條例》), implemented on 1 January 2004 and amended on 20 December 2010 and came into effect on 1 January 2011, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》), implemented on 1 January 1995, the Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》), issued on 16 July 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》), promulgated on 14 December 1998, the Unemployment Insurance Measures (《失業保險條例》), promulgated on 22 January 1999, and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), implemented on 1 July 2011, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. Enterprises must apply for social insurance registration with local social insurance agencies and pay premiums for their employees. If an enterprise fails to pay the required premiums on time or in full amount, the authorities in charge will demand the enterprise to settle the overdue amount within a stipulated time period and impose a 0.05% overdue fine. If the overdue amount is still not settled within the stipulated time period, an additional fine with an amount of three to five times of the overdue amount will be imposed.

According to the Regulation on Management of Housing Fund (《住房公積金管理條例》), which was promulgated by the State Council on 3 April 1999, became effective on the same day and was amended on 24 March 2002, enterprises must register with the competent managing center for housing funds and, upon the examination by such managing center of housing fund, complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Employers are required to contribute, on behalf of their employees, to housing funds. The payment is required to be made to local administrative authorities. Any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OUR HISTORY

Overview

Our Company was incorporated in the Cayman Islands on 18 October 2013. Through the Reorganization, as further disclosed below, our Company has become the holding company of our Group. The Core Business of our Group, being research and development, manufacturing, distribution and sales of high-quality hot pot soup flavoring products, hot pot dipping sauce products and Chinese-style compound condiment products (collectively referred to as “**Compound Condiments**”), is mainly carried out through our operating subsidiaries established in the PRC, namely Yihai Shanghai, Zhengzhou Shuhai, Yihai Beijing, Chengdu Yueyihai and Yihai Bazhou.

The following table sets forth various milestones in our history and development:

Year	Milestone
2005	Sichuan Haidilao established its Chengdu Branch
2006	Our first hot pot soup flavoring production line in Chengdu started operation to produce hot pot soup flavoring for supply to the hot pot restaurants operated by Sichuan Haidilao Group
2007	We started to supply hot pot soup flavoring products to independent third party distributors who typically engage sub-distributors and retailers to sell our products through supermarkets, grocery stores, neighbourhood stores and butcher shops
2013	<ul style="list-style-type: none">• Our Company was incorporated in the Cayman Islands as an investment holding company• Our production lines in Zhengzhou commenced operation to produce Compound Condiments
2014	Our renovated Chengdu production line commenced operation
2015	<ul style="list-style-type: none">• We started to export our products to overseas markets• We strengthened our sales through e-commerce channels and our customized services to catering service providers

Corporate History prior to the Reorganization

Our origin can be traced back to 2005 when Sichuan Haidilao established its Chengdu Branch to produce hot pot soup flavoring products to supply to hot pot restaurants it and its subsidiaries operated. Sichuan Haidilao was founded by Mr. Zhang, together with Ms. Shu (spouse of Mr. Zhang), Mr. Shi Yonghong and Ms. Li Haiyan (spouse of Mr. Shi Yonghong) in the PRC in 1994, and is primarily engaged in, among other things, the hot pot restaurant business. For further details of Sichuan Haidilao, see “Relationship with our Controlling Shareholders” in this prospectus.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

From March 2008 to April 2010, Sichuan Haidilao established its Beijing Food Branch, Shanghai Jiading Branch, Xianyang Branch, Zhengzhou High-tech Zone Branch and Beijing Sales Branch to supply both Compound Condiments and fresh food to hot pot restaurants operated by Sichuan Haidilao Group and to other independent third party distributors. Out of these five branches, Haidilao Beijing Sales Branch, the predecessor of our wholly owned subsidiary Yihai Beijing, was established on 28 December 2009, and was converted into a limited liability company and acquired by our Group in 2014 as part of the Reorganization. For further details of the conversion and acquisition, see “— Reorganization — Onshore Reorganization — Conversion of Haidilao Beijing Sales Branch and Transfer from Sichuan Haidilao to its Wholly Owned Subsidiary Zhengzhou Shuhai” below. The Compound Condiments sales business of the other four branches was taken over by our Group in 2014 as part of the Reorganization. For further details, see “— Reorganization — Onshore Reorganization — Establishment of Chengdu Yueyihai” below.

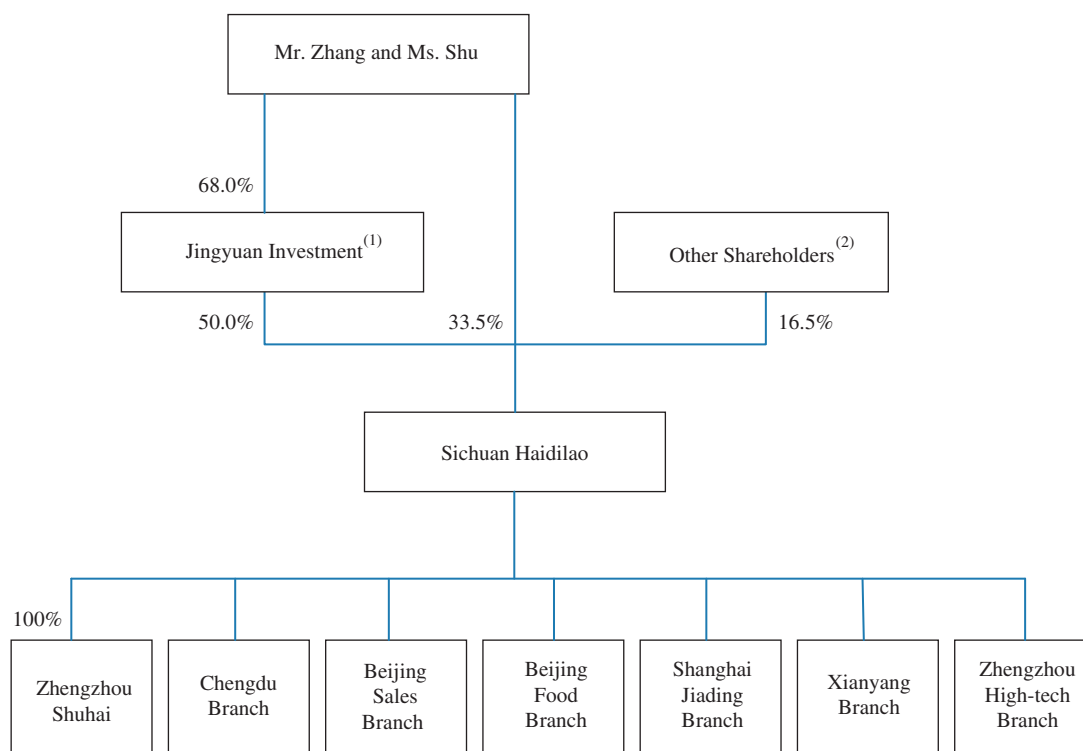
On 13 January 2012, Sichuan Haidilao established Zhengzhou Shuhai as a limited liability company in the PRC with a registered capital of RMB1,000,000, to principally engage in the production and sales of Compound Condiments. Upon completion of the construction of its production facilities, Zhengzhou Shuhai commenced the production of Compound Condiments in June 2013 when Haidilao Chengdu Branch suspended production to renovate its production facilities.

In November 2014, Haidilao Chengdu Branch resumed commercial production. Subsequently, in December 2015 and as part of the Reorganization, Chengdu Yueyihai acquired all of Haidilao Chengdu Branch’s production facilities and inventories related to the production of Compound Condiments. For further details of the acquisition, see “— Reorganization — Onshore Reorganization — Assets Transfer from Haidilao Chengdu Branch to Chengdu Yueyihai” below.

Immediately prior to the Reorganization, our Core Business was operated by Zhengzhou Shuhai, a subsidiary of Sichuan Haidilao at the relevant time, and six branches of Sichuan Haidilao, being Chengdu Branch, Beijing Food Branch, Shanghai Jiading Branch, Xianyang Branch, Zhengzhou High-tech Zone Branch and Beijing Sales Branch, among which, Zhengzhou Shuhai and Haidilao Chengdu Branch were primarily engaged in the production of Compound Condiments and the other five branches were primarily engaged in the sales of Compound Condiments.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Set out below is the simplified corporate structure of Sichuan Haidilao in connection with its Compound Condiments business prior to the Reorganization:



Notes:

- (1) Jingyuan Investment is directly held as to 68% by Mr. Zhang and Ms. Shu, 16% by Mr. Shi Yonghong and 16% by Ms. Li Haiyan.
- (2) Other shareholders include eight individuals, namely Mr. Shi Yonghong, Ms. Li Haiyan, Ms. Yang Lijuan, Mr. Gou Yiqun, Mr. Yuan Huaqiang, Mr. Chen Yong, Mr. Yang Bin and Ms. Feng Boying, who in aggregate directly and indirectly held 16.5% interest in Sichuan Haidilao.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

REORGANIZATION

In order to optimize our corporate structure to further develop the Compound Condiments business and to more readily access the international capital market, we have undergone a corporate reorganization to consolidate our Core Business within our Group in preparation for the Listing. For further details of the business delineation between our Group and our Controlling Shareholders, see “Relationship with our Controlling Shareholders — Our Relationship with Haidilao Group — Delineation of Business between Haidilao Group and us” in this prospectus. The following sets out the key steps of our Reorganization:

Offshore Reorganization

Incorporation of our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 October 2013. At the time of its incorporation, our Company had an authorized share capital of US\$2,000 divided into 200,000 shares with a nominal value of US\$0.01 each. Upon incorporation, one share was issued and allotted to the initial subscriber, which was then transferred to ZYSP YIHAI, one of our Controlling Shareholders. On the same day, our Company further allotted and issued 199,999 shares to eight BVI companies (including ZYSP YIHAI), each of which was wholly owned by an individual who directly and/or indirectly held an interest in Sichuan Haidilao. Upon completion of the share transfer and issuance, the shareholding structure of our Company was as follows:

Shareholder	Number of shares held	Approximate percentage of shareholding
ZYSP YIHAI ⁽¹⁾	114,750	57.38%
SYH YIHAI ⁽²⁾	27,200	13.60%
LHY YIHAI ⁽³⁾	27,200	13.60%
YLJ YIHAI ⁽⁴⁾	16,238	8.12%
GYQ YIHAI ⁽⁵⁾	8,221	4.11%
YHQ YIHAI ⁽⁶⁾	6,221	3.11%
CY YIHAI ⁽⁷⁾	102	0.05%
YB YIHAI ⁽⁸⁾	68	0.03%
Total	200,000	100%

Notes:

- (1) ZYSP YIHAI was wholly owned by Ms. Shu at the time of its incorporation. With further capital contribution made by Mr. Zhang and Ms. Shu on 14 April 2014, ZYSP YIHAI was owned as to 76.3% by Mr. Zhang and 23.7% by Ms. Shu.
- (2) SYH YIHAI is wholly owned by Mr. Shi Yonghong.
- (3) LHY YIHAI is wholly owned by Ms. Li Haiyan.
- (4) YLJ YIHAI is wholly owned by Ms. Yang Lijuan.
- (5) GYQ YIHAI is wholly owned by Mr. Gou Yiqun.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (6) YHQ YIHAI is wholly owned by Mr. Yuan Huaqiang.
- (7) CY YIHAI is wholly owned by Mr. Chen Yong.
- (8) YB YIHAI is wholly owned by Mr. Yang Bin.

Incorporation of YIHAI LTD

On 29 October 2013, our directly wholly owned subsidiary, YIHAI LTD, was incorporated in the BVI with an authorized share capital of 50,000 shares with a par value of US\$1.00 each. Upon its incorporation, one share was allotted and issued to our Company at par value.

Incorporation of Yihai (China)

On 6 December 2013, our indirectly wholly owned subsidiary, Yihai (China), was incorporated in Hong Kong with limited liability with an authorized share capital of 10,000,000 shares of HK\$1.00 each. Upon its incorporation, one share was allotted and issued to YIHAI LTD at par value. On 30 December 2013, Yihai (China) further allotted and issued 9,999,999 shares to YIHAI LTD at par value.

Onshore Reorganization

Establishment of Chengdu Yueyihai

On 28 April 2014, Zhengzhou Shuhai, a wholly owned subsidiary of Sichuan Haidilao at the relevant time, established Chengdu Yueyihai as a limited liability company in the PRC with a registered capital of RMB1,000,000. Chengdu Yueyihai is principally engaged in the sales of Compound Condiments.

From 1 September 2014, Chengdu Yueyihai took over the Compound Condiments sales business from Haidilao Beijing Food Branch, Haidilao Shanghai Jiading Branch, Haidilao Xianyang Branch and Haidilao Zhengzhou High-tech Zone Branch by way of entering into supply agreements with customers and taking over sales personnel in place of the above four branches of Sichuan Haidilao. Thereafter, Chengdu Yueyihai along with Haidilao Beijing Sales Branch conducted all the sales of Compound Condiments, and the above four branches of Sichuan Haidilao no longer engaged in such business.

Conversion of Haidilao Beijing Sales Branch and Transfer from Sichuan Haidilao to its Wholly Owned Subsidiary Zhengzhou Shuhai

On 24 November 2014, Haidilao Beijing Sales Branch was converted into a limited liability company with a registered capital of RMB1,000,000 pending capital contribution and was renamed Yihai Beijing. It ceased to engage in the business of sales of fresh food from November 2014 and has been principally engaged in the sales of Compound Condiments since then.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

On 30 November 2014, Zhengzhou Shuhai, a wholly owned subsidiary of Sichuan Haidilao at the relevant time, entered into an equity transfer agreement with Sichuan Haidilao pursuant to which Zhengzhou Shuhai agreed to acquire the entire equity interest in Yihai Beijing from Sichuan Haidilao at nil consideration. With the completion of the transfer and the contribution of the entire registered capital of RMB1,000,000 by Zhengzhou Shuhai, Yihai Beijing became a wholly owned subsidiary of Zhengzhou Shuhai on 16 December 2014.

Incorporation of Yihai Shanghai

On 1 December 2014, Yihai (China) established Yihai Shanghai as a foreign investment enterprise in the PRC. It had a registered capital of HK\$10,000,000 at the time of establishment and subsequently increased its registered capital to US\$50,000,000 on 18 January 2016. Yihai Shanghai is principally engaged in the sales of Compound Condiments.

Acquisition of Zhengzhou Shuhai by Yihai Shanghai

On 1 December 2014, Yihai Shanghai entered into an equity transfer agreement with Sichuan Haidilao pursuant to which Yihai Shanghai agreed to acquire the entire equity interest in Zhengzhou Shuhai from Sichuan Haidilao. The consideration for the acquisition was RMB2,000,000, which was determined with reference to the book value of Zhengzhou Shuhai's net assets as of 30 November 2014. The acquisition was completed on 15 December 2014, upon which Zhengzhou Shuhai became a wholly owned subsidiary of Yihai Shanghai.

Establishment of Yihai Bazhou

On 11 June 2015, Yihai Shanghai established Yihai Bazhou as a limited liability company in the PRC with a registered capital of RMB10,000,000. As of the Latest Practicable Date, Yihai Bazhou is still preparing for the construction of production facilities of Compound Condiments and has not commenced any business operation.

Assets Transfer from Haidilao Chengdu Branch to Chengdu Yueyihai

On 20 December 2015, Chengdu Yueyihai and Haidilao Chengdu Branch entered into two assets transfer agreements pursuant to which Chengdu Yueyihai agreed to acquire and Haidilao Chengdu Branch agreed to transfer all its production facilities (including production equipment, office equipment and related facilities) and inventories in connection with the production of Compound Condiments. The total consideration for the assets transfer was approximately RMB12,000,000, which was determined with reference to the book value of the net assets of the production facilities and inventories as of 20 December 2015. Upon completion of the acquisition on 31 December 2015, Haidilao Chengdu Branch no longer engaged in the production of Compound Condiments. The production of Compound Condiments are conducted by Chengdu Yueyihai and Zhengzhou Shuhai.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Major Shareholding Changes in Our Company

Issuance of New Shares to Existing Shareholders

On 12 March 2015, our Company increased its authorized share capital from US\$2,000 to US\$4,148 and allotted and issued a total number of 214,800 shares to all the eight then existing shareholders as shown in our shareholding structure table under “— Reorganization — Offshore Reorganization — Incorporation of our Company” above at a consideration of US\$8.86 per share. The consideration was determined with reference to the book value of our net assets as of 31 December 2014. Upon completion of the issuance, our Company was owned as to 62.70% by Mr. Zhang and Ms. Shu through ZYSP YIHAI.

Issuance of New Shares to ZYSP YIHAI, GYQ YIHAI and JLJH YIHAI and Share Subdivision

On 5 October 2015, our Company further increased its authorized share capital from US\$4,148 to US\$10,000 and allotted and issued a total number of 73,200 shares. Out of the 73,200 shares, each of ZYSP YIHAI and GYQ YIHAI subscribed for 9,760 shares and JLJH YIHAI subscribed for 53,680 shares. The consideration was US\$11.85 per share, which was determined with reference to the book value of our net assets as of 31 March 2015. At the time of the subscription, JLJH YIHAI was wholly owned by GYQ YIHAI which irrevocably surrendered its entire interest in JLJH YIHAI upon establishment of the trust arrangement on 24 February 2016, as further disclosed under “— Adoption of RSU Scheme” below.

On the same day, our Company conducted a share subdivision with the par value of each share being divided from US\$0.01 each to US\$0.00001 each. Upon completion of the issuance and the share subdivision, the shareholding structure of our Company is as follows:

Shareholder	Total number of shares held	Approximate percentage of shareholding
ZYSP YIHAI	269,823,000	55.30%
SYH YIHAI	61,606,000	12.62%
LHY YIHAI	61,606,000	12.62%
YLJ YIHAI.....	16,592,000	3.40%
GYQ YIHAI	18,056,000	3.70%
YHQ YIHAI	6,222,000	1.28%
CY YIHAI	249,000	0.05%
YB YIHAI.....	166,000	0.03%
JLJH YIHAI	53,680,000	11.00%
Total	488,000,000	100%

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Adoption of RSU Scheme

In recognition of the contributions of our employees and business partners and to incentivize them to further promote our development, our Company adopted the RSU Scheme on 24 February 2016. On the same day, JLJH YIHAI issued 49,999 shares to the RSU Trustee pursuant to a trust deed and a deed of gift dated 24 February 2016, for a cash consideration of approximately US\$636,100, which was funded by our Company and was of the same amount as the total consideration paid by JLJH YIHAI at the time of its subscription of such shares as disclosed above. At the same time, GYQ YIHAI irrevocably surrendered its entire interest in JLJH YIHAI, upon which, JLJH YIHAI became a wholly owned subsidiary of the RSU Trustee.

The term of the RSU Scheme is ten years. An award of RSUs under the RSU Scheme gives the grantee a conditional right upon vesting of the award to obtain either Shares or an equivalent value in cash with reference to the market value of the Shares on or about the date of vesting, as determined by the Board in its absolute discretion, less any tax, fees, levies, stamp duty and other applicable charges. The RSU Trustee will procure JLJH YIHAI to hold and deal with the relevant Shares under the scheme, and the dividends paid on them, according to the instructions of the Company acting through the Board or its duly authorized committee in accordance with the scheme rules. As of the Latest Practicable Date, we have not granted any RSUs.

For further details of the RSU Scheme, see “Appendix IV — Statutory and General Information — D. RSU Scheme” in this prospectus.

Establishment of Family Trust

On 1 June 2016, Mr. Zhang and Ms. Shu, as the settlors and protectors, established the ZYSP Trust with UBS Trustees (B.V.I.) Limited acting as the trustee. On 6 June 2016, Mr. Zhang and Ms. Shu transferred the entire equity interest in ZYSP YIHAI by way of gift to UBS Nominees Limited as nominee for UBS Trustees (B.V.I.) Limited. Pursuant to the ZYSP Trust, UBS Trustees (B.V.I.) Limited holds the equity interest in ZYSP YIHAI on trust for the benefit of Mr. Zhang and Ms. Shu.

On 2 June 2016, Mr. Shi Yonghong and Ms. Li Haiyan, as the settlors and protectors, established the SL Trust with Cititrust Private Trust (Cayman) Limited acting as the trustee. On 6 June 2016, Mr. Shi Yonghong and Ms. Li Haiyan transferred the entire equity interest in their respective BVI holding companies, namely SYH YIHAI and LHY YIHAI, by way of gift to Twice Happiness Limited, which is wholly owned by Cititrust Private Trust (Cayman) Limited. Cititrust Private Trust (Cayman) Limited holds the equity interest in SYH YIHAI and LHY YIHAI on trust for the benefit of Mr. Shi Yonghong and Ms. Li Haiyan.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

PRE-IPO INVESTMENTS

Overview

On 14 December 2015, our Company, Mr. Zhang, Ms. Shu and ZYSP YIHAI (our Controlling Shareholders), among others, entered into the Series A Preferred Shares Purchase Agreement with Glorious Future and Charlin Holdings, pursuant to which Glorious Future and Charlin Holdings agreed to subscribe for a total of 54,222,222 Series A Preferred Shares for a total consideration of approximately RMB186,666,700 or equivalent in U.S. dollars. On the same day, Mr. Zhang, Ms. Shu and ZYSP YIHAI (our Controlling Shareholders) entered into the Common Shares Purchase Agreement with Sky Ocean, pursuant to which Sky Ocean agreed to purchase from ZYSP YIHAI a total of 10,844,444 common shares of our Company for a total consideration of approximately RMB37,333,000 or equivalent in U.S. dollars. As a closing condition to the Series A Preferred Shares Purchase Agreement and the Common Shares Purchase Agreement, our Company, our Controlling Shareholders, Glorious Future, Charlin Holdings and Sky Ocean, among others, entered into the Shareholders' Agreement on 14 December 2015.

Principal Terms of the Pre-IPO Investments

(1) *Investment by Glorious Future and Charlin Holdings*

The following table sets forth the principal terms of the pre-IPO investments by Glorious Future and Charlin Holdings:

Date of Closing of the Investment	Glorious Future: 17 December 2015 Charlin Holdings: 22 December 2015
Number of Series A Preferred Shares Purchased	Glorious Future: 32,533,333 Series A Preferred Shares Charlin Holdings: 21,688,889 Series A Preferred Shares
Amount of Consideration Paid	Glorious Future: Approximately US\$17,365,700 settled on 17 December 2015 Charlin Holdings: Approximately US\$11,577,100 settled on 22 December 2015
Cost per Series A Preferred Share Paid by the Investors and Discount to the Offer Price	HK\$2.88 (taking into account the Capitalization Issue), representing a discount of approximately 10.00% to the HK\$3.20, being the mid-point of the indicative Offer Price range of HK\$2.98 to HK\$3.42
Basis of Determination of the Consideration	Based on arm's length negotiations among the parties after taking into consideration, amongst other things, market conditions and the Group's financial conditions, results of operations, business prospects and market position
Use of Proceeds	Development and operation of the Group's business in accordance with the budget and business plan as approved by the Board

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As of the Latest Practicable Date, approximately US\$18,261,955 had been utilized.

Shareholding in our Company upon Completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised)

Immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised), each of Glorious Future and Charlin Holdings will hold 46,800,000 Shares and 31,200,000 Shares, representing 4.50% and 3.00% of our total issued share capital, respectively.

Conversion

Each Series A Preferred Share is convertible into such number of fully paid and non-assessable ordinary shares of our Company at the ratio equal to the purchase price of the Series A Preferred Share divided by the then effective conversion price, which shall initially be the purchase price of the Series A Preferred Share, resulting in an initial conversion ratio for the Series A Preferred Shares of 1:1, and shall be subject to adjustment and readjustment from time to time as provided in the Shareholders' Agreement.

The Series A Preferred Shareholders shall have the rights described below with respect to the conversion of Series A Preferred Shares into ordinary shares of our Company:

- *Optional Conversion.* Each Series A Preferred Share may, at the option of the holder thereof, be converted at any time into ordinary shares of our Company based on the then effective conversion price.
- *Automatic Conversion.* Each Series A Preferred Share shall automatically be converted into ordinary shares of our Company immediately upon the closing of an initial public offering of our Company before 31 December 2018 on The New York Stock Exchange, NASDAQ, Hong Kong Stock Exchange or such other reputable stock exchange approved by the Board (including the affirmative vote of the Series A Investor Director (as defined below) and with the consents of the Series A Preferred Shareholders holding at least 80% of the outstanding Series A Preferred Shares) (a “**Qualified IPO**”).

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The conversion price of the Series A Preferred Shares is subject to customary adjustment events. If the number of outstanding Shares proportionately changes as a result of share split, share division, share combination, share dividend, reorganization, merger, consolidation, reclassification, exchange, substitution, recapitalization or similar events (other than certain excepted events such as new securities issuance under a Qualified IPO), the conversion price shall be proportionately adjusted. In the event of a dilutive issuance where the Company issues new Shares for a consideration per share less than the then effective conversion price (other than certain excepted issuance, such as new securities issuance upon conversion of the Series A Preferred Shares or under a Qualified IPO, or new securities issuance to employees, directors and consultants pursuant to any share incentive plan), then the conversion price shall be reduced, as of the date of such issuance, to an amount equal to the per share consideration for such new issuance.

There will not be any dilutive issuance of new shares that will trigger any adjustment to the conversion price of the Series A Preferred Shares.

Lock-up

No lock-up arrangement

Special Rights

The Series A Preferred Shares will be converted into Ordinary Shares upon completion of the Global Offering. Together with such conversion, all of the following special rights of Glorious Future and Charlin Holdings will expire upon completion of the Global Offering.

- ***Board appointment right***

Prior to the consummation of a Qualified IPO, Charlin Holdings and Glorious Future are entitled to appoint one director (“**Series A Investor Director**”) and one observer to the board of directors of our Company so long as they hold any Series A Preferred Shares or ordinary shares of our Company converted therefrom. Unless there is any mutual agreement between Charlin Holdings and Glorious Future, they shall alternate the appointment right of the director and the observer every three years.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

At the request of Charlin Holdings and Glorious Future, they are entitled to appoint one director and one observer to certain major subsidiaries of our Company. As of the Latest Practicable Date, no such appointment has been made to any of our subsidiaries.

The observer shall be entitled to attend all meetings of the board of directors of our Company and the relevant subsidiary of our Company in a non-voting observer capacity.

- ***Veto rights***

Other than certain exceptions, the controlling shareholding structure of our Group shall not be changed without the prior consent of the Series A Preferred Shareholders holding at least 80% of the outstanding Series A Preferred Shares.

Certain corporate actions of our Group require prior consent of the Series A Investor Director so long as any Series A Preferred Share remains outstanding. Such actions, amongst others, include:

- amendment or change of the rights, preferences, privileges or powers of, or the restrictions provided for the benefit of, the Series A Preferred Shares;
- action to authorize, create, issue or redeem shares of any class or series of any member of our Group;
- sale of all or a substantial part of the assets of any member of our Group of more than RMB50 million in any twelve-month period;
- any merger or setting up any joint venture with any third party by any member of our Group;
- liquidation, dissolution or winding-up of any member of our Group;
- acquisition of any third parties' securities of more than RMB50 million in any twelve-month period; and
- any new related party transactions of the Group (except for those has been disclosed to Glorious Future and Charlin Holdings).

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- *Preemptive right*

Each of Charlin Holdings and Glorious Future has a preemptive right to purchase up to its pro rata share of any new securities that the Company may, from time to time, propose to sell or issue (other than certain excepted issuance, such as new securities issuance upon conversion of the Series A Preferred Shares or under a Qualified IPO, or new securities issuance to employees, directors and consultants pursuant to any share incentive plan, etc.).

- *Right of first refusal and right of co-sale*

If any of Mr. Zhang, Ms. Shu or ZYSP YIHAI (the “**Transferor**”) proposes to transfer any ordinary shares of our Company (the “**Offered Shares**”) (other than certain exempted share transfers, such as any shares transferred or offered for sale by any of them under a Qualified IPO) to one or more third party purchasers, each of Charlin Holdings, Glorious Future and Sky Ocean shall have an option to purchase all or any portion of its respective pro rata share of the Offered Shares set out in the transfer notice given by the Transferor.

If any of Charlin Holdings, Glorious Future and Sky Ocean fails to exercise its right to purchase its full pro rata share of the Offered Shares, any of them who elected to purchase its entire pro rata share of the Offered Shares has a right to purchase such unpurchased portion of the Offered Shares provided that, if the total number of shares elected to be purchased by them is more than the total number of unpurchased Offered Shares, the unpurchased Offered Shares will be allocated to the extent necessary among them in accordance with their relative pro rata shares based on the number of the unpurchased Offered Shares they have elected to purchase.

To the extent that any of Charlin Holdings, Glorious Future or Sky Ocean does not exercise its right of first refusal as to the Offered Shares, it has the right to participate in such sale on the same terms and conditions as specified in the transfer notice given by the Transferor.

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- ***Information and inspection rights***

Each of Charlin Holdings and Glorious Future has the right to receive financial information, management reports and annual budgets provided that it holds at least 20% of the outstanding Series A Preferred Shares.

Subject to certain conditions, each of Charlin Holdings and Glorious Future or their respective duly designated representatives shall have the right to visit and inspect members of our Group, examine facilities, books and records, and discuss the businesses, operations and conditions of the relevant member of our Group with its directors and officers.

- ***Liquidation preference***

In the event of liquidation, Charlin Holdings and Glorious Future shall be entitled to receive for each outstanding Series A Preferred Share held, an amount equal to 100% of the purchase price of the Series A Preferred Shares, plus an annual simple return of 10% accrued thereon, and plus all declared but unpaid dividend before any distribution is made to the holders of ordinary shares of our Company.

- ***Redemption right***

Holders of Series A Preferred Shares have the following options provided that they, in aggregate, hold at least 80% of the outstanding Series A Preferred Shares:

- (a) request the Company to redeem all their outstanding Series A Preferred Shares in the event that our Company fails to complete a Qualified IPO by 31 December 2018; and
- (b) request the shareholders of our Company prior to the execution of the Series A Purchase Agreement to purchase all of the outstanding Series A Preferred Shares in proportion to their respective equity holding percentage in our Company in the event that there is a material breach by our Company, any of our major subsidiaries, Mr. Zhang, Ms. Shu or ZYSP YIHAI of their representations, warranties, obligations or covenants under the relevant transaction

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documents in connection with such investment, which has resulted in more than RMB5 million losses suffered by the Series A Preferred Shareholders.

Each of Charlin Holdings and Glorious Future has agreed to exercise the redemption right set out in the above paragraph (b), only upon the Company's failure to complete a Qualified IPO by 31 December 2016.

The redemption price for each Series A Preferred Shares shall equal to 100% of the purchase price of the Series A Preferred Shares, plus an annual simple return of 10% accrued thereon.

- ***Most Favorable Terms***

If our Company completes a future financing with terms more favorable (“**Investor Favorable Terms**”) to other investors, or any of the existing shareholders (excluding Sky Ocean) enjoys terms more favorable (“**Existing Shareholder Favorable Terms**”, together with the Investor Favorable Terms, the “**More Favorable Terms**”), than Charlin Holdings and Glorious Future, the More Favorable Terms shall automatically apply to the Series A Preferred Shares.

As the Global Offering is not a triggering event for adjustment to the conversion price of the Series A Preferred Shares, such conversion price provisions will not be regarded as More Favorable Terms if the Company completes the Global Offering with terms more favorable to other investors.

This provision will not be triggered by the Global Offering if the terms under the Global Offering are more favorable than those offered to Charlin Holdings and Glorious Future.

We confirm that there will not be any investment triggering this provision.

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(2) *Investment by Sky Ocean*

The following table sets forth the principal terms of the pre-IPO investment by Sky Ocean:

Date of Closing of the Investment	18 December 2015
Number of Shares Purchased	10,844,444 common shares
Amount of Consideration Paid	Approximately US\$5,788,600 was settled on 18 December 2015
Cost per Share Paid by the Investor and Discount to the Offer Price	HK\$2.88 (taking into account the Capitalization Issue), representing a discount of approximately 10.00% to HK\$3.20, being the mid-point of the indicative Offer Price range of HK\$2.98 to HK\$3.42
Basis of Determination of the Consideration	Based on arm's length negotiations between the parties after taking into consideration, amongst other things, market conditions and the Group's financial conditions, results of operations, business prospects and market position
Use of Proceeds	Consideration for the share transfer was paid to ZYSP YIHAI
Shareholding in our Company upon Completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised)	Immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised), Sky Ocean will hold 15,599,999 Shares, representing 1.50% of our total issued share capital.
Lock-up	No lock-up arrangement
Special Rights	All of the following special rights of Sky Ocean will expire upon completion of the Global Offering: <ul style="list-style-type: none">• <i>Board appointment right</i><p>Prior to the consummation of a Qualified IPO, Sky Ocean is entitled to appoint one observer to the board of directors of our Company and, if it requests, to certain major subsidiaries of our Company so long as it holds any common shares of our Company.</p>

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The observer shall be entitled to attend all meetings of the board of directors of our Company and the relevant subsidiary of our Company in a non-voting observer capacity.

- ***Preemptive right***

Sky Ocean has a preemptive right to purchase up to its pro rata share of any new securities that the Company may, from time to time, propose to sell or issue (other than certain excepted issuance, such as new securities issuance upon conversion of the Series A Preferred Shares or under a Qualified IPO, or new securities issuance to employees, directors and consultants pursuant to any share incentive plan).

- ***Right of first refusal and right of co-sale***

For details of Sky Ocean's right of first refusal and right of co-sale, see “— Pre-IPO Investments — Principal Terms of the Pre-IPO Investments — (1) Investment by Glorious Future and Charlin Holdings” above.

- ***Information and inspection rights***

Sky Ocean has the right to receive financial information, management reports and annual budgets as long as it holds all the common shares acquired under the Common Shares Purchase Agreement.

Subject to certain conditions, Sky Ocean or its duly designated representatives shall have the right to visit and inspect members of our Group, examine facilities, books and records, and discuss the businesses, operations and conditions of the relevant member of our Group with its directors and officers.

- ***Put Option***

Sky Ocean has the option to request ZYSP YIHAI to purchase common shares held by it upon the occurrence any of the following events:

- (i) our Company fails to complete a Qualified IPO by 31 December 2018; and

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- (ii) there is a material breach by Mr. Zhang, Ms. Shu or ZYSP YIHAI of their representations, warranties, obligations or covenants under the relevant transaction documents in connection with such investment, which has resulted in more than RMB5 million losses suffered by Sky Ocean.

Sky Ocean has agreed to exercise the right set out in the above paragraph (ii), only upon the Company's failure to complete a Qualified IPO by 31 December 2016.

The purchase price payable by ZYSP YIHAI shall equal to 100% of the purchase price of such common shares paid by Sky Ocean, plus an annual simple return of 10% accrued thereon.

- ***Most Favorable Terms***

If the Investor Favorable Terms are more favorable than those of Sky Ocean, ZYSP YIHAI shall use its best effort to ensure that Sky Ocean automatically has the right to acquire such Investor Favorable Terms, except for the special rights only enjoyed by Glorious Future and Charlin Holdings. The conversion price provisions for Series A Preferred Shares is not regarded as Investor Favorable Terms for this purpose.

This provision will not be triggered by the Global Offering if the terms under the Global Offering are more favorable than those offered to Sky Ocean.

We confirm that there will not be any investment triggering this provision.

Information of the Pre-IPO Investors

Glorious Future is a business company with limited liability incorporated in the BVI. It is a wholly owned subsidiary of Yunfeng Fund II, L.P., which is principally engaged in private equity investment and is controlled by Yunfeng Investment GP II, Ltd.

Charlin Holdings is a business company with limited liability incorporated in the BVI. It is a wholly owned subsidiary of Greenwoods Bloom Fund II, L.P., which is principally engaged in equity investment and is controlled by Greenwoods Bloom II LTD.

Sky Ocean is a business company with limited liability incorporated in the BVI. It is a wholly owned subsidiary of New Hope Agriculture and Food Fund II, L.P., which is principally engaged in equity investment and is controlled by New Hope Agriculture and Food Fund II GP, LTD.

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Prior to their investment in our Company, each of Glorious Future, Charlin Holdings and Sky Ocean was an Independent Third Party. Our Directors are of the view that our Company can benefit from the additional capital provided by Glorious Future and Charlin Holdings and leverage on the industry knowledge and experience provided by Sky Ocean.

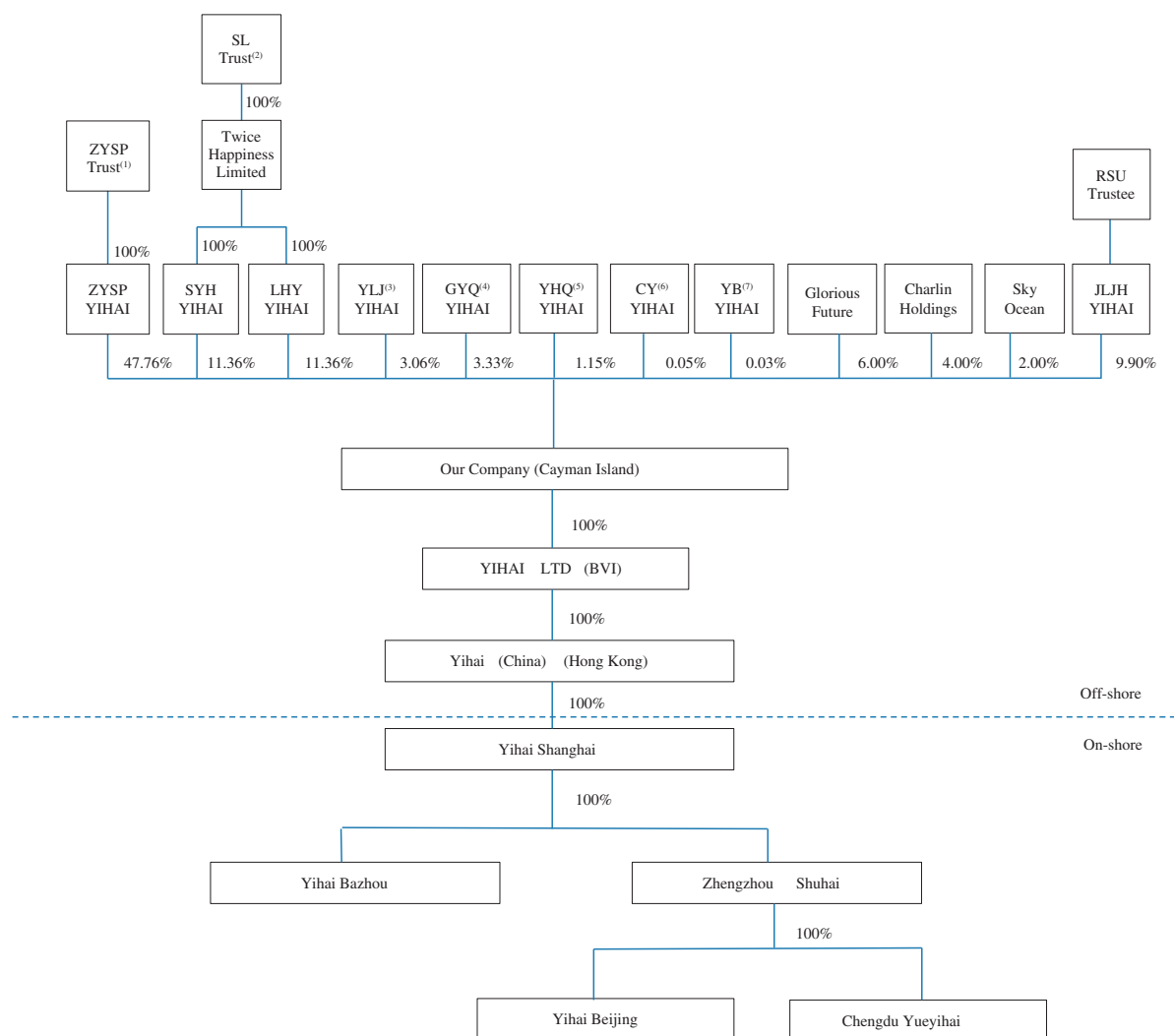
As each of Glorious Future, Charlin Holdings and Sky Ocean will hold less than 10% of the total issued share capital of our Company immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised), none of Glorious Future, Charlin Holdings or Sky Ocean will be a substantial shareholder of our Company upon the Listing and consequently be a connected person of our Company. Accordingly, all the Shares held by Glorious Future, Charlin Holdings and Sky Ocean shall be counted as part of the public float for the purposes of Rule 8.08 of the Listing Rules.

The Company and the Sole Sponsor are of the view that the Pre-IPO Investments are in compliance with the Interim Guidance (i.e. Guidance Letter HKEx-GL29-12) and Guidance Letter HKEx-GL43-12.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OUR CORPORATE STRUCTURE

The following chart illustrates our corporate structure immediately after the Reorganization, the Pre-IPO Investments, adoption of RSU Scheme and establishment of family trusts, but prior to the Capitalization Issue and the completion of the Global Offering (assuming all Series A Preferred Shares have been converted into our Shares on a one-for-one basis):

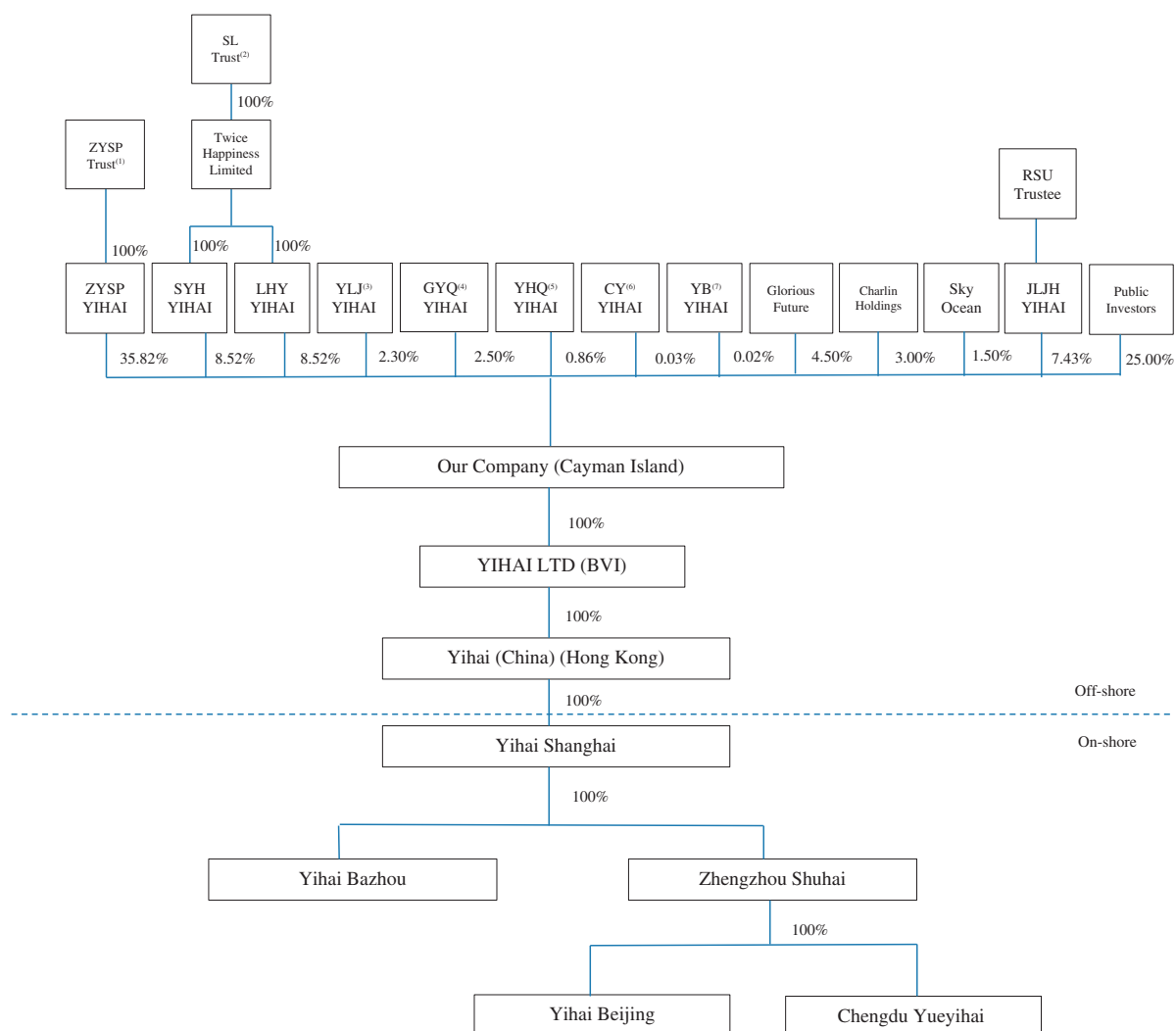


Notes:

- (1) ZYSP Trust is a discretionary trust set up by Mr. Zhang and Ms. Shu as the settlors and protectors for their own benefit with UBS Trustees (B.V.I.) Limited acting as the trustee.
- (2) SL Trust is a discretionary trust set up by Mr. Shi Yonghong and Ms. Li Haiyan as the settlors and protectors for their own benefit with Cititrust Private Trust (Cayman) Limited acting as the trustee.
- (3) YLJ YIHAI is wholly owned by Ms. Yang Lijuan.
- (4) GYQ YIHAI is wholly owned by Mr. Gou Yiqun.
- (5) YHQ YIHAI is wholly owned by Mr. Yuan Huaqiang.
- (6) CY YIHAI is wholly owned by Mr. Chen Yong.
- (7) YB YIHAI is wholly owned by Mr. Yang Bin.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The following chart illustrates our corporate structure immediately following the completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised):



Notes:

- (1) ZYSP Trust is a discretionary trust set up by Mr. Zhang and Ms. Shu as the settlors and protectors for their own benefit with UBS Trustees (B.V.I.) Limited acting as the trustee.
- (2) SL Trust is a discretionary trust set up by Mr. Shi Yonghong and Ms. Li Haiyan as the settlors and protectors for their own benefit with Cititrust Private Trust (Cayman) Limited acting as the trustee.
- (3) YIJ YIHAI is wholly owned by Ms. Yang Lijuan.
- (4) GYQ YIHAI is wholly owned by Mr. Gou Yiqun.
- (5) YHQ YIHAI is wholly owned by Mr. Yuan Huaqiang.
- (6) CY YIHAI is wholly owned by Mr. Chen Yong.
- (7) YB YIHAI is wholly owned by Mr. Yang Bin.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

PRC LEGAL COMPLIANCE

SAFE Registration

Given that certain ultimate beneficial shareholders of our Group, namely Mr. Shi Yonghong, Ms. Li Haiyan, Ms. Yang Lijuan, Mr. Gou Yiqun, Mr. Yuan Huaqiang, Mr. Chen Yong and Mr. Yang Bin, are PRC domestic residents, they are required to complete the foreign exchange registration with the relevant local foreign exchange authority pursuant to the requirements under the Circular on Relevant Issues concerning Foreign Exchange Administration for Offshore Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “**Circular**”) which was promulgated by SAFE and became effective on 4 July 2014. Our PRC legal adviser, Jingtian & Gongcheng, advised that (i) each of the above beneficial shareholders has completed the foreign exchange registration with Beijing Branch of SAFE on 5 November 2014 and (ii) our Controlling Shareholders, Mr. Zhang and Ms. Shu, are not subject to the foreign exchange registration requirements as they are of Singapore nationality. Mr. Shi Yonghong and Ms. Li Haiyan will apply for the modification of registration required under the Circular upon completion of transfer of the entire equity interest in their respective BVI holding companies to Twice Happiness Limited wholly owned by Cititrust Private Trust (Cayman) Limited as disclosed in “— Reorganization — Major Shareholding Changes in Our Company — Establishment of Family Trust”. On this basis that Mr. Shi and Ms. Li make the application and provide all the documents and information required, Jingtian & Gongcheng, our PRC legal advisors, are of the view that there is not expected to be any material legal obstacle to complete the registration, and it is unlikely to have any material adverse impact on our Company.

M&A Rules

The Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”) was jointly promulgated on 8 August 2006 by six ministries and commissions, including MOFCOM, China Securities Regulatory Commission (“**CSRC**”) and SAFE, implemented on 8 September 2006 and amended on 22 June 2009 by MOFCOM.

According to Article 2 of the M&A Rules, “merger and acquisition of domestic enterprises by foreign investors” referred to in the M&A Rules shall mean any of the following where a foreign investor: (i) purchases the equity interest of a shareholder in a domestic non-foreign-invested enterprise (“**domestic company**”); (ii) subscribes for increased capital of a domestic company so as to convert such domestic company into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases and operates the assets of a domestic enterprise by agreement; or (iv) a foreign investor purchases the assets of a domestic enterprise by agreement and then invests such assets to establish a foreign-invested enterprise and operates the assets. According to Article 11 of the M&A Rules, the merger and acquisition of a domestic company with or by a domestic company, enterprise or individual, that has a related party relationship with the target company, in the name of an overseas company legitimately incorporated or controlled by the domestic company, enterprise or individual, shall be subject to examination and approval by MOFCOM. The parties involved shall not use domestic investment by foreign invested enterprises or other methods to circumvent the aforesaid requirements.

OUR HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Our PRC legal adviser, Jingtian & Gongcheng, advised that, considering: (i) the incorporation of Yihai Shanghai was directly funded by Yihai (China), (ii) the controlling shareholders of Yihai Shanghai have all been foreign natural persons or foreign institutions since Yihai Shanghai's establishment, and (iii) both Mr. Zhang and Ms. Shu, controlling shareholders of Yihai (China), are of Singaporean nationality, Yihai Shanghai's acquisition of Zhengzhou Shuhai is not subject to Article 2 and Article 11 of the M&A Rules.

According to the M&A Rules, where a PRC domestic company or PRC domestic individual, for the purpose of obtaining an overseas listing of interests it actually owns in a domestic company, enters into an arrangement to obtain the listing of an overseas special purpose vehicle it directly or indirectly controls, the party shall obtain approval from the CSRC.

Our PRC legal adviser has further advised that neither Mr. Zhang nor Ms. Shu is regarded as a PRC domestic natural person under the M&A Rules since they are both of Singaporean nationality, therefore we do not require approval from CSRC for the Listing. We have complied with applicable PRC laws and regulations and have obtained necessary approvals from and/or registrations with PRC government authorities for the onshore reorganization for the purpose of the Listing.

Our PRC legal adviser has further confirmed that all requisite approvals and registrations required under the PRC laws and regulations in connection with the Reorganization have been obtained and the Reorganization has complied with all the applicable PRC laws and regulations.

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OVERVIEW

We are a leading and fast-growing compound condiment manufacturer in China. The hot pot condiment sector, which consists of hot pot soup flavoring condiments and hot pot dipping sauce condiments, is the second largest segment in the compound condiment industry as measured by sales value. We are the second largest hot pot condiment manufacturer in China as measured by sales value in 2015, according to Frost & Sullivan. As the only hot pot condiment manufacturer primarily focused on China's fast-growing mid- to high-end market, we are the largest mid- to high-end hot pot soup flavoring condiment manufacturer as measured by sales value in 2015, which accounts for over 30% market share, over three times that of the second largest market participant, according to Frost & Sullivan. In addition, during the Track Record Period, we achieved the highest sales value growth rate among the five largest hot pot condiment manufacturers in China.

We are the sole supplier of hot pot soup flavoring products for Haidilao Group in China, and our products have significantly contributed to the successful growth of Haidilao Group. Haidilao Group was the largest Chinese hot pot restaurant chain and the No.1 Chinese cuisine restaurant company in China as measured by sales value in both 2014 and 2015, according to Frost & Sullivan. In 2013, 2014 and 2015, Haidilao Group owned 93, 111 and 142 hot pot restaurants in 24, 29 and 39 cities across China, respectively, and owned two, four and seven hot pot restaurants in two, three and five overseas locations, respectively. In line with Haidilao Group's successful expansion, our revenue derived from sales to Haidilao Group increased from RMB180.6 million in 2013 to RMB277.0 million in 2014 and further to RMB457.8 million in 2015.

We sell our condiment products under the "Haidilao" (海底捞) brand across product lines. We have the exclusive right to use the "Haidilao" (海底捞) brand for our condiment products on a royalty-free basis for a perpetual term commencing from 1 January 2007, subject to certain conditions, and is only terminable with the consent of our independent non-executive Directors. We believe that the "Haidilao" (海底捞) brand stands for stringent food safety standards, excellent quality and superior customer experience. Benefitting from the well-established "Haidilao" (海底捞) brand as well as our market-oriented and solid innovation capabilities, extensive network coverage, advanced production techniques and stringent quality control mechanisms, we are one of the few Chinese compound condiment manufacturers with a nationwide reputation. We have been quickly expanding our market share by providing culinary condiment solutions to Chinese home-cooking customers, catering service providers and food industry companies to meet their needs for convenient, nutritious and tasty meals in home cooking, standardized and consistent dishes in restaurant catering, and reliable flavoring products in food processing. During the Track Record Period, we have experienced substantial growth. Our revenue increased at a CAGR of 63.8% from RMB315.9 million in 2013 to RMB847.3 million in 2015, and our net profit increased at a CAGR of 137.6% from RMB22.1 million in 2013 to RMB124.5 million in 2015. Our gross profit margin increased from 22.0% in 2013 to 34.7% in 2015, and our net profit margin increased from 7.0% in 2013 to 14.7% in 2015.

Our market leadership is built upon the success of our products. We aim to provide comprehensive and high-quality products by relentlessly executing the following strategies (i) consistent focus on the mid- to high-end market, (ii) continuous expansion into new segments of the compound condiment market, and (iii) uncompromising commitment to product quality to keep abreast of the evolving customer expectations and food safety standards. We offer a wide range of condiment

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products, ranging from hot pot condiments to Chinese-style compound condiments such as spicy stir-fry pot and pickles and fish stew condiments. As of 31 December 2015, we had three major product lines with 56 products. In addition, with Chinese consumers' growing consciousness of health and food safety and their rising acceptance of compound condiments as a result of their new consumption habits, there has been an increasing market demand for high-quality condiment products, including our vegetable-oil-based hot pot soup flavoring products. We spearheaded the development of the mid- to high-end hot pot soup flavoring condiment market by launching the high-quality vegetable-oil-based hot pot soup flavoring products in 2007. We believe that we are well-positioned to continuously take advantage of this trend in the foreseeable future.

We have established an extensive nationwide distribution network. As of 31 December 2015, our 339 distributors covered 31 provincial territories, all first-tier cities, 28 second-tier cities and 134 third- and fourth-tier cities in China as well as 11 overseas countries and markets, enabling our products to reach over 6,000 hypermarkets and supermarkets in China, including Walmart and Carrefour, and traditional retail channels, such as grocery stores, neighborhood stores, and butcher shops. In addition, we have established and have been continuously strengthening our presence in overseas markets through our distributors. Our physical network is further supplemented by e-commerce channels such as Tmall.com and JD.com. Our products are sold to 11 overseas countries and markets in North America, Europe and Asia. For the years ended 31 December 2013, 2014 and 2015, our revenue from sales to distributors increased rapidly from RMB125.1 million to RMB217.0 million and further to RMB370.4 million, representing a CAGR of 72.3%, accounting for 39.6%, 43.5% and 43.7%, respectively, of our total revenue.

OUR STRENGTHS

We believe that the following strengths have distinguished us from our competitors, contributed to our success and are critical to our future prospects.

Market leader in China's fast-growing mid- to high-end hot pot soup flavoring condiment market

We are a leading compound condiment manufacturer in China primarily targeting the hot pot condiment market. We are the largest mid- to high-end hot pot soup flavoring condiment manufacturer in China as measured by sales value in 2015, accounting for over 30% market share which is over three times that of the second largest market participant, according to Frost & Sullivan. We are also the second largest hot pot condiment manufacturer in China as measured by sales value in 2015, accounting for 6.8% market share, according to Frost & Sullivan. We are the only hot pot condiment manufacturer primarily focused on the fast-growing mid- to high-end segment, according to Frost & Sullivan. During the Track Record Period, substantially all of our hot pot soup flavoring products were mid- to high-end products and we achieved the highest sales value growth rate among the five largest hot pot condiment manufacturers in China.

The hot pot condiment sector, which consists of hot pot soup flavoring condiments and hot pot dipping sauce condiments, is the second largest segment in the compound condiment industry in China with a market size of RMB15.4 billion in 2015. This sector grew at a CAGR of 15.9% from 2010 to 2015 and is projected to grow at a CAGR of 15.0% for the next five years, according to Frost & Sullivan. Benefiting from the Chinese consumers' growing consciousness of health and food safety

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and their increasing purchasing powers, the mid- to high-end hot pot soup flavoring condiment market has grown from a market size of RMB870 million in 2010 to RMB2,840 million in 2015, representing a CAGR of 26.8%, outpacing the growth of the overall compound condiment and hot pot condiment industry in PRC, and is expected to grow at a CAGR of 21.6% for the next five years, according to Frost & Sullivan.

With Chinese consumers' growing consciousness of health and food safety, there has been an increasing market demand for healthy and high-quality compound condiment products, including our vegetable-oil-based hot pot soup flavoring products. We spearheaded the development of the mid- to high-end hot pot soup flavoring market by launching the high-quality vegetable-oil-based hot pot soup flavoring products in 2007, one of the first companies offering such products in the market. Many other products in the market often use animal fat oil as base as well as a variety of preservatives and artificial flavorings, most of our hot pot soup flavoring products are manufactured using vegetable oil as base, with the addition of salt and spices to strike a balance between flavor and taste and food preservation. In addition, leveraging our in-depth understanding of China's compound condiment industry and Chinese consumers' evolving demand for condiment products, we have translated our success in the hot pot soup flavoring market into other segments by launching a broader array of products ranging from hot pot dipping sauce to Chinese-style compound condiments. We believe that we are well positioned to take advantage of the rapidly growing demand for high-quality compound condiment products, particularly the mid- to high-end hot pot soup flavoring products, in China.

Extensive distribution network and effective marketing strategy

We have established an extensive nationwide distribution network. As of 31 December 2015, Our 339 distributors covered 31 provincial territories, all first-tier cities, 28 second-tier cities and 134 third- and fourth-tier cities in China as well as 11 overseas countries and markets, enabling our products to reach over 6,000 hypermarkets and supermarkets in China, including Walmart and Carrefour, and traditional retail channels, such as grocery stores, neighborhood stores and butcher shops.

We employ a distributor model and primarily sell our products to regional distributors who then typically engage sub-distributors or retailers to sell our products. We have been continuously expanding our nationwide distribution network and optimizing our distributor structure through selective criteria. Our physical distribution network is supplemented by e-commerce channels, which have experienced significant growth recently. Our revenue derived from e-commerce channels increased from RMB2.7 million in 2013 to RMB5.5 million in 2015. We sell our products through nine major e-commerce channels in China, including Tmall.com and JD.com.

We began exploring overseas markets in 2015. Our products are sold to 11 overseas countries and markets in North America, Europe and Asia. We have a marketing team dedicated to exploring overseas markets, including formulating product formulas in compliance with local health and food safety regulations. According to Frost & Sullivan, the overseas sales of hot pot soup flavoring and Chinese-style compound condiment products have experienced steady growth during the past five years, growing at a CAGR of 9.2% from 2010 to 2014 due to the growth of Chinese immigrants and Chinese students studying abroad and the increasing demand for consistent high-quality condiment

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products by overseas Chinese restaurants. We believe that the continuous expansion of Haidilao Group, together with the “Haidilao” (海底撈) brand, our large scale and savvy marketing capabilities, enable us to capture the opportunity to expand in overseas markets. For the year ended 31 December 2015, our revenue from products made for export was RMB5.9 million.

We have accumulated extensive knowledge of China’s catering service sectors through our years of experience serving Haidilao Group. In recent years, the catering service industry has experienced a trend towards a franchised business model and providing a standardized customer experience. Our market-oriented and solid research and development capabilities enable us to formulate customized condiment formulas to meet catering service clients’ specific needs. We also have the production capabilities and know-how to manufacture consistent high-quality condiment products at scale on relative short notice to meet their production and delivery needs. We have strengthened our customized services to third-party catering service clients since the second quarter of 2015. As of 31 December 2015, we had 17 third-party catering service clients and the revenue derived from them was RMB1.5 million in 2015.

Diverse product portfolio supported by market-oriented and solid research and development capabilities, stringent cost management and industry-leading food safety control

Our market leadership is built upon the success of our products. We aim to provide comprehensive and high-quality products by relentlessly executing the following strategies: (i) consistent focus on the mid- to high-end sector, (ii) continuous expansion into new segments of the compound condiment market, and (iii) uncompromising commitment to product quality to keep abreast of the evolving customer expectations and food safety standards. We offer a wide range of condiment products, ranging from hot pot condiments to Chinese-style compound condiments such as spicy stir-fry pot and pickles and fish stew condiments. As of 31 December 2015, we had three major product lines with 56 products.

Diverse product portfolio

Compound condiments are used widely in home cooking, catering services and the food industry. In recent years, spicy compound condiment products have gained a greater market share led by the favorable trend towards spicy flavor. Supported by the growing consumer demand for spicy flavor across demographics, this trend has also been transitioning into a mainstream food culture around the globe, moving from a few niche markets to major fast food chain restaurants and household-name food companies, who have added spicy flavor to their menus and main products.

Hot pot condiments have a significant market share in the compound condiment market and are increasingly used for different purposes. For example, in addition to hot pot dishes, our hot pot soup flavoring products can be used to cook other spicy dishes, such as spicy stir-fry pot, fried noodles and other spicy-flavored dishes. In addition, Chinese customers have been changing their home cooking patterns, switching from using single condiment products to compound condiment products for more convenient and tasty home-cooked dishes. We have embraced this opportunity to launch a comprehensive offering of compound condiment products to tap into wider market segments by leveraging our strengths in manufacturing and research and development. As of 31 December 2015, we had three major product lines with 56 products, ranging from hot pot condiment products to

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Chinese-style compound condiment products such as spicy stir-fry pot and pickles and fish stew condiments. Our Chinese-style compound condiment products have experienced rapid growth since the launch of those products. For example, our sales of spicy stir-fry pot condiment products increased rapidly from RMB27.4 million in 2013 to RMB73.6 million in 2015.

Market-oriented and solid research and development capabilities

We have a dedicated research and development team with a market-orientated focus to collect and analyze market information and data, formulate and upgrade product formulas, and optimize production processes and equipment. Our research and development team has been continuously improving our products' formulas to meet our customers' evolving taste and has launched several popular condiment products on the retail market. The formulas of our hot pot condiment products have been well tested and endorsed by hundreds of millions of Haidilao Group's customers, and our products have significantly contributed to the success of Haidilao Group. Furthermore, our market-oriented and solid in-house research and development capabilities enable us to expand quickly into new market segments and command a significant market share. During the years ended 31 December 2013, 2014 and 2015, we launched one, four and ten new products, respectively.

To manufacture products with consistently high quality at scale, we combine modern production techniques with traditional production methods across product lines. In particular, we have formulated standardized production manuals with repeatable steps that translate traditional production know-how into modern processes controlled and monitored in an automated and computerized manner so that our compound condiment products preserve their traditional pure, rich and appealing flavor at large-scale production levels.

Stringent cost management

We enjoy substantial procurement and operational cost advantages as a result of our scale and effective technology platform. We are able to leverage our purchasing power to obtain substantial discounts from our suppliers. Our economies of scale also allow us to achieve significant operational efficiency by lowering our average fixed costs and expenses such as marketing and overhead expenses. In addition, leveraging our market-oriented and solid research and development capabilities, we have been continuously improving our production process and techniques to lower our operation costs.

We employ a broad suite of software solutions which we continuously improve to better support our operation. Our comprehensive and effective technology platform empowers us to enhance our operational efficiency. Our technology platform centralizes major aspects of our operational management, including raw materials supply, production, inventory, logistics and financial management. Our technology platform enables us to (i) conduct supply/demand analysis of historical data and anticipate future demand, which provides critical information for inventory control, production schedule as well as long-term strategic decisions and (ii) monitor and analyze our financial performance by geographic location, product type or cost type, enabling our management to make more informed decisions on budgeting, cost control, distributor selection and geographic expansion.

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Industry-leading food safety control

We stringently control each major step of our production process to ensure food safety. In particular:

- **Reliable raw material supply:** We adhere to a set of demanding criteria to select reliable raw materials. Most of our major suppliers are well-known suppliers. We believe our procurement standards for major raw materials, such as vegetable oil, chili peppers and other spices, are higher than the average industry procurement standards.
- **Rigorous quality control:** We implement a strict quality control system that is certified by many domestic and international standards, including HACCP, QS and ISO certifications. We also execute a meticulous product check and examination protocol to ensure product quality and consistency.
- **Full course tracing:** We are one of the few hot pot condiment manufacturers in the PRC who has a full course tracing system. Our retail products are given a unique two-dimensional code to trace the full course of each product from production to storage and to distribution as a quality control measure.

Premium products supported by the well-recognized “Haidilao” (海底捞) brand

As a company originating from Haidilao Group, the largest Chinese hot pot restaurant chain and the No.1 Chinese cuisine restaurant company in China as measured by sales value in both 2014 and 2015, we sell our products under the “Haidilao” (海底捞) brand across product lines. “Haidilao” (海底捞) brand is one of the most well-recognized brands in China. We believe the “Haidilao” (海底捞) brand stands for superior food safety, excellent quality and superior customer experience. Leveraging the “Haidilao” (海底捞) brand and the breadth and depth of our product portfolio, we are committed to providing condiment solutions to home cooking customers, restaurant chains and food industry companies to meet their needs for convenient, nutritious and tasty meals in home cooking, standardized and consistent dishes in restaurant catering, and reliable flavoring products in food processing.

We are the sole supplier of hot pot soup flavoring products for Haidilao Group in China and our products have significantly contributed to the successful growth of Haidilao Group. The continuous expansion and growth of the Haidilao Group in China and around the globe has significantly boosted our business growth as well as promoted customers’ recognition and acceptance of our products. Our products are displayed and available for purchase at Haidilao hot pot restaurants, giving us access to promote our products to our target customers. Over 50 million customers dined at Haidilao hot pot restaurants in 2015 and 8.6 million members with Haidilao Group’s memberships. We cooperate with Haidilao Group to test and improve the formulas of our hot pot soup flavoring products. By branding our products under the “Haidilao” (海底捞) brand, we have capitalized on its associated brand image of excellent quality and superior food safety to build customer trust and deliver superior customer experience.

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The formulas of our hot pot condiment products have been well tested and endorsed by the hundreds of millions of Haidilao Group customers and our products have significantly contributed to the success of Haidilao Group. We have leveraged such experience to research and develop formulas for Chinese-style compound condiment products appealing to Chinese customers' ever-changing taste. We believe that our proven brand awareness, in-depth understanding of Chinese consumers, and years of experience in researching and manufacturing hot pot condiment products have distinguished us from our competitors and enabled us to continuously strengthen our market leading position.

Experienced management team and excellent corporate culture inherited from Haidilao

We believe that excelling in the compound condiment business in China requires in-depth industry expertise, extensive local know-how and strong execution capability. Our management team has accumulated extensive knowledge of China's consumer, food and consumer goods sectors. Mr. Yiqun Gou, our chairman, has over 16 years of experience in China's food and restaurant and catering sectors, Ms. Chunxiang Dang, our president, has over 15 years of experience in China's consumer goods sector, and each of our senior management members has over 10 years of experience in relevant industries. Under Mr. Gou and Ms. Dang's leadership, our management team's extensive experience has greatly contributed to our institutional knowledge.

Haidilao Group's unique corporate culture and management philosophy, which are studied by many major Chinese business schools, have been well tested over the last 20 years and widely admired in the business world. As a company originating from Haidilao Group, Haidilao Group's corporate culture and management philosophy to pursue superior customer experiences have become part of our DNA. We strive to provide the best-in-class products since our inception and quality is always our first priority.

We cultivate an entrepreneurial culture by encouraging our employees to assume responsibilities and be creative. We incentivize our employees by creating a clear and fair internal promotion path and an attractive compensation scheme that is based upon performance measured by a set of KPIs. In addition, we provide systematic training programs to enable our employees to continuously grow professionally.

OUR STRATEGIES

We aspire to become a leading culinary condiment solutions provider in China. We will strengthen our leadership in the mid- to high-end hot pot soup flavoring condiment market and seek to further expand to wider compound condiment segments. To achieve this goal, we intend to:

Strengthen our leading market position and expand into new products and markets

With Chinese consumers' growing consciousness of health and food safety and their rising acceptance of compound condiments as a result of their new consumption habits, we will continue to focus on our mid- to high-end product strategy. We intend to further increase our market share and

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consolidate our market leading position in China's mid- to high-end hot pot condiment sector by promoting the penetration rate of our core products while continuously expanding and optimizing our product portfolio. We will also leverage our market-leading position and successful experience in the hot pot condiment market to expand our footprint into other compound condiment markets.

We plan to complete the construction of phase I of our Bazhou Production Base by the first half of 2018, which will (i) increase our production capacity and reduce our need for contract manufacturers, particularly during our peak seasons, (ii) optimize our product portfolio to manufacture new product lines and utilize new packaging materials, (iii) upgrade our storage facilities, and (iv) help us better manage our logistics costs due to its central geographic location in Northern China. We believe our Bazhou Production Base will lay a solid foundation for our consolidation and expansion of our market share and position.

Strengthen our research and development capabilities and expand our product portfolio

We will continue to adhere to our strict criteria for suppliers and raw materials to further improve the flavor and aroma of our high-quality hot pot condiment products. Our research and development team will continue to work closely with our production department and collaborate with other institutions in developing new formulas and products as well as improving and upgrading the formulas of our existing condiment products.

For the hot pot soup flavoring condiment market, we will launch new vegetable-oil-based high-end products to further solidify our market-leading position. We also plan to make great efforts to tap into the fragmented hot pot dipping sauce market by introducing and marketing our premium hot pot dipping sauce products. Furthermore, we will leverage our years of experience in researching and manufacturing spicy flavored condiment products to expand our product lines in the Chinese-style compound condiment segment.

With a strategic focus on mid- to high-end compound condiment products, we endeavor to continue to broaden and optimize our compound condiment product portfolio, strengthen our product image of superior quality and further promote our competitiveness in China's compound condiment market. We also intend to optimize our management information system to enhance our operation efficiency.

Enhance our sales and distribution capabilities

The breadth, depth, and effectiveness of our distribution network are critical to our success and prospects. As we recognize that the third- and fourth-tier cities and rural regions in China present significant growth potentials, we will increase our efforts to tap into or penetrate these markets. To further enhance our brand recognition in an efficient fashion, we will initiate more targeted marketing activities. We plan to achieve these goals through joint efforts with our distributors. In addition, we will also expand our own sales teams and improve their effectiveness by providing more trainings.

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As catering services are gaining popularity in China, catering service providers demand sophisticated condiment products. We believe that we are uniquely positioned to capture the business opportunities arising from such demands. Leveraging our expertise in providing customized products to Haidilao Group and other restaurant clients, we target to service a greater number of catering service providers by proactively marketing our special capabilities, developing tailored formulas of compound condiments and manufacturing and delivering these products pursuant to their specific requirements. We believe this growing product area will help enlarge our customer base and boost our sales.

We will further streamline and integrate our e-commerce sales and distribution network and develop differentiated product lines that are more appealing to e-commerce customers, including compound condiment products and hot pot accessories such as ingredients and cooking utensils, exclusively for online sales.

Building upon our momentum in overseas expansion, we plan to tap into other overseas markets with a focus on the North American, European and Southeast Asian regions. We will also capture the opportunities arising from Haidilao Group's global business growth.

Pursue strategic acquisitions to supplement organic growth

Although China's compound condiment industry is highly fragmented, it is expected that the market will consolidate and eventually reach a concentration level comparable with the more developed markets. We have been closely monitoring the market conditions and trends with a view to capturing strategic acquisition opportunities. Specifically, we look for market leaders in their respective segments whose businesses supplement our existing product portfolio, distribution network or fit into our overall business growth strategies.

Attract, cultivate and retain talent

We will continue to invest in our people and attract, cultivate and retain talent. We continue to pursue our strategy to focus on cultivating talent through in-house training, supplemented by outside recruitment. We will collaborate with professional institutions to provide comprehensive training programs to our employees.

We want our employees to share our success. To accomplish this, we plan to implement various incentive programs including broad long-term equity incentive plans and tailored compensation packages with more comprehensive evaluation metrics. We will also strive to build a supportive working environment for our employees and encourage their creativity and entrepreneurial spirit by providing career guidance, professional training and mentoring programs.

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OUR PRODUCTS

Overview

We engage in the research and development, manufacturing, distribution and sales of high-quality hot pot soup flavoring, hot pot dipping sauce and Chinese-style compound condiment products which meet international food safety standards. We provide a comprehensive offering of products which are primarily classified into the following three categories:

- ***Hot pot soup flavoring products.*** These products primarily comprise:
 - vegetable-oil-based hot pot soup flavoring products;
 - animal-oil-based hot pot soup flavoring products; and
 - non-spicy nutritional soup flavoring products with a number of different flavors including three-flavor, mushroom, broth, tomato and seafood.
- ***Hot pot dipping sauce products.*** These products primarily comprise:
 - premium dipping sauce products including aromatic flavor and spicy flavor; and
 - regular dipping sauce products including original flavor, spicy flavor, umami flavor and seafood flavor.
- ***Chinese-style compound condiment products.*** These products primarily comprise:
 - seafood condiment products including pickles and fish stew; and
 - spicy blended condiment products including spicy stir-fry pot, halal spicy pot, pork tripe stew and vegetable oil spicy boiled mixture.

As of 31 December 2015, we produced three major product lines with 56 products, including 38 hot pot soup flavoring products, nine hot pot dipping sauce products and nine Chinese-style compound condiment products. We seek to differentiate ourselves from our competitors by continuously expanding and optimizing our product portfolio. In the years ended 31 December 2013, 2014 and 2015, we introduced one, four and ten new products, respectively. We frequently improve product quality with upgraded formulas more appealing to customers' evolving expectations and enhanced food safety standards. Leveraging our market-oriented and solid innovation capabilities and targeted marketing activities, our new products have fueled our continuous business growth.

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The following table provides a summary of our key product launch milestones:

Year	Key Product Launch
2006	Vegetable-oil-based hot pot soup flavoring for Haidilao Group
2007	Vegetable-oil-based hot pot soup flavoring
2008	Tomato hot pot soup flavoring for Haidilao Group Three-flavor soup hot pot soup flavoring Broth hot pot soup flavoring
2010	Spicy stir-fry pot condiment Tomato hot pot soup flavoring
2011	Mushroom soup hot pot soup flavoring
2012	Regular hot pot dipping sauce (boxed)
2013	Pork tripe stew condiment Beef tallow residue-free hot pot soup flavoring for Haidilao Group
2014	Pickles and fish stew condiment Spicy mixture condiment Green pepper vegetable-oil-based hot pot soup flavoring for Haidilao Group
2015	Aromatic beef tallow hot pot soup flavoring Premium hot pot dipping sauce Original, spicy and seafood regular hot pot dipping sauce (packaged)

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The following table sets forth our revenue by product line for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Hot pot soup flavoring products						
<i>vegetable-oil-based hot pot</i>						
<i>soup flavoring products</i>	135,750	43.0%	164,735	33.0%	269,617	31.9%
<i>animal-oil-based hot pot soup</i>						
<i>flavoring products</i>	10,822	3.4%	33,674	6.8%	80,035	9.4%
<i>non-spicy nutritional soup</i>						
<i>flavoring products</i>	110,645	35.0%	213,065	42.8%	349,000	41.2%
Subtotal.	257,217	81.4%	411,474	82.6%	698,652	82.5%
Hot pot dipping sauce products	9,084	2.9%	12,737	2.6%	41,210	4.9%
Chinese-style compound						
condiment products	40,995	13.0%	65,779	13.2%	95,231	11.2%
Others ⁽¹⁾	8,567	2.7%	8,241	1.6%	12,246	1.4%
Total	<u>315,863</u>	<u>100.0%</u>	<u>498,231</u>	<u>100.0%</u>	<u>847,339</u>	<u>100.0%</u>

Note:

- (1) Primarily consist of our sales of certain raw materials, such as chili peppers and spices, to our related parties. After April 2016, as part of our efforts to reduce our connected transactions, we have ceased to sell raw materials to our related parties.

The following table sets forth our sales volume by product line for the periods indicated:

	Year ended 31 December		
	2013	2014	2015
	Sales Volume (tons)	Sales Volume (tons)	Sales Volume (tons)
Hot pot soup flavoring products			
<i>vegetable-oil-based hot pot soup flavoring</i>			
<i>products</i>	7,571	7,631	10,075
<i>animal-oil-based hot pot soup flavoring products</i> ...	481	1,174	2,350
<i>non-spicy nutritional soup flavoring products</i>	4,964	8,847	12,376
Subtotal.	13,016	17,652	24,801
Hot pot dipping sauce products	503	727	2,262
Chinese-style compound condiment products	1,722	2,524	3,721
Others ⁽¹⁾	791	954	1,264
Total	<u>16,032</u>	<u>21,857</u>	<u>32,048</u>

Note:

- (1) Primarily consist of our sales of certain raw materials, such as chili peppers and spices, to our related parties. After April 2016, as part of our efforts to reduce our connected transactions, we have ceased to sell raw materials to our related parties.

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Hot Pot Soup Flavoring Products

Hot pot soup flavoring products are compound condiments used for cooking hot pot soup in restaurants or at home. We manufacture hot pot soup flavoring 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 our hot pot soup flavoring products have been well tested and endorsed by hundreds of millions of Haidilao Group's customers. Through our continuous efforts in developing and upgrading formulas, optimizing our production process and implementing stringent quality control measures, we supply Haidilao hot pot restaurants with customized soup flavoring products and offer the retail market a comprehensive range of high-quality hot pot soup flavoring products appealing to consumers' ever-changing expectations and enhanced food safety consciousness, with a focus on mid- to high-end market. Our retail hot pot soup flavoring products are distinguished from customized products supplied to Haidilao Group in the following ways: (i) we use our own formulas to produce retail products, but use Haidilao Group's formulas to produce their customized products; (ii) the packaging of our retail products is usually more delicately designed to appeal to consumers; (iii) the tastes of our 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 our retail products is generally smaller than that of Haidilao Customized Products. During the Track Record Period, our sales of hot pot soup flavoring products increased rapidly from RMB257.2 million in 2013 to RMB411.5 million in 2014 and further to RMB698.7 million in 2015, representing a CAGR of 64.8%. During the Track Record Period, as a manufacturer focusing on mid- to high-end market, revenue from our mid- to high-end hot pot soup flavoring products accounted for substantially all of our total revenue from hot pot soup flavoring products.

The following table sets forth selected information about our hot pot soup flavoring products as of 31 December 2015:

Product Line	Number of Product Types Sold to ⁽⁴⁾		Picture of Representative Products Sold to		Unit Sales Price ⁽¹⁾ Range		Typical Shelf Life
	Haidilao Group	Retail Market	Haidilao Group	Retail Market	Haidilao Group	Retail market	
					(RMB)		(Months)
Vegetable-oil -based spicy hot pot soup flavoring products	13	7			7.4-54.0	9.5-35.5	6-12
			(spicy vegetable-oil -based hot pot soup flavoring)	(spicy vegetable-oil -based hot pot soup flavoring)			

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Product Line	Number of Product Types Sold to ⁽⁴⁾		Picture of Representative Products Sold to		Unit Sales Price ⁽¹⁾ Range		Typical Shelf Life (Months)
	Haidilao Group	Retail Market	Haidilao Group	Retail Market	Haidilao Group	Retail market	
	(RMB)						
Animal-oil -based spicy hot pot soup flavoring products	1	1			12.9-62.6 ⁽²⁾	5.5	6-12
			(beef tallow no-residue hot pot soup flavoring)	(spicy beef tallow hot pot soup flavoring)			
Non-spicy nutritional hot pot soup flavoring products	8	8			0.4-29.0 ⁽³⁾	9-12.8	6-12
			(tomato hot pot soup flavoring)	(broth hot pot soup flavoring)			

Note:

- (1) Unit sales price refers to (i) the unit price of products (ranging from 16g to 1500g) sold to Haidilao Group or (ii) the unit retail price of products (ranging from 150g to 620g) sold to consumers.
- (2) The size of our beef tallow no-residue hot pot soup flavoring product sold to Haidilao Group ranges from 300g to 1,500g.
- (3) The unit price of some of our products was significantly lower than that of mid- to high-end hot pot soup flavoring products of RMB10/package is mainly because those products were small size products sold to Haidilao Group to add additional flavor to the hot pot soup served at Haidilao hot pot restaurants upon Haidilao Group's customers' requests, ranging from 16g to 75g significantly smaller than our normal customized product size of over 300g and retail product size of over 150g.
- (4) As of 31 December 2015, we had 38 hot pot soup flavouring products, of which 29 were mid- to high-end products with the unit sales price over RMB10/package and nine were products with unit sales price less than RMB10/package.

With Chinese consumers' growing health consciousness and their rising acceptance of compound condiments as a result of their new consumption habits, we launched high-quality vegetable-oil-based hot pot soup flavoring products in 2007 and spearheaded the development of the mid- to high-end hot pot soup flavoring market. By using vegetable oil as a base raw material and natural ingredients, combined with our advanced production techniques and market-oriented and solid research and development capabilities, we provide consumers with healthier products with good taste. During the Track Record Period, our sales of vegetable-oil-based hot pot soup flavoring products increased rapidly from RMB135.8 million in 2013 to RMB164.7 million in 2014 and further to RMB269.6 million in 2015, representing a CAGR of 40.9%.

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As animal-oil-based hot pot soup flavoring products are well accepted in the mass market and demanded by hot pot restaurants and catering service providers due to its rich flavor and enticing aroma, we use premium beef tallow as base to produce our high-quality animal-oil-based hot pot soup flavoring products for Haidilao hot pot restaurants and retail customers. To ensure food safety and satisfactory taste of our animal-oil-based hot pot soup flavoring products, we maintain a highly selective procurement standard for our beef tallow. We only purchase premium beef tallow from large suppliers, and our beef tallow procurement standard ranges from RMB11,000 per ton to RMB13,000 per ton during the Track Record Period. During the Track Record Period, our sales of animal-oil-based hot pot soup flavoring products increased rapidly from RMB10.8 million in 2013 to RMB33.7 million in 2014 and further to RMB80.0 million in 2015, representing a CAGR of 171.9%.

In addition, we provide non-spicy nutritional soup flavoring products targeting consumers who prefer to have nutritious and non-spicy hot pot cuisine. Our non-spicy products have various tastes, such as three-flavor, mushroom, broth, tomato and seafood. During the Track Record Period, our sales of non-spicy nutritional soup flavoring products increased rapidly from RMB110.6 million in 2013 to RMB213.1 million in 2014 and further to RMB349.0 million in 2015, representing a CAGR of 77.6%.

Hot Pot Dipping Sauce Products

Hot pot dipping sauce is an essential condiment to add more flavors to hot pot cuisine. Because consumers are driven by the aroma and taste of dipping sauce products, we use high-quality sesame, chili peppers and other ingredients to manufacture dipping sauce products with rich flavor.

The following table sets forth selected information about our hot pot dipping sauce products as of 31 December 2015:

Product Line	Number of Product Types	Picture of Representative Products	Unit Sales Price Range (RMB)	Typical Shelf Life (Months)
Premium hot pot dipping sauce products	2	 <p>(spicy premium dipping sauce) (aromatic flavor premium dipping sauce)</p>	7.8-8.8	12
Regular hot pot dipping sauce products.....	7	 <p>(original flavor regular dipping sauce (packaged)) (spicy regular dipping sauce (boxed))</p>	3.8-6.5	12

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As part of our mid- to high-end product strategy, we believe that consumers purchasing for home use are willing to pay a premium for hot pot dipping sauce products that have richer flavors and healthier formulas. Therefore, we launched premium hot pot dipping sauce products with more sesame sauce and less sodium, which enabled consumers to enjoy a restaurant-like hot pot dining experience at home.

We strive to provide consumers with more choices to enjoy hot pot cuisine at home. Accordingly, our dipping sauce products are available in a wide range of flavors, including spicy flavor, umami flavor, original flavor and seafood flavor.

We have also introduced regular hot pot dipping sauce products in different package sizes targeting the mass market. Our regular hot pot dipping sauce (boxed) can be used directly as hot pot dipping bookcase plate, which is convenient and hygienic for enjoying hot pot cuisine at home.

During the Track Record Period, our sales of hot pot dipping sauce products increased rapidly from RMB9.1 million in 2013 to RMB12.7 million in 2014 and further to RMB41.2 million in 2015, representing a CAGR of 113.0%.

Chinese-style Compound Condiment Products

Compound condiments are consumer products used widely in home cooking, catering services and in the food industry. In recent years, an increasing number of consumers have expressed preference for homemade dishes with restaurant-like tastes that are convenient to prepare. By leveraging our strengths in manufacturing home-cooking hot pot condiments with restaurant-like tastes, we have expanded into this market segment by developing and offering numerous types of Chinese-style compound condiment products.

The following table sets forth selected information about our Chinese-style compound condiment products targeting the retail market as of 31 December 2015:

Product Line	Number of Product Types	Picture of Representative Products	Unit Sales Price Range (RMB)	Typical Shelf Life (Months)
Seafood condiment products	2	 (pickles and fish stew condiment)	11.9-13.8	12
Spicy blended condiment products	7	 (spicy stir-fry pot condiment)	13.7-14.8	12

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In addition to manufacturing compound condiment products targeting the retail market, we also manufacture customized compound condiment products for third-party catering service providers primarily including hot pot restaurants, spicy stir-fry pot restaurants and barbecue restaurants. The specifications and prices of such customized compound condiment products vary in accordance with our agreements with the relevant customers. We started such business in March 2015 and believe this market has significant growth potential given the increasing demand for standardized and customized products by third-party catering service providers. This business will be a major focus for us going forward.

We are dedicated to providing user-friendly Chinese-style compound condiment products. Consumers can easily cook a complete dish following the recipes and instructions. Moreover, consumers can use our Chinese-style compound condiment products to prepare other dishes. For example, our pickles and fish stew condiment can be used to cook noodles.

During the Track Record Period, our sales of Chinese-style compound condiment products increased rapidly from RMB41.0 million in 2013 to RMB65.8 million in 2014 and further to RMB95.2 million in 2015, representing a CAGR of 52.4%.

Product Innovation

The following are the representative new products that we launched in 2016:

Product	Features	Picture	Unit Sales Price (RMB)	Typical Shelf Life (Months)
Premium boiled fish condiment	Tasty flavor made from selected high-quality raw materials including Indian chili and rattan pepper oil	 (premium boiled fish condiment)	14.8	12
Pickled chili sour fish soup condiment	Tasty flavor made from high-quality bone soup, pickled chili and soured radish	 (pickled chili sour fish soup condiment)	14.8	12

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OUR GEOGRAPHICAL COVERAGE

As of 31 December 2015, we engaged 339 distributors and established an extensive distribution network covering all of China's 31 provincial territories and 11 overseas countries and markets. We also supply hot pot soup flavoring products to all of Haidilao Group's hot pot restaurants in China. The following map illustrates the geographical coverage of our sales and distribution network in China as of 31 December 2015:



As of 31 December 2015, our products were exported through our distributors to 11 overseas markets including the United States, the United Kingdom and Singapore.

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The following table sets forth our revenue by geographic region for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Northern China ⁽¹⁾	200,733	63.6%	297,305	59.7%	494,433	58.4%
Southern China ⁽²⁾	115,130	36.4%	200,925	40.3%	347,008	41.0%
Overseas markets	—	—	—	—	5,898	0.6%
Total	<u>315,863</u>	<u>100.0%</u>	<u>498,231</u>	<u>100.0%</u>	<u>847,339</u>	<u>100.0%</u>

Note:

- (1) Includes Heilongjiang, Jilin, Liaoning, Inner Mongolia, Beijing, Tianjin, Hebei, Shandong, Shanxi, Henan, Ningxia, Shaanxi, Gansu, Qinghai, Xinjiang and Tibet.
- (2) Includes Jiangsu, Shanghai, Zhejiang, Anhui, Jiangxi, Fujian, Hubei, Hunan, Guangdong, Chongqing, Guizhou, Guangxi, Sichuan, Yunnan and Hainan.

SALES AND MARKETING

We have established an extensive sales and distribution network in China that enables our products to reach consumers nationwide through retail channels such as hypermarkets, supermarkets, grocery stores, neighborhood stores and butcher shops as well as e-commerce channels such as Tmall.com and JD.com. Our products are also exported to 11 overseas countries and markets in North America, Europe, Asia and Australia.

We have a dedicated sales and marketing team responsible for establishing sales plans, expanding our distribution network and branding, and managing our sales and marketing activities, including managing distributors, promoting new products and conducting market research. Our headquarter in Beijing is responsible for the overall management of our sales and marketing and the operation of our e-commerce channels and overseas markets, with regional management teams supervising the day-to-day operations of sales offices throughout China. As of 31 December 2015, our sales and marketing team had over 400 persons, enabling our sales and distribution network to cover over 6,000 hypermarkets and supermarkets in China, including Walmart and Carrefour, and traditional retail channels, such as grocery stores, neighborhood stores, and butcher shops.

Our Customers

Our primary customers are (i) Haidilao Group and its affiliates, and (ii) distributors. We also sell products through e-commerce channels and to a number of third-party catering service providers and institutional customers at their request for certain one-off events, for example, a big PRC home appliances manufacturer once purchased a large amount of our condiment products to be used in its nationwide marketing events. We started to export our products to overseas markets in August 2015.

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The following table sets forth our revenue by customer type for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Related-party customers:						
Haidilao Group and its affiliates	180,698	57.2%	278,416	55.9%	465,103	54.9%
Third-party customers:						
Distributors ⁽¹⁾	125,105	39.6%	216,954	43.5%	370,420	43.7%
E-commerce	2,712	0.9%	1,389	0.3%	5,543	0.7%
Others	7,348	2.3%	1,472	0.3%	6,273	0.7%
Third-party catering service providers	956	0.3%	364	0.1%	1,547	0.2%
One-off sales events	6,392	2.0%	1,108	0.2%	4,726	0.5%
Total	<u>315,863</u>	<u>100.0%</u>	<u>498,231</u>	<u>100.0%</u>	<u>847,339</u>	<u>100.0%</u>

Notes:

(1) Include our revenue of RMB5.9 million from products made for export by distributors in 2015.

For the three years ended 31 December 2013, 2014 and 2015, sales to our five largest customers accounted for approximately 69.3%, 65.1% and 62.8% of our total revenue, respectively, and sales to our largest customer, Sichuan Haidilao Group, accounted for approximately 56.6%, 49.5% and 40.5% of our total revenue, respectively.

Except for Haidilao Group and its affiliates, so far as our Directors are aware, none of our Directors or executive officers of our Company or its subsidiaries, their respective associates or any shareholders of our Company holding more than 5% of the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering, had any interests in any of our five largest customers during the Track Record Period.

Sales to Haidilao Group and its Affiliates

We are the sole supplier of hot pot soup flavoring products to Haidilao Group in China. The hot pot soup flavoring products that we sell to Haidilao Group for use in its hot pot restaurants are customized products meeting Haidilao Group's specific requirements. In addition, our retail products are displayed and sold directly to consumers in Haidilao hot pot restaurants. In general, Haidilao Group makes purchase orders based on customer demands. We may arrange production ahead of time and stock the finished products in anticipation of peak seasons, but historically there has been no obsolete stock left at our end. We do not allow Haidilao Group to return any delivered products except for defective ones or sell any expired products. We also sell retail and customized condiment products to Shuhai Supply Chain and Youdingyou, our affiliated companies. During the Track Record Period,

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the revenue from sales to related parties was RMB180.7 million, RMB278.4 million and RMB465.1 million, respectively, accounting for 57.2%, 55.9% and 54.9% of our total revenue, of which the revenue from sales of Related-party Retail Products was RMB2.8 million, RMB5.4 million and RMB8.9 million, respectively, accounting for 0.9%, 1.1% and 1.1% of our total revenue.

On 24 June 2016, we entered into the Master Sales Agreement with Sichuan Haidilao and Singapore Haidilao, under which we supply to Haidilao Group of Haidilao Customized Products, which are manufactured using formulas owned by Haidilao Group for in-store consumption in its hot pot restaurants, and Haidilao Retail Products, which are manufactured using formulas we own for display and sale to consumers to take away in Haidilao hot pot restaurants.

The key terms of the Master Sales Agreements include:

- **Duration:** Three years, from 1 January 2016 to 31 December 2018, and will be automatically extended for another three years upon expiration unless unilaterally terminated by us through a written notice.
- **Pricing:** For Haidilao Customized Products, the pricing is determined based on various factors such as historical sales price, net profit margin for sales to third-party distributors, production cost, etc. For Haidilao Retail Products, the pricing follows third-party pricing policies.
- **Purchase Order:** Purchases by Haidilao Group are to be made through individual orders, which would specify the purchase volume, product type, unit price and delivery schedule.
- **Settlement:** For purchases by Haidilao hot pot restaurants in China, we are to settle the bills in the month following shipment of products. For purchases from Haidilao Group's overseas hot pot restaurants, we are to settle every individual bill following their acceptance of products.
- **Exclusivity:** We are the sole supplier to Haidilao Group of (i) Haidilao Customized Products for in-store consumption in its restaurants in China, and (ii) Haidilao Retail Products. We will become the sole supplier to Haidilao Group of hot pot soup flavoring products for in-store consumption in its overseas restaurants once we meet the scale and standardization production requirements prescribed under the national standards of relevant jurisdictions where these overseas restaurants operate. In the event that we are unable to supply products as requested in the purchase orders, Haidilao Group may make the purchase from third-party suppliers after obtaining written consent from us.
- **Ownership of Formula:** Haidilao Group owns the formulas of Haidilao Customized Products ("**Haidilao Group Formulas**"), and licenses these formulas to us and our contract manufacturers for supply to Haidilao Group solely. If any new formula is generated from upgrading the existing one through joint efforts by Haidilao Group and us, Haidilao Group will own the formula and we will have the right to use such upgraded formula. If any new formula is generated from upgrading the existing one through our own efforts, we will own the formula, unless otherwise agreed between the parties.

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- **Termination:** This agreement may be terminated (i) by us with a one-month prior written notice, (ii) through written mutual consent between the parties, or (iii) as required by applicable laws or competent authorities.

For more details of the Master Sales agreement, see “Connected Transactions — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions — C. Sales and Distribution — 1. Master Sales Agreement”.

We supply both retail and customized condiment products to Shuhai Supply Chain, our affiliated company specializing in providing “one-stop-shop” supply chain services to catering service providers. Shuhai Supply Chain in turn resells those products to their clients through their distribution channel to satisfy such clients’ needs for consistent high-quality condiment products. We entered into a sales agreement with Shuhai Supply Chain on 24 June 2016. For details of this agreement, see “Connected Transactions — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions — C. Sales and Distribution — 2. Shuhai Sales Agreement”.

We also supply retail and customized condiment products to Youdingyou, our affiliated company engaging in catering services. We entered into a sales agreement with Youdingyou on 24 June 2016. For details of this agreement, see “Connected Transaction — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions — C. Sales and Distribution — 3. Youdingyou Sales Agreement”.

For the three years ended 31 December 2013, 2014 and 2015, our revenue from sales to Haidilao Group and its affiliates was RMB180.7 million, RMB278.4 million and RMB465.1 million, respectively, representing 57.2%, 55.9% and 54.9% of our total revenue for these respective periods.

Distribution Network

In addition to our sales to Haidilao Group and its affiliates, we also sell our products through our distributors, who in turn resell our products to sub-distributors and retailers, including hypermarkets, supermarkets, grocery stores, neighborhood stores and butcher shops across China. As of 31 December 2015, we engaged 339 distributors and established an extensive distribution network covering all of China’s 31 provincial territories and 11 overseas countries and markets.

We endeavor to leverage the established access of our distributors to local markets to expand the breadth and depth of our market presence. As of 31 December 2015, in addition to all first-tier cities and 28 second-tier cities, our distribution network coverage had penetrated into 134 third- and fourth-tier cities in China.

We believe that our existing distribution model is consistent with customary industry practice in China and serves to ensure the efficient coverage of our sales network while controlling our cost of distribution.

For the three years ended 31 December 2013, 2014 and 2015, our revenue from sales to distributors was RMB125.1 million, RMB217.0 million and RMB370.4 million, respectively, representing 39.6%, 43.5% and 43.7% of our total revenue for these respective periods.

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Management of Our Distributors

Our distributors are typically regional distributors primarily involved in the distribution of food and condiment products with well-established local distribution networks. We select our distributors in each region based on factors including their business qualifications and distribution capabilities. The distribution capabilities we consider include breadth and quality of sales network, reputation, creditworthiness and financial conditions, and capabilities in personnel, warehousing, logistics and transportation.

The following table sets forth the total number of our distributors, the number of new distributors and the number of distributors whose distribution agreements were terminated during the year indicated:

	Year ended 31 December		
	2013	2014	2015
Distributors at the beginning of year.....	68 ⁽¹⁾	116	212
Addition of new distributors	56	121	207
Termination of existing distributors	<u>(8)</u>	<u>(25)</u>	<u>(80)</u>
Distributors at the end of year	<u>116</u>	<u>212</u>	<u>339</u>

(1) As of January 1, 2013, the 68 distributors engaged by the Company covered China's 21 provincial territories, including two first-tier cities, 16 second-tier cities and 14 third- and fourth-tier cities.

During the Track Record Period, our additions of new distributors primarily reflected (i) our expanding sales in China, and (ii) further penetration of regional markets into third- and fourth-tier cities. We closely monitor the performance of our distributors and terminate cooperation with those not meeting our requirements. Our termination of distribution agreements during the Track Record Period was primarily due to our distributors' failure to meet sales targets. We may also terminate distribution agreements for other reasons, such as failure to maintain sufficient vehicles and personnel for distribution. As disclosed in "— Relationship with Our Distributors", the ownership of our products are transferred to distributors upon delivery and acceptance. Therefore, we have no obligation to help the distributors dispose of their unsold products when terminating their distribution agreements. In practice, we may, at our sole discretion, assist the former distributors in transferring their unsold products to the new distributors replacing their role. We believe almost all of our former distributors had nearly no inventory when their distribution agreements were terminated. During the Track Record Period, we assisted two former distributors in disposing of their unsold products. During the Track Record Period and up to the Latest Practicable Date, we did not buy back any products that had been sold to our distributors upon termination of the distribution agreements.

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Relationship with Our Distributors

We have a seller-buyer relationship with our distributors. The ownership of the products, as well as all risks and rewards associated therewith are transferred to them upon delivery and acceptance. In general, our sales to our distributors are made on a payment-before-delivery basis according to our distribution agreements with our distributors, except that, during our peak seasons, we may, at our sole discretion, grant credit terms ranging from 30 to 60 days after delivery of our products to certain of our major distributors. We formulate a monthly production plan based on historical sales and market demand. Upon receipt of purchase orders, we will first deliver the products previously prepared based on the relatively conservative monthly plan and further produce and deliver the shortfall, if any. Due to our effective production and inventory management, our warehouse time of finished products is approximately seven days for retail products and 30 days for customized products sold to related parties. Once the products are delivered to the distributors, they cannot be returned except for defective products. Therefore, there is no obsolete stock at our end.

On the other hand, we closely monitor the performance of our distributors. For example, our sales personnel conduct inspections of our distributors from time to time to monitor their sales, sales prices, marketing activities, storage conditions, logistics facilities, staff quality, quality control and inventory levels. Generally, we require our distributors to report to us their inventory records every two weeks to cross-check with our internal data base. Our staff also do monthly inventory checks at randomly selected distributors. When we notice that our distributors have excessive inventories or their sales volumes drop significantly, we may make inquiries and adopt necessary measures such as suspending the supply of relevant products. We prohibit our distributors from selling any expired products. Through visiting the retailers and sub-distributors and verifying the two-dimensional code that we implanted on our products, we also monitor whether our distributors distribute our products within their designated geographic regions and whether they sell any counterfeit products. Through these activities, we ensure that our sales to distributors reflect genuine market demand and our distributors are complying with the terms and conditions of their distribution agreements. If we discover non-compliance issues, we inform the relevant distributor and request the distributor to cease the non-compliant activities within a specified period of time. Our distributors are also liable for breaches of their distribution agreements, and we can claim compensation from them for relevant breaches. We can terminate the distribution agreements if they breach material provisions stipulated therein.

We provide sales rebate as an incentive to our third-party distributors when they achieve or exceed the sales targets set out in their distribution agreements, which are negotiated and determined based on various factors such as past performance and market conditions. If a distributor achieves or exceeds its sales target, we will grant the rebate by providing certain discount for such distributor's purchases in the next year. Such sales rebates are deducted from our revenue for each of the relevant periods. We do not impose minimum annual purchase requirement in the distribution agreements. If a distributor fails to achieve its sales target, then it will not be entitled to the sales rebate as described above.

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To the best knowledge of our Directors, all our distributors were independent third parties, and none of our distributors was wholly owned or majority controlled by our current or ex-employees or operated under our brand during the Track Record Period. None of our distributors were our suppliers during the Track Record Period. During the Track Record Period, we did not provide financing to any of our distributors except for the credit terms we granted to certain distributors on a case by case basis during peak seasons. See “Financial Information — Balance Sheet Items — Trade Receivables” for more information.

Key Terms of Distribution Agreements

We generally enter into distribution agreements with our distributors on an annual basis. We use a standardized distribution agreement for all our distributors, which helps us efficiently manage our distributors and ensure an orderly market for our products. During the Track Record Period, the key terms of our standardized distribution agreement included:

- ***Duration:*** One year. The distribution agreements do not have an automatic renewal clause.
- ***Designated Distribution Area:*** Distributors are not allowed to sell or resell our products outside of their designated distribution areas. We have the contractual right to impose penalties and terminate the distribution agreement for non-compliance with this requirement. We agree to maintain an orderly market such that no distributor would distribute our products in the designated distribution area of another distributor without our approval.
- ***Sales Target and Incentive Scheme:*** We formulate annual, quarterly and monthly sales targets for our distributors. We may engage additional distributors in the target distribution area if a distributor fails to meet its monthly sales target for two consecutive months and we may terminate the distribution agreement if a distributor fails to meet its monthly sales target for three consecutive months during the term of the distribution agreement. We award our distributors when they achieve or exceed sales targets set forth in the distribution agreements.
- ***Retail Price Management:*** Distributors are required to ensure our products at the marketplace are sold at our suggested unit sales prices.
- ***Credit Terms:*** Distributors are required to make full payment for each purchase order before we deliver our products, except for the credit terms we granted to certain major distributors on a case by case basis during peak seasons.
- ***Transportation Costs:*** We are responsible for the costs of delivering our products to a location designated by distributors, while distributors are responsible for the subsequent unloading and transportation costs.
- ***Inspection of Products:*** Distributors are required to inspect products immediately following receipt and notify us of any quality defects.

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- ***Storage Condition:*** Distributors are required to store our products in accordance with specified conditions.
- ***Return or Exchange of Products:*** Distributors are not allowed to return or exchange products except for defective ones.
- ***Promotional Activities:*** Distributors are required to cooperate with us in implementing our promotion plans. We will negotiate with distributors to share the relevant marketing and promotion expenses.
- ***Access to Information:*** Distributors are required to provide sales information on our products and facilitate our inspection of inventory levels upon request.
- ***Non-Competition Undertaking:*** Distributors undertake not to manufacture or sell, or procure any third parties to manufacture or sell, any products similar to ours or any counterfeit products.
- ***Anti-bribery Undertaking:*** Distributors undertake to comply with our anti-bribery requirements.
- ***Confidentiality:*** We and distributors mutually undertake not to disclose or inappropriately use the other party's trade secrets.
- ***Early Termination Right:*** We may terminate a distribution agreement if the distributor fails to fulfill certain obligations explicitly set forth in the agreement. We may also terminate a distribution agreement if the distributor provides fraudulent sales information or invoices, or violates applicable laws and regulations resulting in damage to our brand. Distributors cannot terminate the distribution agreement before its expiration.

Beginning in 2015, we require our distributors to distribute our products exclusively and not to distribute products supplied by our main competitors. We granted our existing distributors a transition period of approximately one year to comply with this new policy. Since the beginning of 2016, we have revised the standard distribution agreement to reflect the exclusivity requirement which applies to both existing agreement renewals and agreements for new distributors. The other key terms of our revised standard distribution agreement remain as described above. We had not experienced any material change in the quantity of our distributors as a result of this exclusivity requirement nor has it adversely affected our relationship with distributors or normal operations. During the Track Record Period, we did not detect any material non-compliance by our distributors with the terms of distribution agreements.

Sub-distributors

Although we engage distributors with well-established local distribution networks, following our further penetration into third- and fourth-tier cities, we allow our distributors to use sub-distributors when they are unable to cover particular regions or channels themselves within their designated distribution areas. We do not have contractual relationships with the sub-distributors used by our

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distributors. We delegate to our distributors the authority to choose and negotiate transaction terms directly with their sub-distributors. We rely on our distributors to limit their sub-distributors' activities within the distributor's designated distribution area and to monitor the performance of their sub-distributors. We do, however, monitor the sales by sub-distributors indirectly through inspecting the purchase volumes and inventory information of our distributors and the sales prices and sales volume in the ultimate retail market. We gather this data to comprehensively analyse the true demand for our products in order to prevent the loading of inventory by our distributors to their sub-distributors. When we notice any subpar performance of a sub-distributor, we will require the corresponding distributor to take necessary action to rectify the sub-distributor's activities. We may also terminate a distribution agreement with a distributor upon the occurrence of any material breach of our distribution agreement by their sub-distributors. Through implementation of our measures on distributor management, nothing has caused our Directors to believe that the significant increase in our revenue during the Track Record Period was due to the accumulation of inventories at the distributors and/or sub-distributors.

E-commerce Channels

We also sell our products to consumers through nine e-commerce channels including Tmall.com and JD.com. We first started operating a flagship store on Tmall.com in May 2010. We strengthened our online sales in 2015 by forming a 21-member team dedicated to exploring e-commerce channels and initiating targeted online marketing events. For the three years ended 31 December 2013, 2014 and 2015, our revenue from e-commerce channels was RMB2.7 million, RMB1.4 million and RMB5.5 million, respectively. We will further streamline and integrate our e-commerce sales and distribution network and develop differentiated product lines that are more appealing to e-commerce customers, including compound condiment products and hot pot accessories such as ingredients and cooking utensils, exclusively for online sales.

Sales to Third-party Catering Service Providers

Leveraging our experience in providing customized services to Haidilao Group, we provide customized compound condiment products to third-party catering service providers, primarily hot pot restaurants, spicy stir-fry pot restaurants and barbecue restaurants. For the three years ended 31 December 2013, 2014 and 2015, our revenue from sales to third-party catering service providers was approximately RMB1.0 million, RMB0.4 million and RMB1.5 million, respectively, representing 0.3%, 0.1% and 0.2% of our total revenue for these respective periods.

We use a standardized agreement for these services. Our customers will discuss their requirements with us before placing orders. Following our agreement on the detailed requirements of the customized condiment products, packaging requirements and purchase prices, our customers will pay an advance payment equal to 50% of the total purchase price for our manufacturing and pay the remainder before delivery. Our customers are not allowed to return any products after completion of inspection and acceptance. Our customers are required to use the customized condiment products only for their provision of catering services and may not resell the condiment products to other parties.

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Typically if the third-party catering service providers consumed Company's retail products, then they are Company's own product formula. But if it is customized condiment, then it will be the same arrangements as the connected sales to Haidilao Group, i.e., the Company will not own the intellectual property right of the product formula.

As an increasing number of service providers intend to take advantage of the high quality and consistent products offered by large and reputable manufacturers, we believe there is significant growth potential for us in providing customized services to catering service providers.

Sales to Overseas Markets

In addition to distributing our products in China, a number of our distributors with export qualifications also distribute our products in overseas markets. We began exploring overseas markets in 2015. Our products are sold through nine distributors to 11 overseas markets including the United States, the United Kingdom and Singapore. As of 31 December 2015, we had a team of four people dedicated to managing our sales to overseas markets. We endeavor to comply with local regulations and standards on food safety and product quality in all overseas markets in which our products are sold. For the year ended 31 December 2015, our revenue from products made for export was RMB5.9 million.

We believe the overseas markets present significant growth potential, especially those markets with large Chinese communities. Building upon our momentum in overseas expansion, we plan to tap into other overseas markets with a focus on the North American, European and Southeast Asian regions. We believe we will also capture the opportunities arising from Haidilao Group's global business growth.

Pricing Policy

Pricing for Sales to Haidilao Group and its Affiliates

Haidilao Group and the Company have a long-term and close business relationship. For further details, see "Relationship with Our Controlling Shareholders — Our Relationship with Haidilao Group."

Prior to August 2014, as the internal supplier to Haidilao Group and its affiliates, we sold our Related-party Customized Products and Related-party Retail Products to Haidilao Group and its affiliates based on a cost-plus pricing formula that primarily consists of the cost of production and selling and administrative expenses of the condiment products. We believe the cost-plus pricing policy adopted for sales to Haidilao Group and its affiliates prior to August 2014 was on normal commercial terms primarily for the following reasons: (i) When we were established, Haidilao Group was our only customer and we focused on producing customized hot pot soup flavoring products to Haidilao Group. Over the past decades of development, although we gradually expanded into other condiment product segments such as hot pot dipping sauce and Chinese-style compound condiment products, and have developed a nationwide distribution network for our retail condiment products targeting retail customers as a result of our business growth, Haidilao Group remains as our single largest customer, accounting for a substantial part of our revenue and sales volume. In order to retain Haidilao Group

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as one of the key customers and nurture a long-term business relationship with it, we offered a significant bulk purchase discount to Haidilao Group by pricing our products sold to 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 Haidilao Group until the Reorganization, we intended to expand our business by leveraging the well-recognized reputation of Haidilao brand and to accumulate industry knowledge through serving Haidilao Group. To enable us to grow alongside Haidilao Group's expansion, we adopted the cost-plus pricing policy for our single largest customer. Such cost-plus pricing arrangement was based on normal commercial terms, which is also a typical pricing arrangement for selling customized products on a long-term basis in light of Haidilao Group's bulk purchase volume and the importance of the our relationship with Haidilao Group particularly at the outset of our Company's operation. (ii) From the inception of our Company up to August 2014, which was prior to our Reorganization, as the business of our Company was still carried on by the branches and subsidiaries of Haidilao Group, the cost-plus pricing policy for our products sold to Haidilao Group was a normal commercial arrangement involving intra-group sales.

Since August 2014, we have adopted a new pricing policy for our sales of Related-party Customized Products and Related-party Retail Products which allows us to retain commercially acceptable net profit margins that are the same as the net profit margins arising from sales to independent third parties, whilst still fostering a mutually beneficial, fair and long term working relationship with Haidilao Group and its affiliates. However, our pricing for our sales to Haidilao Group and its affiliates were still different from our pricing for our sales to third parties mainly because the sales to Haidilao Group and its affiliates do not require material packaging costs or selling and distribution expenses, which constitute a major part of our cost structure with respect to sales to third parties.

We changed our pricing policy for sales to related parties in August 2014 in light of the Reorganization following which we are no longer the internal supplier to Haidilao Group and its affiliates, and in anticipation of new shareholders who do not own any interest in Haidilao Group through their pre-IPO investment as well as Listing following which we will be subject to the rules governing connected transactions. Initially in August 2014, we adopted the same pricing basis for both Related-party Customized Products and Related-party Retail Products because they were both related-party transactions with Haidilao Group and its affiliates and we did not consider necessary to distinguish them in view of the small amount of sales of Related-party Retail Products. 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) historical sales price, (ii) our estimated overall net profit margin through sales to independent third party distributors in accordance with the pricing formula, (iii) our production costs including the costs of raw materials, selling and administrative expenses incurred in relation to the condiment products sold to Haidilao Group and its affiliates and (iv) the market price of similar products sold by comparable companies. Primarily as a result of the new pricing policy as well as the increased sales volume to related parties, our revenue from sales to related parties increased from RMB180.7 million in 2013 to RMB278.4 million in 2014 and further to RMB465.1 million in 2015, which in turn also contributed to the rapid growth of our overall revenue and profit during the Track Record Period. Taking into account historical data and forecasts, our independent non-executive Directors regularly review and reassess the prices of our sales to

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Haidilao Group on a semiannual basis and adjust the prices as appropriate to maintain a net profit margin similar to our sales to third-party distributors. We also adjust prices if there is any significant change in the cost of production and expenses in connection with the products sold to Haidilao Group and its affiliates.

In August 2015, we further increased the price of certain Related-party Customized Products and Related-party Retail Products in accordance with the pricing policy adopted in August 2014. We made such price increase for such Related-party Customized Products mainly because the product formulas of such products were changed in 2015 pursuant to Haidilao Group's requirement, which significantly increased the amount of certain raw materials each product consumed, such as soybean oil and chili peppers, which in turn increased the production costs of those products. The price increase in August 2015 in response to Haidilao Group's revised formulas in 2015 is expected to have a positive impact on our revenue, gross profit and gross profit margin in 2016.

In 2015, we decided to increase the marketing efforts at Haidilao hot pot restaurants going forward with an aim to boost the sales of Related-party Retail Products, which will be ultimately sold to retail customers through Haidilao Group. With the expected increase in sales of Related-party Retail Products, we revisited the pricing policy for Related-party Retail Products and considered it appropriate to maintain a consistent pricing policy for our retail products sold through Haidilao Group and its affiliates and through other channels. As a result in January 2016, we further amended our pricing policies for Related-party Retail Products. Under the amended policies, pricing for Related-party Retail Products follows pricing of sales to third parties. For details of third party pricing policies, see “— Pricing for Sales to Third Parties”, as described below. During the Track Record Period, revenue from Related-party Retail Products accounted for 0.9%, 1.1% and 1.1% of our total revenue.

As the change of our pricing policy with respect to sales to related parties had significantly affected our result of performance, particularly our revenue, gross profit and net profit during the Track Record Period and we may not be able to increase the price of our products sold to related parties at similar rates in the future, our historical results may not be reflective of our future performance and we may not be able to maintain similar rates of growth in the future.

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The following table sets forth an analysis illustrating the impact of changes on pricing policy for related parties sales on our revenue, gross profit and net profit during the Track Record Period, assuming all other variables remain unchanged.

	2013			2014			2015		
	Revenue	Gross Profit	Net Profit	Revenue	Gross Profit	Net Profit	Revenue	Gross Profit	Net Profit
(Unaudited, RMB in thousands, except for percentages)									
Assuming there was no change on pricing policy for related parties sales during the Track Record Period	315,863	69,416	22,064	485,464	106,711	32,935	765,457	212,351	63,299
(Decrease) from our audited financial performance	N/A	N/A	N/A	(2.6%)	(10.7%)	(22.5%)	(9.7%)	(27.8%)	(49.2%)
Assuming new pricing policy for related parties sales implemented since August 2014 was adopted at the beginning of the Track Record Period	355,145	108,698	51,526	542,539	163,786	75,741	847,339	294,233	124,547
Increase from our audited financial performance	12.4%	56.6%	133.5%	8.9%	37.1%	78.2%	N/A	N/A	N/A

Pricing for Sales to Third Parties

In determining our pricing strategies, we take into account a variety of factors, including supply and demand, target markets, anticipated market trends, costs of raw materials and packaging materials, expected profit margins, distribution channels, retail prices of our competitors' products, consumers' acceptable price ranges and economic conditions in the relevant target markets. We also consider compliance costs in overseas markets when determining our pricing strategies for exported products. We review and adjust our product prices for domestic and overseas markets separately based on these factors and other general market conditions.

Generally, we provide guidelines on suggested retail prices for our products consistent with market practice in the food and condiment industry in China. As stipulated in our standardized distribution agreement, our distributors are required to ensure our products at the marketplace are sold at our suggested unit sales price unless we give written consent to vary such prices. We inform our distributors in the event of price adjustment and our distributors are required to follow the adjusted prices. Our sales personnel frequently inspect our distributors and retail channels to monitor whether our products are being sold in accordance with our suggested retail prices. For further details of the suggested retail price for each of our product lines, see “— Our Products.”

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Marketing and Promotion

We undertake various promotional activities to improve sales of our products and to enhance brand recognition of our products. We frequently organize tasting events at retail channels such as supermarkets, grocery stores and neighborhood stores to promote our products to consumers. We are increasing our focus on online marketing and hold online and offline promotions during festivals and holidays. We are also taking advantage of new social media such as WeChat, where we communicate with consumers and publicize our promotion information. Currently, our official WeChat account has 600,000 followers. We cooperate with reputable companies in other industries to hold joint promotion events.

Under our distribution agreements, our distributors are required to cooperate with us on implementing our promotional activities. Our distributors are also responsible for developing a sales network to promote our products in their designated distribution areas. We negotiate with our distributors to share the relevant marketing and promotion expenses.

For the three years ended 31 December 2013, 2014 and 2015, our marketing and promotion expenses were RMB7.2 million, RMB12.7 million and RMB31.7 million, respectively, equivalent to 2.3%, 2.5% and 3.7% of our total revenue for these respective periods.

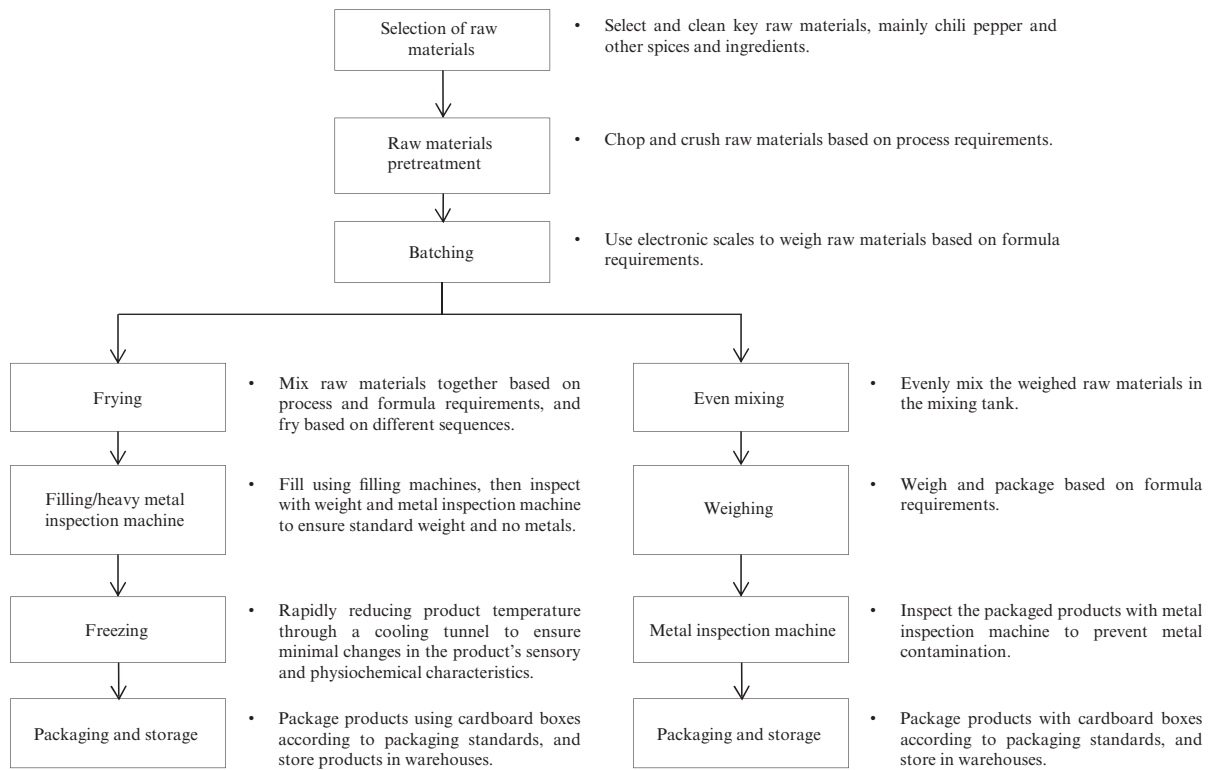
OUR PRODUCTION

Our Production Process

To manufacture products with consistently high quality at scale, we combine modern production techniques with traditional production methods across product lines. In particular, we have formulated standardized production manuals with repeatable steps that translate traditional production know-how into a modern process controlled and monitored in an automated and computerized manner to ensure that our products preserve their traditional flavor during large-scale production.

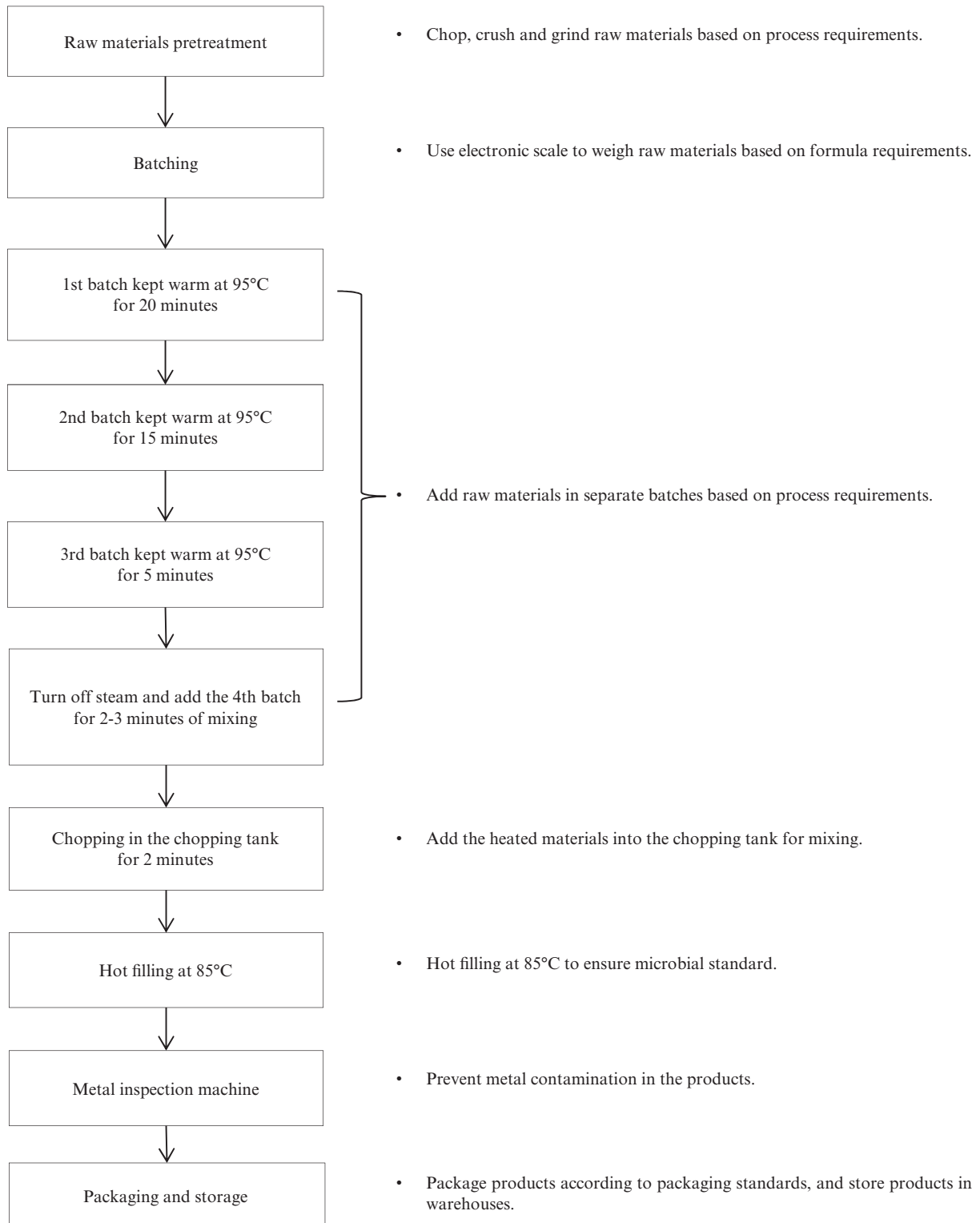
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The following chart illustrates the typical production process of our major hot pot soup flavoring products and Chinese-style compound condiment products:



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The following chart illustrates the typical production process of our major hot pot dipping sauce products:



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Our Production Facilities

Production Facilities

Our production facilities are located in Zhengzhou, Henan Province and Chengdu, Sichuan Province. For more details of the properties where our production facilities are located, see “— Properties”.

Our production facilities in Zhengzhou are primarily for the production of hot pot soup flavoring products and Chinese-style compound condiment products. The following table sets forth information on the production capacity, production volume and utilization rate of our production facilities in Zhengzhou by product line during the Track Record Period:

	Year ended 31 December								
	2013			2014			2015		
	Production Capacity ⁽¹⁾ (tons)	Production Volume (tons)	Utilization Rate (%)	Production Capacity ⁽¹⁾ (tons)	Production Volume (tons)	Utilization Rate (%)	Production Capacity ⁽¹⁾ (tons)	Production Volume (tons)	Utilization Rate (%)
Hot pot soup flavoring products and Chinese-style compound condiment products ⁽²⁾	12,018 ⁽³⁾	10,290	85.6%	23,289	18,958	81.4%	28,770 ⁽⁴⁾	22,991	79.9%

Notes:

- (1) Production capacity is designed production capacity assuming all production lines operate 12 months per year and on the basis of 24 days per month and 16 hours per day.
- (2) Since certain of our hot pot soup flavoring products and Chinese-style compound condiment products share the same production lines, we combined these two product lines when calculating the production capacities. In practice, we allocate the production capacity and schedule among different types of products based on customers' orders and market demand.
- (3) We commenced operation in our Zhengzhou production facilities in June 2013. As a result, our production capacity in 2013 only assumed seven months operation.
- (4) We installed additional manufacturing equipment in April and September 2014, respectively. While the new manufacturing equipment only partially operated in 2014, they were fully operated in 2015. Therefore, our production capacity increased in 2015 in comparison with 2014.

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Our production facilities in Chengdu are primarily for the production of hot pot soup flavoring products, hot pot dipping sauce products and Chinese-style compound condiment products. The following table sets forth information on production capacity, production volume and utilization rate of our production facilities in Chengdu by product line during the Track Record Period:

	Year ended 31 December								
	2013			2014			2015		
	Production Capacity ⁽¹⁾ (tons)	Production Volume (tons)	Utilization Rate (%)	Production Capacity ⁽¹⁾ (tons)	Production Volume (tons)	Utilization Rate (%)	Production Capacity ⁽¹⁾ (tons)	Production Volume (tons)	Utilization Rate (%)
Hot pot soup flavoring products and Chinese-style compound condiment products.....	8,170 ⁽²⁾	5,617	68.8%	1,064 ⁽³⁾	915	86.0%	5,920 ⁽⁴⁾	5,753	97.2%
Hot pot dipping sauce products ⁽⁵⁾	—	—	—	—	—	—	139	24	17.6%
Total	8,170	5,617	68.8%	1,064	915	86.0%	6,059	5,777	95.4%

Notes:

- (1) Production capacity is the designed production capacity assuming all production lines operate 12 months per year and on the basis of 24 days per month and 16 hours per day.
- (2) In order to optimize our production capacity, we suspended our production from July 2013 to October 2014 to carry out a renovation and production upgrading project at Chengdu production facilities. Thus, we only engaged in production activities for six months in 2013.
- (3) As stated in note (2), we only operated for two months in 2014.
- (4) Before the initiation of the renovation and production upgrading project in July 2013, all the facilities were used to produce hot pot soup flavoring products. Upon completion of our renovation and production upgrading project in October 2014, part of the facilities are used to produce hot pot soup flavoring products and Chinese-style compound condiment products, and the remaining parts are used to process fresh food. The facilities that process fresh food are not part of our Group upon completion of the Reorganization. Therefore, our production capacity decreased in 2015 in comparison with 2013.
- (5) We did not produce hot pot dipping sauce products in 2013 and 2014. We started to produce these products in November 2015. Given the testing and commissioning work required at the initial phase upon completion, we did not operate at full scale in November and December 2015.

Primary factors affecting the utilization rate of our production facilities include (i) fluctuation of production volumes due to seasonality, (ii) changes in production between different types of products, and (iii) testing and commissioning work required prior to commencement of operation.

Our key production facilities generally have useful lives of approximately ten years and such useful lives may be extended with appropriate repair and maintenance. We believe that our production facilities are well maintained, in good operating condition and suitable for their current purposes. We have implemented a number of rules, procedures and guidelines for the operation, management and

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maintenance according to different specifications of our production facilities. We carry out regular inspections to assess the condition of our facilities and conduct regular repair and maintenance. During the Track Record Period, we did not experience any unexpected suspension of operations as a result of failure of our production facilities.

Production Expansion Plan

In line with our business development strategy, we intend to expand our production capacity to meet market demand for our products. We plan to construct our Bazhou Production Base located in Bazhou, Hebei Province with an aggregate plant area of approximately 66,667 sq. m. that can accommodate production facility designed for a maximum annual production capacity of approximately 100,000 tons, the initial stage of which will equip with production facilities that have an annual production capacity of approximately 35,000 tons. Thus construction of the initial stage of Bazhou Production Base will take place in two phases. Phase I will mainly consist of construction of the production facilities and is expected to be completed and commence operation by the first half of 2018. Upon completion of Phase I, the production facilities at Bazhou Production Base will have an annual production capacity of approximately 35,000 tons. Phase II will mainly consist of construction of the storage and research and development facilities and other ancillary facilities and is expected to be completed by 2019 and commence operation in 2020. The initial stage of our Bazhou Production Base will (i) increase our production capacity and reduce our need for contract manufacturers, particularly during our peak seasons, (ii) optimize our product portfolio to manufacture new product lines and utilize new packaging materials by installing new production and packaging equipment that enable us to manufacture bottled compound condiment products, (iii) upgrade our storage facilities, and (iv) help us better manage our logistics costs due to its central geographic location in Northern China. As of the Latest Practicable Date, we had entered into a land purchase agreement for a site area of 57,095 sq.m for Phase I of the initial stage of Bazhou Production Base and we plan to commence the construction of Phase I in the fourth quarter of 2016. We have no current plan whether to utilize the remaining 65,000 tons production capacity available for Bazhou Production Base, which will constitute the second stage of the Bazhou Production Base development. We will closely monitor the market demand to decide whether to commence the construction of additional production facilities to achieve such remaining production capacity.

Our estimated total expenditure for the initial stage of Bazhou Production Base amounts to approximately RMB500 million, which consists of RMB350 million for fixed assets investment and RMB150 million for the working capital needs. RMB300 million will be used for the fixed assets investment of Phase I construction by 2018, of which RMB24 million will be used for land purchase, RMB184 million will be used for plant construction, and RMB92 million will be used for equipment purchase and installment. In addition, RMB50 million will be used for the fixed assets investment of Phase II construction by 2019. We expect to fund expansion of the Bazhou Production Base from the proceeds of the Global Offering as well as the cash generated from our operation. We may also use bank borrowings depending on the then prevailing interest rates. See “Future Plans and Use of Proceeds — Use of Proceeds.” Please also see “Risk Factors — We are exposed to certain risks in respect of the development and construction of the Bazhou Production Base.”

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Contract Manufacturers

To meet the increasing market demand for our products, in particular in peak seasons, and to comply with the qualification requirements for halal products, we engage third-party manufacturers to produce hot pot dipping sauce products and vegetable-oil-based hot pot soup flavoring products. As of 31 December 2015, we had four contract manufacturers who have worked in cooperation with us for periods ranging from one year to four years. For the three years ended 31 December 2013, 2014 and 2015, our cost of sales relating to contract manufacturing was RMB1.9 million, RMB16.5 million and RMB73.1 million, respectively, accounting for 0.8%, 4.4% and 13.2% of our total cost of sales, respectively.

Our contract manufacturers have business and production qualifications required for manufacturing our products and we believe our contract manufacturers possess reliable production facilities, stable product quality and good reputations. We implement strict quality control measures over our contract manufacturers primarily including the following: (i) we have dedicated personnel to monitor the performance of our contract manufacturers, (ii) we either supply the major raw materials for our products to our contract manufacturers or ensure our contract manufacturers' raw material standards are consistent with ours, (iii) we send quality control personnel on-site to monitor their production process and test the product quality, and (iv) we require contract manufacturers to send their products to independent third party laboratories for quality inspection.

We usually enter into purchase agreements with our contract manufacturers on an annual basis. Our purchases from contract manufacturers are made through individual orders. The typical terms include type of products, purchase price for each type of product (subject to adjustment), method of order and delivery, payment and credit terms, technical requirements, quality assurance, after-sale services, penalty for delays and product defects, and termination of the agreements. According to the relevant purchase agreement, our contract manufacturers are required to sell us products at the most favorable price provided to their other customers and may not charge us price higher than the market price of products of the same quality. Our purchases from contract manufacturers are made on a payment-upon-delivery basis, and we are granted a credit term of 20 business days after receipt of the invoices. Our contract manufacturers must meet our stipulated quality requirements and are responsible for liabilities caused by product defects. The purchase agreements do not have automatic renewal clauses. We enter into separate confidentiality agreements with our contract manufacturers for protection of our trade secrets and intellectual property rights. To the best knowledge of our Directors, all our contract manufacturers were independent third parties, and none of our contract manufacturers was wholly owned or majority controlled by our current or ex-employees or operated under our brand during the Track Record Period.

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RESEARCH AND DEVELOPMENT

We believe that our research and development capabilities have enabled us to maintain our competitiveness, and have supported the development of our business. Our research and development efforts are market-oriented. We regularly conduct market research and collect market information from our sales and marketing team, contract manufacturers and raw material suppliers to assist our research and development activities, which are primarily focused on the following areas:

Developing new products. We continuously develop and test innovative products to be launched when appropriate opportunities arise. We often conduct field studies to discover and explore new recipes and raw materials. We have a track record of launching successful new products that help drive our revenue growth. For example, we were one of the first companies offering high quality vegetable-oil-based hot pot soup flavoring products to address consumers' growing health consciousness.

Upgrading existing products. In addition to developing new products, we continuously upgrade our existing products by improving formulas and developing different flavors and packaging materials. For example, in 2015, we introduced premium hot pot dipping sauce products, which contain more sesame sauce and less sodium with restaurant-like flavor.

Optimizing production process and equipment. Our research and development team works closely with our production team to optimize production processes to enhance product quality and production efficiency. We have installed a set of automated equipment in the stir-fry pots to monitor the timing, pressure and temperature in the production process for delivering hot pot soup flavoring products that are stable and consistent in quality.

We primarily undertake our research and development activities in-house. As of 31 December 2015, we employed 12 research and development professionals, each of them has relevant education or working experience in food science and consumer sectors. We also collaborate with other institutions, including academic institutions and catering service providers on research and development activities. For example, we work closely with Haidilao Group's in-house research team to continuously upgrade and explore hot pot soup flavoring formulas.

For the three years ended 31 December 2013, 2014 and 2015, we incurred total research and development costs of RMB0.2 million, RMB0.9 million and RMB5.1 million, respectively.

OUR TECHNOLOGY PLATFORM

We have developed a comprehensive and effective technology platform, which empowers us to improve our operational efficiency.

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Our technology platform centralizes all material aspects of our operation. We use (i) SAP system to manage and centralize all financial, production, storage, quality control and sales information; (ii) SRM system to manage suppliers; (iii) CRM system to manage customers' information; (iv) product tracking system to track the product flow, spot counterfeit products and collect and analyze customer demand data; and (v) PORTAL system to streamline our expenses and funding allocation. Our technology platform enables us to:

- manage the entire production and distribution process to ensure smooth execution, quality control, and effective risk control;
- conduct supply/demand analysis of historical data and anticipate future demand, which provides critical information for inventory control, production scheduling and long-term strategic decisions;
- record and analyze customer data to better understand their preference and evolving taste and more effectively engage them in our promotional activities;
- track and analyze each supplier and distributor's performance to manage the quality of our raw materials supply and implement our marketing strategies; and
- monitor and analyze our financial performance by geographic locations, product type or cost type, enabling our management to make more informed decisions in budgeting, cost control, distributor selection and geographic expansion.

We strive to ensure the reliability and security of our technology platform. We maintain back-up units for our key equipment and back up our operational data frequently. We also implement advanced security measures to monitor and reinforce the security of our technology platform.

RAW MATERIALS AND SUPPLIERS

Raw Materials

We primarily purchase raw materials from various suppliers located in China. Our major raw materials are vegetable oil (mostly soybean oil and a small amount of rapeseed oil), animal oil (beef tallow), chili pepper, prickly ash and other spices and ingredients, and packaging materials, including plastic bags, wrapping papers, cardboard boxes and product labels.

Our procurement team formulates our procurement plans on an annual basis with reference to sales projections and the anticipated price trend of raw materials. We frequently monitor and adjust our procurement plans with regard to order levels from our customers, the market demand for our products and the price trend of raw materials.

Our raw materials are generally available from numerous suppliers. We minimize our reliance on any single source of supply for our raw materials by maintaining alternative sources. We use various pricing methodologies to ensure that we obtain competitive procurement prices for raw materials, including (i) pricing through bidding, our suppliers compete for our orders through a bidding process

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and we select the winning bid based on their bidding price, among other factors, and (ii) lockup of price and quantity, based on our production plan and anticipated trend of our raw materials' prices, we may enter into framework supply agreements with our major suppliers for a fixed price with an estimated volume; we specify in each purchase order the type of raw materials, quantity, delivery timeline and other details. During the Track Record Period, the retail price of soybean oil trended downward, while the retail price of beef tallow, chili pepper and prickly ash increased. See “Industry — Historical Price Trends of Main Raw Materials of Compound Condiments”.

In addition, we have entered into hedging activities in relation to the commodity prices of soybean oil. For details, see “— Hedging.”

Our Suppliers

Our raw materials are generally available from various suppliers. To maintain high standards of product quality and food safety, we place strong emphasis on sourcing high-quality raw materials from large suppliers with good reputations. We minimize our reliance on any single source of supply by maintaining at least two suppliers for each type of raw material. We also implement various measures to monitor the performance of our suppliers, including sample examination and on-site inspections. During the Track Record Period, we had not experienced any material shortage of raw materials affecting our normal operations.

We usually enter into supply agreements with our suppliers on an annual basis. Our supply agreements typically provide for the type of raw materials, quantity, price, method of order and delivery, payment and credit terms, quality assurance, penalty for delays and defects of raw materials, and termination and renewal of the agreements. In general, our purchases from raw material suppliers are made on the basis of individual orders specifying the quantity of raw materials. In some cases, we will pay a certain percentage of the purchase price to our suppliers prior to the delivery of raw materials. Payment terms granted by our suppliers vary depending on a number of factors including our relationship with the supplier and the size of an order. Our suppliers generally extend us credit terms up to 90 days upon our receipt of the raw materials and the invoice. Our suppliers are required to provide raw materials adhering to the quality requirement under the supply agreements and are responsible for any liabilities caused by product defects. Our supply agreements do not have an automatic renewal clause.

For the three years ended 31 December 2013, 2014 and 2015, purchases from our five largest suppliers accounted for approximately 27.6%, 24.8% and 26.9% of our total purchases, respectively, and purchases from our largest supplier accounted for approximately 9.5%, 7.6% and 10.1% of our total purchases, respectively.

So far as our Directors are aware, none of our Directors or executive officers of our Company or its subsidiaries, their respective associates or any shareholders of our Company holding more than 5% of the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering, had any interests in any of our five largest suppliers during the Track Record Period.

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LOGISTICS

Logistics Arrangements with Haidilao Group and Its Affiliates

We engage Sichuan Haidilao and Shuhai Supply Chain to provide certain warehouse storage services. On 24 June 2016, we entered into a warehouse storage service agreement with Sichuan Haidilao and Shuhai Supply Chain, respectively. Under the agreements, the two companies agreed to provide us with warehousing facilities and related services, including sorting process management, stocktaking, shipping arrangement, etc. The service fees will be charged on a per unit basis, with the rate determined based on factors such as warehouse location, service nature and service fees charged for similar arm's length transactions. The agreements have an initial term of three years and may be automatically renewed unless unilaterally terminated by us with a 30-day prior written notice. For more details of the warehouse storage service agreements, see "Connected Transactions — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions — B. Warehouse Storage". During the Track Record Period, the storage service fees we paid to Haidilao Group and its affiliates were nil, RMB0.7 million and RMB2.8 million, respectively, representing nil, 7% and 16% of the total logistics and storage service fees incurred by us during the same period. We believe that even if we switch to independent third party service providers, we would be able to secure similar services at comparable rates.

Logistics Arrangements with Third-party Service Providers

We engage third-party logistics service providers to collect our products from warehouses at our production facilities in Zhengzhou and Chengdu and deliver them to our customers. As of 31 December 2015, we had four logistics service providers. Our transportation arrangements with third-party logistics service providers enable us to maintain a low level of capital investment in developing and maintaining an in-house logistics system.

We select logistics service providers based on their reputation, scale of operation, track record and price. We usually enter into agreements with our logistics service providers on a semiannual basis. We use a standardized logistics agreement for our logistics service providers. Our logistics service providers bear the risks associated with the delivery of our products, are liable for product contamination occurring during the transportation process and are required to purchase necessary insurance. We assess our logistics service providers based on delivery performance, transportation capability and overall service quality. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material disruption in the delivery of our products or suffered any loss due to late delivery or mishandling of products by our logistics service providers.

INVENTORY MANAGEMENT

Our inventories primarily consist of raw materials, work-in-process and finished products. We adopt a frequent procurement strategy with short refill cycles from suppliers, and usually maintain an inventory level for raw materials sufficient to meet 15 days' production requirements, depending on the type of raw material involved. For example, the inventory level of our chicken oil and chicken bouillon powder are usually maintained at a 15 days' production level, however, for certain major raw materials that are subject to short-term price fluctuation and capable for long term storage, such as

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prickly ash, we usually maintain an inventory level significantly longer than 15 day by periodically making bulk purchases to enjoy bulk purchase discounts. We generally do not overstock finished products and our warehouse time of finished products is approximately seven days for our retail products and 30 days for customized products sold to related parties. In addition, as our sales are subject to seasonality and the fourth quarter is our peak season because hot pot dishes are more popular during cold seasons, and the corporate, friend and family gatherings are more frequent during holidays at year-end, we usually stock a large amount of raw materials and our storage level of finished products will also increase significantly at year-end in response to the peak production and sales season.

We have warehouses at each of our production facilities. Our raw materials are stored under well-ventilated storage conditions with controlled temperature and humidity to minimize the risk of food deterioration. Our finished products are stored in separate warehouses and placed in designated areas and labeled pursuant to their respective product lines and dates of production.

QUALITY CONTROL AND FOOD SAFETY

Quality Control Management

We are committed to providing safe and high-quality products. Our quality control team is responsible for (i) formulating, managing and supervising our quality control system; (ii) supervising the management of major suppliers; (iii) managing and tracking complaints from our customers; (iv) supervising the food safety of our products; and (v) upgrading the existing production techniques and applying new production techniques. As of 31 December 2015, we had 27 quality control personnel, all of whom had education background in food science, technology and quality inspection related areas and the majority of whom had over four years of work experience in the food industry.

Our quality control system covers the following operation phases: production, inventory and logistics. In addition, our retail products are assigned a unique two-dimensional code, which enables us to closely trace and inspect almost every step in the lifecycle of an individual product from production to logistics.

Quality Standards and Certificates

Our operations comply with applicable PRC laws and regulations in relation to food manufacturing and sale, as well as the quality control requirements imposed by the China Food and Drug Administration and/or its local branches. We are also subject to annual inspection by relevant PRC government authorities, including AQSIQ. Our quality control system has received various international quality management certifications, including certifications for International Organization for Standardization (ISO) and Hazard Analysis and Critical Control Points (HACCP). We obtained these certifications by applying for and passing documentary and on-site inspections by independent accreditation bodies. These certifications are subject to annual independent audits by the relevant accreditation bodies.

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- **ISO 9001: 2008**

ISO 9001:2008 specifies requirements for a quality management system where an organization needs to demonstrate its ability to consistently provide products that meet customer and applicable statutory and regulatory requirements and aims to enhance customer satisfaction through the effective application of that system, including processes for continual improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements.

Our quality management system with respect to our production and service in our production facilities located in Zhengzhou, Henan Province has been certified to conform to ISO 9001:2008 and GB/T 19001-2008 standards effective from 12 August 2013 to 11 August 2016.

- **HACCP**

HACCP is a management system in which food safety is addressed through the analysis and control of biological, chemical and physical hazards from production, procurement and handling of raw material, to manufacturing, distribution and consumption of the finished product.

Our HACCP system with respect to our production in our production facilities located in Zhengzhou, Henan Province has been certified to conform to GB/T 27341-2009 and GB 14881-1994 requirements effective from 19 August 2013 to 18 August 2016.

Quality Control over Raw Materials

We have adopted and maintained strict procedures in the selection and management of our suppliers to ensure that raw materials we use are of high quality.

We only select suppliers who can satisfy our internal standardized criteria. Prior to entering into a supply contract, our quality control personnel conduct on-site inspection of suppliers' facilities and production process and test their prototype materials. Furthermore, we periodically evaluate the performance of our suppliers, including conducting on-site supervision and inspection, and terminate the contracts with those who fail to meet our criteria.

We require raw materials provided by our suppliers to meet our quality standards which are significantly higher than relevant Chinese national standards. Our quality control personnel conduct inspections of raw materials before acceptance and will reject the delivery if they do not meet the quality standards stipulated in our supply contracts. We also perform laboratory sample testing ourselves or through third-party laboratories to inspect the quality of the raw materials.

Quality Control over Production Process

We strictly adhere to our standardized production procedures to ensure consistent product quality. In addition to adopting internal procedures, we also apply the relevant industry standards in our production process, including ISO 9001: 2008, to ensure that our products are consistently produced in compliance with relevant national industry standards.

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We select and closely monitor key aspects in the production process that may materially impact the quality of our finished products, including temperature, pressure and timing, and we require contract manufacturers to conduct sample testing at each key step through the entire production process to ensure end-to-end control. We also conduct continuous inspection throughout the production process. When an individual substandard product is identified, we examine all products and work-in-progress in the same production batch to ensure that there are no other quality issues. Any substandard products identified are either disposed of immediately or returned to the previous production step for rectification, as appropriate.

Apart from production process monitoring, we also consider the health and hygiene of our employees to be an essential factor in ensuring the safety of our production process. We conduct annual health checkups for our employees and require them to maintain good personal hygiene. We also provide quality control, production safety and other technical training on a regular basis to our employees to ensure they can satisfy our technical and hygiene requirements.

We also implement strict quality control measures over our contract manufacturers, for details of which, please see “— Our Production — Contract Manufacturers”.

Quality Control over Inventory and Logistics

We have implemented detailed warehousing operation procedures, including timely record keeping, proper labeling and periodic stock-taking. We also maintain storage conditions according to the nature, categories and production dates of our raw materials, packaging materials and finished products and impose strict sanitation requirements to prevent contamination and cross-contamination in our warehouses.

For quality control over logistics, we require our logistics service providers to make timely delivery to avoid any food deterioration during the delivery process. We also require our logistics service providers to ensure a suitable delivery environment and stringent sanitary standards in their transportation vehicles. Our quality control personnel continuously review the performance of our logistics service providers to ensure delivery of our products in full compliance with our requirements.

Food Safety Management

To identify and control food safety issues, we have implemented the following measures:

- **Product Testing:** We have an in-house team and engage independent third-party laboratories, including SGS S.A., a global inspection, verification, testing and certification company, to conduct product quality and food safety testing on our products to ensure our products are in compliance with the relevant standards in the PRC and the overseas markets where our products are sold.
- **Quality Management System:** Our ISO-accredited production facilities have implemented various quality control procedures in compliance with the requirements under the relevant quality standards and certifications.

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- **HACCP System:** Our quality control team has formulated and implemented our HACCP procedures, reviewing the effectiveness of the HACCP system and reporting to our senior management about any material food safety issues identified.
- **Food Safety Risk Management and Emergency Response:** Our quality control team is responsible for analyzing and identifying food safety risks involved in our production processes. Our senior management assesses the risks reported by different departments and takes preventive measures to address them. We maintain a food safety emergency response plan that sets out detailed response procedures and responsibilities of each department involved. If any food contamination is identified, production in the relevant production facility is suspended and the facility is thoroughly sanitized. The production in the relevant facility resumes only when the production director or quality control team confirms that the facility can satisfy our food safety requirements.
- **Interactive Communication:** We maintain a standardized communication procedure to facilitate internal and external communications, according to which we maintain regular close contact with the relevant regulatory authorities, distributors, consumers, suppliers and employees to gather essential food safety information, which enables us to improve our quality control and prevent food safety incidents.

As described above, we have established effective food safety management systems covering the entire production process from raw materials to final products, inspections and quality control, inventory and logistics management. In addition, we continuously enhance our internal procedures in accordance with developments in the relevant food safety laws and regulations. For example, in response to the amended Food Safety Law of the PRC that became effective on 1 October 2015 (the “**New Food Safety Law**”), the measures we have implemented or will implement include the following:

- our storage facilities and conditions and logistics facilities are in compliance with the New Food Safety Law. We also monitor the storage conditions of our distributors in accordance with the New Food Safety Law.
- We maintain additional records for raw materials and packaging materials delivered to us by our suppliers, including the name and contact details of the supplier, specification, quantity, date of production or production batch number, preservation period and date of delivery. We are also amending our inventory management rules to maintain the relevant inspection records and supporting documents for our raw materials and packaging materials for not less than six months after the expiration of their respective preservation periods. For those raw materials or packaging materials without a specified preservation period, we maintain the relevant inspection records and supporting documents for not less than two years.
- For our finished products, we keep additional records of the preservation period and purchaser’s address. We also maintain custody of the relevant inspection records and supporting documents for not less than six months after expiration of their respective preservation periods.

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- We provide training on the New Food Safety Law to our employees to ensure our production process and product quality are in strict compliance with the standards set forth in the New Food Safety Law.

Product Returns, Warranties, Consumer Feedback and Product Recall

Our distributors are not allowed to return or exchange products except for defective products, as set forth in our distribution agreements.

During the Track Record Period, there were no material product returns from our customers. As a result, we did not record any provision for product warranties during the Track Record Period.

We use detailed procedures to collect and process consumer feedback. Our sales management team uses consumer service hotlines to receive consumer inquiries, feedback and complaints. We record complaints that we receive, including information regarding the relevant products involved, such as product series and batch number. Our senior sales personnel responsible for the relevant region have the initial responsibility for complaints, and they subsequently contact the consumers and collect additional information regarding their complaints. Based on the information collected by our sales personnel, the relevant departments responsible for production, quality control and/or logistics are notified about any reported product defects and carry out remedial measures as necessary. Our sales management team is responsible for following up complaints to ensure that they have been dealt with appropriately. In addition, our e-commerce team is responsible for consumer feedback and complaints from e-commerce channels. We address complaints in a variety of ways, including communicating with consumers, paying them reasonable compensation and taking appropriate actions against hostile complaints.

We have also established relevant product recall procedures. When we receive feedback indicating that a product may be defective, we will immediately consult relevant persons to evaluate the necessity of a recall and report the issue to senior management. Once we identify products that require recall, we will notify relevant teams including production, quality control, warehousing and procurement to ascertain the relevant product batch and range to be recalled and our sales personnel will promptly inform relevant parties, including the relevant distributors responsible for the geographic regions in which the recall will occur. The two-dimensional code on our products enables us to efficiently trace products which are subject to a recall and retrieve such products in a timely manner. We will maintain detailed records of (i) products involved in the recall; (ii) products that have entered the sales network; (iii) products in our inventory; and (iv) products successfully recalled, and eventually destroy the recalled products.

We believe that our quality control policy and practice ensures the high quality of our products and enhances our reputation. During the Track Record Period and up to the Latest Practicable Date, no material consumer complaints or disputes arose as a result of product quality issues and no product recall incident occurred.

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SEASONALITY

Sales of our products are subject to seasonality. During the Track Record Period, we have experienced higher sales in the second half of each year, primarily because (i) hot pot dishes are more popular during cold seasons (ii) the corporate, friend and family gatherings are more frequent during holidays at year-end. Through the diversification of our product portfolio, for example our Chinese-style compound condiment products, we believe that we have mitigated, to a certain extent, the adverse impacts on us from the seasonality. During the Track Record Period, our revenue from the second half of each year accounted for 61.2%, 66.4% and 63.9%, respectively, of our total revenue.

COMPETITION

Please refer to “Industry Overview” in this prospectus for an overview of the industry in which we operate.

China’s Hot Pot Condiment Market

China’s hot pot condiment market is competitive and fragmented. According to Frost & Sullivan, the top five competitors accounted for approximately 29.6% market share in 2015. Our Company ranked second in terms of sales value with a market share of 6.8%.

Compared with overall hot pot condiment market, China’s hot pot soup flavoring market was slightly more concentrated in 2015. According to Frost & Sullivan, the top five competitors accounted for approximately 30.9% market share in 2015. Our Company ranked second in terms of sales value with a market share of 7.9%.

The mid- to high-end hot pot soup flavoring market in China was relatively concentrated in 2015. According to Frost & Sullivan, the top three competitors accounted for approximately 51.1% market share in 2015. Our Company ranked first in terms of sales value with a market share of 34.7%.

Competition among hot pot condiment manufacturers in China is primarily based on brand recognition, distribution channels and marketing, product quality and healthiness as well as product mix. New market entrants need significant financial resources and stringent quality control procedures to meet regulatory requirements. They are also required to commit substantial investments in distribution networks, brand awareness and operation and management capabilities. We believe our comprehensive product portfolio, well-known brand, product quality, extensive and well-established nationwide sales network distinguish us from our competitors.

Chinese-style Compound Condiment Market

The Chinese-style compound condiment market is competitive and fragmented with no clear dominant player, according to Frost & Sullivan. Major market participants primarily included regional players with specific focus on certain types of condiments to appeal to their target customers. The market shares of such participants were around 4-5% in 2015.

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EMPLOYEES

As of 31 December 2015, we had 978 full-time employees. The table below sets out a breakdown of our employees by function as of 31 December 2015.

Function	Employees
Production	487
Sales and marketing	433
Management and administration and others	58
Total	<u>978</u>

We place significant emphasis on recruiting, staff training and development. We provide continuing education and training programs to our employees to improve their skills and knowledge. We incentivize our employees' enthusiasm and creativity by ensuring a smooth internal promotion channel and encouraging entrepreneurial spirit. We offer competitive remuneration packages and various benefits, including share-based incentive plans, to attract and retain talented and experienced employees. For details regarding our share-based incentive plans, see "Appendix IV — Statutory and General Information — D. RSU Scheme".

We typically enter into standard employment agreements with our employees. Our standard employment contract includes confidentiality obligations regarding our know-how and trade secrets. In addition, we enter into separate non-compete and intellectual property protection agreements with senior employees and management. The non-compete and intellectual property protection agreement includes a standard non-competition covenant that prohibits an employee from competing with us, directly or indirectly, for a period of two years after the termination of his or her employment, provided that we have paid compensation in accordance with applicable laws and regulations.

Zhengzhou Shuhai and Hubei Huanggang Yili Dairy Co., Ltd. ("Yili"), an independent third party manufacturing dairy products, entered into reciprocal employee exchange agreements in 2015, under which Zhengzhou Shuhai is able to use Yili's employees during Yili's off-season for production in our peak season and Zhengzhou Shuhai pays salaries and social insurance contributions to Yili for such exchanged employees. Conversely, Yili is able to use Zhengzhou Shuhai's employees during our off-season in their peak season following the same arrangements. It was Yili that approached us for such arrangement initially, because Yili has a large employee base and has been affected by seasonality, which it seeks to mitigate through employee exchange arrangement to lower its employees expenses during off-season. In addition to us, Yili also entered into such arrangement with a number of other entities. The exchange program lasted nine months in 2015. From April 2015 to July 2015, Zhengzhou Shuhai sent our exchange employees to Yili, during which period, the monthly average number of exchange employees Zhengzhou Shuhai sent to Yili was 30, accounting for 5.7% of all Zhengzhou Shuhai's employees as of December 31, 2015. The salaries Yili paid to our exchange employees were approximately RMB318,000, accounting for 1.19% of the total salaries Zhengzhou Shuhai paid to its employees in 2015. From August 2015 to December 2015, Zhengzhou Shuhai engaged exchange employees from Yili, during which period, the monthly average number of exchange employees Zhengzhou Shuhai engaged from Yili was 69, accounting for 13% of all

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Zhengzhou Shuhai's employees as of December 31, 2015. The salaries Zhengzhou Shuhai paid to the exchange employees were approximately RMB1.02 million, accounting for 3.78% of the total salaries Zhengzhou Shuhai paid to its employees in 2015. As such arrangement has assisted us in controlling our labor costs, we intend to continue the reciprocal employee exchange arrangement with Yili in 2016. As advised by our PRC legal advisor, such employee exchange arrangements comply with the relevant PRC laws and regulations.

We also typically engage a number of temporary contract workers to assist in our production in the peak season. As of 31 December 2015, we had 59 temporary contract workers.

As of 31 December 2015, we had 31 contractors from third-party human resources agencies in addition to full-time employees. These contractors are not our employees and generally hold non-key positions. We do not enter into labor contracts with these contractors; instead, they enter into labor contracts with the third-party human resources agencies. We are not legally obligated to pay social insurance for these contractors. Instead, pursuant to the employment agreements between the third-party human resource agencies and us, we make salary payments, social insurance contributions and other related payments for the contractors to these agencies.

For the three years ended 31 December 2013, 2014 and 2015, we incurred total staff costs (including salaries, wages, allowance and benefits) of RMB30.7 million, RMB51.6 million and RMB84.9 million, respectively.

We have maintained a good working relationship with our employees. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any labor disputes that could have a material and adverse effect on our business, financial conditions or results of operations.

OCCUPATIONAL HEALTH AND SAFETY

Our operations are subject to certain laws and regulations with respect to employee health and safety. For more details, see "Regulations — Employment and Social Insurance." Based on these regulations, we have implemented safety guidelines in relation to safety control procedures and standards, including procedures for handling safety issues, accident investigation procedures, protective and remedial measures and accident reporting procedures. We require all our employees to comply strictly with these guidelines. We carry out regular safety checks on our production facilities to ensure that the equipment is thoroughly tested and safe for use. We also require operators of our production equipment to attend training sessions on the required safety standards. Furthermore, all our employees are provided with regular workplace safety training and equipment and an internal health and safety manual.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had not experienced any major accidents in the course of our production process that resulted in the death or serious injury of our employees.

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During the Track Record Period and up to the Latest Practicable Date, according to our PRC Legal Advisor, we were not subject to any material penalties by PRC regulatory authorities regarding health and occupation safety and production safety.

INTELLECTUAL PROPERTY

Our Major Intellectual Property Rights

Intellectual property rights are important to our business. As of the Latest Practicable Date, we had five registered patents issued by the State Intellectual Property Office of the PRC and were in the process of applying for additional five patents in the PRC. As of the Latest Practicable Date, we had three pending trademark applications in Hong Kong. We also had 15 domain names, including our primary website, www.yihchina.com. For a list of our major intellectual property rights, see “Appendix IV — Statutory and General Information — B. Further Information About Our Business — 2. Intellectual Property Rights”.


Trademark License from Haidilao Group

We entered into a Trademark License Agreement with Haidilao Group on 1 December 2015 (the “**First Trademark License Agreement**”), under which Haidilao Group agreed to license us the exclusive use of five trademarks of Class 30 for condiment products, which are registered trademarks in the PRC and owned by Haidilao Group, for a perpetual term commencing from 1 January 2007 subject to certain conditions, and is only terminable with consent of our independent non-executive Directors.

We entered into another Trademark License Agreement with Haidilao Group on 1 December 2015 (the “**Second Trademark License Agreement**”), under which Haidilao Group agreed to license us the exclusive use of the trademark of “Haidilao (vertical)” (“海底撈(豎版)”) and six other trademarks, all of Class 30, for condiment products, which are currently in the process of trademark application in the PRC by Haidilao Group, for a perpetual term commencing from 1 January 2007 subject to certain conditions, and is only terminable with consent of our independent non-executive Directors. Our PRC legal advisor has advised us that the Second Trademark License Agreement is valid and binding notwithstanding that the licensed trademarks thereunder have not been registered.

In addition, as advised by our PRC legal advisor, (i) although certain independent third parties are in the process of and may eventually succeed in registering trademarks which are similar to the trademark of “Haidilao (vertical)” (“海底撈(豎版)”) for condiment products, the likelihood that the PRC courts would support any third party’s claim alleging that our use of such trademark on condiment products under the Second Trademark License Agreement infringed its intellectual property rights of trademarks is low as (x) Haidilao Group is able to raise objection in respect of a third party’s application of trademarks which are similar to the trademark of “Haidilao (vertical)” (“海底撈(豎版)”) because the registered trademark of “Haidilao” (“海底撈”) owned by Haidilao Group is a well-known trademark (馳名商標) in the PRC certified by SAIC and there was successful case by Haidilao Group on such basis, therefore, the likelihood that a third party could succeed in registering trademarks which are similar to the trademark of “Haidilao (vertical)” (“海底撈(豎版)”) is low if Haidilao Group raises objection in time, and (y) even if a third party has successfully registered trademarks which are

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similar to the trademark of “Haidilao (vertical)” (“海底捞(豎版)”) on condiment products, considering Haidilao Group used the trademark of “Haidilao (vertical)” (“海底捞(豎版)”) on condiment product before the third party’s application, Haidilao Group is able to continue to use such trademarks within the previous scope by adding identification for the differentiation; (ii) the likelihood that the PRC courts would support any third party’s claim alleging that our use of one of the seven trademarks (i.e. ) licensed to us by Haidilao Group on condiment products under the Second Trademark License Agreement infringed its intellectual property rights of trademarks is low, as Haidilao Group has successfully registered such trademark in other categories of food and beverage and it is likely that Haidilao Group will successfully register such trademarks in the category of condiment products; and (iii) the license of the remaining five other trademarks to us by Haidilao Group under the Second Trademark License Agreement would not infringe any third party’s intellectual property rights of trademarks as the Group has confirmed that it had not and will not use such trademarks until the successful registration of such trademarks.

For more details of the trademark license, see “Connected Transactions — Exempt Continuing Connected Transactions”.

Protection of Intellectual Property Rights

Certain proprietary know-how that is not patentable and processes for which patents are difficult to enforce are also of significant importance to our operations. We believe that certain elements in our operations are not covered by patents or copyrights. We have taken security measures to protect these elements.

We seek to protect our intellectual property through a combination of patents, trademarks, trade secrets and confidentiality agreements. Our employees have confidentiality obligations to us under the standard employment agreements. Our senior employees and management are also required to comply with the non-compete and confidentiality obligations under the non-compete and intellectual property protection agreements with us. These agreements also require our employees to assign to us all of the inventions, designs and technologies they develop in connection with their employment with us. In addition, we require confidentiality agreements with our customers and business partners including distributors, suppliers and contract manufacturers who have access to our proprietary know-how and trade secrets. For a discussion of the risks associated with protection of our intellectual property rights, see “Risk Factors — Risks Relating to Our Business and Industry — We may not be able to adequately protect our intellectual property rights and industrial know-how, which could harm the value of our brands and adversely affect our business and operation”.

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had not involved in any pending or threatened disputes or legal proceedings regarding intellectual property that could have a material and adverse effect on our business, financial conditions or results of operations.

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PROPERTIES

According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our Group's interests in land or buildings. This is because as of 31 December 2015, each of our properties had a carrying amount that was less than 15% of our consolidated total assets.

Our Owned Properties

As of the Latest Practicable Date, we owned the following properties through our purchase from Haidilao Group in December 2015: (i) one parcel of land with a total site area of approximately 14,037.81 sq.m.; and (ii) two properties with a total GFA of approximately 18,255.05 sq.m. that were built on the above land, which are located in Zhengzhou, Henan Province, and primarily used as production facilities and warehouses. In addition, we acquired three parcels of land in Bazhou, Hebei province in March 2016 with a total site area of approximately 57,095 sq.m. We have entered into land grant contracts and paid a portion of the land premiums and relevant taxes and fees. We are in the process of obtaining the land use right certificates.

As for the Zhengzhou site, we obtained the building ownership certificates for the two properties in early May 2016. We are in the process of completing the land transfer procedures for the underlying parcel of land. As advised by our PRC legal advisor, they are not aware of any material legal impediment to our obtaining the land use right certificate, provided that we make full payment of the relevant taxes and fees in connection with such transfer. We have paid up these taxes and fees in April 2016 and expect to obtain the land use right certificate before Listing.

Our Leased Properties

As of the Latest Practicable Date, we leased the following properties located in the PRC: (i) one parcel of land with a total site area of approximately 9,656.5 sq.m. and properties that were built on such land, which are located in Chengdu, Sichuan Province, and primarily used as production facilities and warehouses; and (ii) four leased properties located in Shanghai and Beijing, respectively, which are primarily used as offices.

Defective Leased Properties from Haidilao Group

We entered into the Land Lease Agreement with Haidilao Group in December 2015 and the Supplemental Agreement in January 2016 (the "**Land Lease Agreement**"), under which we lease from Haidilao Group one parcel of land in Chengdu with a total site area of approximately 9,656.5 sq.m. and properties that were built on such land for the use as production facilities and warehouses for three years. For more details of the lease agreement, see "Connected Transactions — Continuing Connected Transactions — Non-Exempt Continuing Connected Transactions". As of the Latest Practicable Date, Haidilao Group obtained the land use right certificate for the parcel of land but had not obtained title

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certificates for the properties built on such land (the “**Defective Leased Properties**”) as Haidilao Group failed to submit the required Construction Project Planning Permit (建設工程規劃許可證) and Construction Project Construction Permit (建設工程施工許可證) when applying for the title certificate for the Defective Leased Properties.

Our PRC legal advisor has advised us that the Land Lease Agreement may be invalid due to Haidilao Group’s failure to provide the Construction Project Planning Permit for the Defective Leased Properties. According to our PRC legal advisor’s interview with the Longquanyi Urban Planning Administration, Chengdu, the competent authority in February 2016 with respect to the need for relocation and potential penalties relating to the Defective Leased Properties, our PRC legal advisor has advised us that (i) the likelihood that the relevant competent government authorities will require Haidilao Group to remove the Defective Leased Properties or impose penalty on Haidilao Group with respect to the Defective Leased Properties is low because Haidilao Group has obtained the land use right certificate for the land where the Defective Leased Properties were built and made the filing of the construction of the Defective Leased Properties with relevant development and reform authorities; and (ii) accordingly, the likelihood that the relevant competent government authorities will require us to relocate our production facilities on the Defective Leased Properties is low. Our PRC legal advisor has advised that the relevant competent government authorities will not impose penalties on us for our lease from Haidilao Group properties lack of title certificate.

Although the chance that we will be required to relocate our production facilities in Chengdu is low, we have formulated a contingency relocation plan in response to the potential mandatory relocation order of the relevant government authorities. If we are ordered to relocate after the completion of Phase I of our Bazhou Production Base (i.e., by the first half of 2018, see “— Our Production — Our Production Facilities — Production Expansion Plan”), we will relocate all our production facilities in Chengdu to the Bazhou Production Base. If we are ordered by the government authorities to relocate before then, we plan to lease a back-up property to continue our production. We have identified buildings in the vicinity of the Defective Leased Properties in Chengdu, with a total site area of approximately 10,000 sq.m. at comparable rental rate. We estimate the relocation will cost approximately RMB8.5 million excluding the rent and renovation expense for the back-up property, which include shipping expense of approximately RMB2.5 million, equipment purchase, installment and adjustment expense of approximately RMB4.9 million and other miscellaneous expenses of approximately RMB1.1 million. The annual production volume of our Chengdu facilities was 5,777 ton in 2015, accounting for approximately 20% of our total production volume. If we are ordered to relocate, we will arrange our Zhengzhou production facilities to operate on three shifts, which usually operate on two shifts. We estimate the switch to three-shift model could increase the annual production volume of our Zhengzhou facilities by 14,385 tons. Meanwhile, currently we only employ a small portion of our contract manufacturers’ production capacity. If we are ordered to relocate the Chengdu facilities, we will assign more orders to contract manufacturers to produce. As such, we can still meet the demands even if the Chengdu facilities suspend operation. In other words, the relocation of Chengdu facilities, even if occurred, is not expected to reduce our revenue or otherwise materially disrupt our operation and we do not believe the relocation will be unduly burdensome for us. As advised by our PRC legal advisor, it usually takes the government authorities one to three months from initiating the investigation to issuing the relocation order; and usually takes no more than six months to complete a relocation considering various factors. Based on our best estimate, it will take us three to four months to complete the relocation of Chengdu facilities.

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Our Directors believe that the Defective Leased Properties will not have a material adverse effect on our business, financial conditions and results of operations primarily because (i) the fact that Haidilao Group has not obtained the title certificate does not have any adverse impact on the safety conditions of the Defective Leased Properties; (ii) as of the Latest Practicable Date, no government authority has required Haidilao Group to remove the Defective Leased Properties or required us to relocate our production facilities on the Defective Leased Properties or imposed penalties on Haidilao Group or us with respect to the Defective Leased Properties; and (iii) we have formulated a contingency relocation plan as disclosed above. In addition, Haidilao Group undertakes to indemnify us from any loss arising from the title defects of the Defective Leased Properties according to the Land Lease Agreement.

Non-Registration of Leases

As of the Latest Practicable Date, the lessors of all of our leased properties have not registered such leases with competent government authorities.

Our PRC legal advisor has advised that (i) the non-registration as disclosed above will not affect the validity or enforceability of the lease agreements and we would not be required to relocate as a result of our failure to complete the registration; and (ii) pursuant to applicable PRC laws and regulations, registration of the lease agreement shall be made, failing which either party to the lease agreement is subject to a fine ranging from RMB1,000 to RMB10,000 per lease agreement. We estimate that the maximum fine we may be subject to for these unregistered lease agreements will be approximately RMB50,000, which we believe will not have a material adverse impact on our business, financial conditions or results of operations. As a result, we did not make any provision in relation to this non-compliance incident. We are liaising with the lessors to arrange the filing to register these leases.

As of the Latest Practicable Date, no government authority has imposed any penalty against us with respect to the non-registration of the leases of our leased properties.

Please see “Risk Factors — Risks relating to Our Business and Industry — Legal defects relating to certain properties owned or leased by us could materially and adversely affect our ability to use such properties.”

INSURANCE

We primarily maintain property insurance with respect to our fixed assets, including machinery and equipment, and inventories. Such insurance covers risk of property damage and damage due to natural disasters and certain accidents such as fire and explosion. We also provide social insurance, including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees. We do not maintain business interruption insurance, nor do we maintain key-person life insurance. Such insurance is not required under PRC laws and regulations and we believe our practice is consistent with industry practice in the PRC.

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ENVIRONMENTAL MATTERS

Our operations are subject to certain PRC environmental laws and regulations, the implementation of which involves regular inspection by local environmental protection authorities. For more details, see “Regulations — Environmental Protection.” We place great emphasis on environmental protection and are dedicated to environmental protection in our operations. Our environmental protection measures include:

- Conducting environmental impact assessments before construction of production facilities and commencement of production;
- Installing environmental protection facilities and procedures in place to treat and dispose of all of our waste in accordance with national and local environmental laws and regulations;
- Recycling our used or waste materials.

Our PRC legal advisor has advised us that, up to the Latest Practicable Date, except as disclosed in “— Regulatory Matters — Non-compliance Matters” below, our operations had complied with all applicable PRC environmental laws and regulations in all material respects.

For the three years ended 31 December 2013, 2014 and 2015, our total environmental compliance costs were nil, RMB0.3 million and RMB0.9 million, respectively.

REGULATORY MATTERS

We have detailed compliance procedures to identify and control the legal risks in our operations. Our Directors, as advised by our PRC legal advisor, confirm that, during the Track Record Period and up to the Latest Practicable Date, except as disclosed in “— Regulatory Matters — Non-compliance Matters” below, we had complied in all material aspects with all relevant PRC laws, rules and regulations that are applicable to our operations.

Licenses and Permits

Our Directors and PRC legal advisor confirm that, during the Track Record Period and up to the Latest Practicable Date, we had obtained all the material licenses and permits required for our operations. The principal licenses and permits required to conduct our business in the PRC primarily include the following products held by Zhengzhou Shuhai: (i) the production license for food products which will expire on 12 April 2021, and (ii) food distribution permit which will expire on 29 June 2017. We will renew these licenses and permits timely upon their expiration to ensure that our production complies with relevant applicable laws and regulations.

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Our PRC legal advisor has advised us that such licenses and permits remain in full effect and had not been revoked or cancelled as of the Latest Practicable Date. Our PRC legal advisor also has advised us that, to the best knowledge of our PRC legal advisor, there is no legal impediment to renew such licenses and permits, as long as we comply with the relevant legal requirements and provided that we take all necessary steps and submit the relevant applications in accordance with the requirements and schedule prescribed by the applicable laws and regulations of the PRC.

For more information about the laws and regulations to which we are subject, see “Regulations.”

Non-compliance Matters

We were involved in certain regulatory non-compliance incidents during the Track Record Period and up to the Latest Practicable Date, the details of which together with a description of the rectification actions are set forth as below.

No.	Non-compliance Incident	Reasons for the Non-compliance	Legal Consequences and Maximum Potential Penalty	Rectification Actions Taken and to be Taken	Potential Operational and Financial Impact
1.	Some of our production facilities in Chengdu failed to obtain the Environment Impact Assessment Approval (環評批復) and the Environmental Protection Acceptance (環保驗收) before the commencement of production.	The production facilities in Chengdu were transferred from Haidilao Group to Chengdu Yueyihai on 1 January 2016. Haidilao Group obtained the Environment Impact Assessment Approval and the Environmental Protection Acceptance for Chengdu production facilities initially. In 2013, however, they renovated and upgraded Chengdu production facilities and did not complete the requisite environmental procedures. Given that, we had to apply for the Environmental Impact Assessment Approval and the Environmental Protection Acceptance for renovated Chengdu production facilities upon transfer.	As advised by our PRC legal advisor, the relevant competent government authorities may (i) require us to cease production in Chengdu production facilities, and (ii) impose a fine with the amount of less than RMB300,000. See “Risk Factors — Risks relating to Our Business and Industry — Our environmental related costs may increase if the Chinese environmental protection laws become more onerous, and non-compliance with relevant environmental protection laws could lead to the imposition of fines and penalties and harm our business.”	We obtained the Environment Impact Assessment Approval and the Notice of Supervising and Monitoring for Environmental Protection Acceptance (建設項目竣工環境保護驗收監察、監測通知) from the competent government authorities in February 2016, pursuant to which we were permitted to conduct trial production in Chengdu production facilities. We obtained the Environmental Protection Acceptance in April 2016. We have adopted enhanced internal control measures and provided relevant trainings to employees to avoid recurrence of such non-compliance incident. After discussion with the IPO internal control consultant, the Directors are of the view that, as of the Latest Practicable Date, our enhanced internal control measures were adequate and effective, in all material respects, to prevent the recurrence of such non-compliance incident.	According to our PRC legal advisor’s interviews with the Longquanyi Urban Planning Administration, Chengdu, the competent authority in February 2016, our PRC legal advisor has advised us that; (i) the likelihood that the relevant competent authorities will impose penalties against us for the production before obtaining the Environment Impact Assessment Approval and the Environmental Protection Acceptance is low; and (ii) our current operation at the Chengdu production facilities complies with the relevant PRC laws and regulations.

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No.	Non-compliance Incident	Reasons for the Non-compliance	Legal Consequences and Maximum Potential Penalty	Rectification Actions Taken and to be Taken	Potential Operational and Financial Impact
					<p>Our Directors believe that the non-compliance incident of our production facilities in Chengdu will not have a material adverse effect on our business, financial conditions and results of operations primarily because (i) as of the Latest Practicable Date, no government authority has imposed penalties on us with respect to our production facilities in Chengdu; and (ii) pursuant to our agreement with Haidilao Group for the purchase of production facilities in Chengdu in December 2015, Haidilao Group undertakes to indemnify us from any loss arising from non-compliance incidents that occurred in connection with the production facilities in Chengdu prior to our acquisition of the production facilities in Chengdu. As a result, we did not make any provision in relation to this non-compliance incident.</p>

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During the Track Record Period and up to the Latest Practicable Date, none of our Directors was involved in any material administrative violations, proceedings or penalties. Based on (i) there being no material adverse impact of the non-compliance incidents on our business, financial position or results of operation and (ii) the rectification measures and enhanced internal control measures we have adopted, which have been reviewed by our IPO internal control consultant, where it has conducted the long-form procedures since November 2015 and follow-up procedures on our Company's system of internal controls from December 2015 to March 2016, and has provided a number of findings and recommendations, where we have taken the necessary remedial actions and rectification measures pursuant to such recommendations, as of the Latest Practicable Date. After discussion with the IPO internal control consultant, the Directors are of the view that (i) there are no material internal control issues outstanding that otherwise would deem necessary to be raised by IPO internal control consultant, (ii) except for the provisions we made for the outstanding social insurance and housing fund contributions during the Track Record Period, it is unnecessary to make any provision for other non-compliance incidents, and (iii) such incidents do not affect the suitability of our Directors and our suitability for listing. After making enquiries of the Directors and management of our Company and reviewing the findings and recommendations provided by the IPO internal control consultant regarding our internal control system, nothing has come to the Sole Sponsor's attention that our Company's enhanced internal control measures are inadequate and ineffective in preventing the future occurrence of non-compliance incidents.

Legal Proceedings

We may from time to time become a party to various legal proceedings arising in the ordinary course of business. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had not involved in any litigation, arbitration or administrative proceeding against us or any of our Directors that could have a material and adverse effect on our business, financial conditions or results of operations. Furthermore, to the knowledge of our Directors, there is no pending or foreseeable litigation, arbitration or administrative proceeding against us or any of our Directors that could cause a material and adverse effect on our business, financial conditions or results of operations.

RISK MANAGEMENT

We are dedicated to the establishment and maintenance of a robust internal control system. We have adopted and implemented risk management policies and corporate governance measures in various aspects of our business operations such as financial reporting, quality control and food safety and sales activities.

Financial Reporting Risk Management

We have adopted comprehensive accounting policies in connection with our financial reporting risk management. We provide ongoing trainings to our finance staff to ensure that these policies are well-observed and effectively implemented. As of 31 December 2015, our finance team, headed by our Chief Financial Officer, consisted of 21 employees with extensive experience in finance and accounting.

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Quality Control and Food Safety Risk Management

Quality control and food safety is one of our highest priorities. We place significant emphasis on quality control and food safety to provide safe and high-quality products. We have adopted a well-established supervisory and management system for quality control and food safety covering each phase of our operation including procurement, production, inventory and logistics. For further details of our quality control team and the measures we have implemented for quality control and food safety, see “— Quality Control and Food Safety.”

Sales Activities Risk Management

We have implemented a series of policies and procedures to prevent potential corruption incidents. We set forth our anti-corruption policies in our employee handbook and code of conduct and provide anti-corruption training to our senior management and employees. Our distributors are required to comply with our anti-corruption policies, which are set forth in the distribution agreements.

We actively monitor sanctions laws and regulations relating to our overseas sales and have implemented internal measures to ensure our compliance, which primarily include establishing guidelines for overseas sales and providing relevant training to our senior management and overseas sales and marketing staff.

Corporate Governance Measures

Our Audit Committee is primarily responsible for assisting our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board. For further details on the composition and responsibilities of our Audit Committee, see “Directors and Senior Management — Board Committees — Audit Committee.” For further details on the qualification and experiences on the members of our Audit Committee, see “Directors and Senior Management — Board of Directors.”

We have also established an internal control department under our Audit Committee, which is primarily responsible for overseeing the daily implementation of internal control measures, compiling reports and proposals and reporting to our Audit Committee regarding our compliance in this respect.

Our Audit Committee, internal control department and senior management monitor the implementation of our risk management policies on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our operations.

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HEDGING

Prices of soybean oil, one of the major raw materials used in our production, experienced frequent short-term volatile fluctuations in the past ten years. We have entered into exchange-traded hedging activities in relation to the commodity prices of soybean oil. Our hedging policy is to hedge our exposure to price increases of soybean oil. We do not use derivatives for speculative purposes. As a result, historically, we only purchased long soybean oil futures contracts, and we had never taken short soybean oil futures positions. These contracts are purchased and traded on Dalian Commodity Exchange, the only regulated commodity futures exchange in China offering soybean oil futures contracts. Our hedging activities reduce the impact of price increases of soybean oil on our production, thereby protecting us against adverse short-term price upward movements, but also limit the benefits of short-term price downward movements.

We have promulgated internal guidance on hedging activities, under which our Board is the highest authority to supervise the operation involving our hedging activities. Our Board is primarily responsible for formulating and monitoring our hedging risk management procedures. A hedging team, consisting of four members including our Chairman, Chief Executive Officer, Chief Financial Officer, a staff member specializing in trading and soybean oil procurement, is further established to implement these procedures and conduct hedging activities. Our Chairman has ten years of experiences in soybean oil procurement.

Our senior management set the annual procurement volume and price limit for soybean oil based on our production plan and relevant market conditions. Our hedging team then purchase soybean oil futures contracts to achieve a net soybean oil position correlated with our actual procurement plan within the price limit as established and as they deem prudent. Our hedging team monitors the soybean oil futures market on a daily basis and if the price fluctuation approaches 10%, our hedging team will convene a meeting immediately to discuss our hedging positions and strategy. We typically purchase the most actively traded soybean oil futures contracts on Dalian Commodity Exchange to ensure the liquidity of our hedging positions. The maximum volume of soybean oil we may hedge each year cannot exceed our annual procurement volume.

The maximum deposit amount we may utilize each year for soybean oil hedging is RMB5 million. In extraordinary events, if we plan to utilize a deposit amount over RMB5 million, it then must be submitted to the Board for approval. In 2013, 2014 and 2015, our aggregated soybean oil hedged positions were 380 tons, 3,740 tons and 10,810 tons, with an aggregate contract value of RMB2.6 million, RMB25.2 million and RMB58.5 million, respectively. During the Track Record Period, our aggregated soybean oil hedged positions were equivalent to 4.5%, 50.2% and 76.3%, respectively, of our total actual soybean oil procurement volume. In 2013 and 2014, our soybean oil hedged positions were relatively small because we anticipated that the short-term and long-term soybean oil prices were trending down and our exposure to soybean oil price fluctuations was manageable. In 2015, we anticipated that the short-term and long-term soybean oil prices were trending up, and as a result, we increased our hedging activities.

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We are not obligated to pay the shortfall if the loss of the soybean oil futures contracts exceeds the deposit amount, in such event, the deposit will be forfeited and such soybean oil futures contracts will be terminated. During the Track Record Period, due to our prudent hedging strategy and policy, we did not experience any forfeiture of our deposit for soybean oil futures contracts. The maximum financial exposure on the outstanding positions of our soybean oil futures contracts as of each of the year end date during the Track Record Period were the deposit amount for soybean oil futures contracts we held at the respective date which were RMB32,000, nil and RMB0.9 million, respectively.

We believe that, during the Track Record Period, the intended purpose of our hedging activities was generally achieved and our hedging activities were overall effective.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Mr. Zhang and Ms. Shu, through ZYSP YIHAI, are interested in 47.76% of the total issued share capital of our Company (assuming all Series A Preferred Shares have been converted into our Shares on a one-for-one basis). On the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis, immediately following completion of the Capitalization Issue and the Global Offering, Mr. Zhang and Ms. Shu, through ZYSP YIHAI, will be interested in approximately 35.82% of our total issued share capital (assuming the Over-allotment Option is not exercised), or 34.53% of our total issued share capital (assuming the Over-allotment Option is exercised in full). As a result, following completion of the Capitalization Issue and the Global Offering, Mr. Zhang, Ms. Shu and ZYSP YIHAI will continue to be our Controlling Shareholders.

Mr. Zhang and Ms. Shu also directly held 68% interest in Jingyuan Investment, which indirectly held 56.25% interest in Shuhai Supply Chain. Shuhai Supply Chain was established in June 2014 and primarily engages in the provision of “one-stop-shop” supply chain services (including warehouse storage, logistics, and sales of food products) to catering service providers. For the two years ended 31 December 2014 and 2015, Shuhai Supply Chain recorded a total revenue of approximately RMB42.4 million and RMB145.2 million, respectively. Its gross profit amounted to approximately RMB4.9 million and RMB21.5 million, respectively, over the same period. We have entered into the Shuhai Sales Agreement with Shuhai Supply Chain, pursuant to which we sell hot pot soup flavoring products, hot pot dipping sauce products and compound condiment products to Shuhai Supply Chain for sales and distribution to its catering service clients. Under the Shuhai Sales Agreement, Shuhai Supply Chain shall not sell any third party manufactured products that are similar to ours. There is a clear delineation of businesses between our Group and Shuhai Supply Chain and Shuhai Supply Chain does not engage in any business which competes or is likely to compete, directly or indirectly, with our Core Business, and which requires disclosure under Rule 8.10 of the Listing Rules.

In addition, Mr. Zhang and Ms. Shu directly held 33.5% interest and indirectly held 50% interest (through Jingyuan Investment in which they held 68% interest) in Sichuan Haidilao. They also indirectly held 62.7% interest in Singapore Haidilao. Haidilao Group, being Sichuan Haidilao Group and Singapore Haidilao Group, is primarily engaged in the hot pot restaurant business among other ancillary businesses. There is a clear delineation of business between our Group and Haidilao Group and Haidilao Group does not engage in any business which competes or is likely to compete, directly or indirectly, with our Core Business, and which requires disclosure under Rule 8.10 of the Listing Rules. For further details of Haidilao Group and our relationship with Haidilao Group, see “— Our Relationship with Haidilao Group”.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

The Directors consider that our Group is capable of carrying out its business independently of our Controlling Shareholders and their close associates (including but not limited to Haidilao Group) for the reasons set out below.

Management Independence

Our Board consists of two executive Directors, four non-executive Directors and three independent non-executive Directors. Our senior management team comprises four members. Save as disclosed below, none of our Directors or members of senior management serves as directors or members of senior management in any close associates of our Controlling Shareholders.

Name	Position in our Company	Role in close associates of our Controlling Shareholders	
		Name of company	Position
Gou Yiqun (苟軼群)	Chairman and non-executive Director	Sichuan Haidilao ⁽¹⁾	director
		Shuhai Supply Chain ⁽²⁾⁽³⁾	chairman, director and general manager
		NEW HIGH LAO INTERNATIONAL INVESTMENT LTD. (“New High Lao”) ⁽⁴⁾ and Singapore Haidilao ⁽⁵⁾	director
		NEWPAI INTERNATIONAL INVESTMENT LTD. (“Newpai International”) ⁽⁶⁾	director
Zhang Yong (張勇)	non-executive Director	Sichuan Haidilao ⁽⁷⁾	chairman and director
		Jingyuan Investment ⁽⁸⁾⁽⁹⁾	chairman and director
		New High Lao ⁽⁴⁾ and Singapore Haidilao ⁽¹⁰⁾	director
		Newpai International ⁽⁶⁾ and NEWPAI LTD. ⁽¹¹⁾	director

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Name	Position in our Company	Role in close associates of our Controlling Shareholders	
		Name of company	Position
Shi Yonghong (施永宏)	non-executive Director	Sichuan Haidilao	director
		Jingyuan Investment ⁽⁸⁾ and Shuhai Supply Chain ⁽²⁾	director
		New High Lao ⁽⁴⁾ and Singapore Haidilao ⁽¹²⁾	director
		Newpai International ⁽⁶⁾	director
Pan Di (潘迪)	non-executive Director	Shuhai Supply Chain ⁽²⁾	director

Notes:

- (1) Mr. Gou also serves as a director, the general manager and/or the chief financial officer, as the case may be, in six subsidiaries of Sichuan Haidilao.
- (2) Shuhai Supply Chain is a limited liability company established in the PRC, in which Mr. Zhang and Ms. Shu are indirectly interested to the extent they exercise or control the exercise of 30% or more of the voting power at general meetings. Shuhai Supply Chain is a subsidiary of Jingyuan Investment, the details of which are set out in note (8) below, and is primarily engaged in the provision of “one-stop-shop” supply chain services to catering service providers.
- (3) Mr. Gou also serves as a director and the general manager in two subsidiaries of Shuhai Supply Chain.
- (4) New High Lao is an exempted company with limited liability incorporated in the Cayman Islands, in which Mr. Zhang and Ms. Shu are indirectly interested to the extent they exercise or control the exercise of 30% or more of the voting power at general meetings. New High Lao holds 100% interest in Singapore Haidilao.
- (5) Mr. Gou also serves as a director, a standing director and/or the chief financial officer, as the case may be, in a total of seven subsidiaries of Singapore Haidilao.
- (6) Newpai International is an exempted company with limited liability incorporated in the Cayman Islands, in which Mr. Zhang and Ms. Shu are indirectly interested to the extent they exercise or control the exercise of 30% or more of the voting power at general meetings. As of the Latest Practicable Date, Newpai International has not engaged in any business activity.
- (7) Mr. Zhang also serves as a director in a subsidiary of Sichuan Haidilao that is a limited liability company established in the PRC and is primarily engaged in food processing and logistics businesses.
- (8) Jingyuan Investment is a limited liability company established in the PRC, in which Mr. Zhang and Ms. Shu are directly interested to the extent they exercise or control the exercise of 30% or more of the voting power at general meetings. Jingyuan Investment is an investment holding company.
- (9) Mr. Zhang also serves as a director of Shuhai Supply Chain, a subsidiary of Jingyuan Investment, and a director and the manager of another subsidiary of Jingyuan Investment that is a limited liability company established in the PRC and is primarily engaged in property development business.
- (10) Mr. Zhang also serves as a director in a wholly owned subsidiary of Singapore Haidilao that is a limited liability company established in the PRC and is primarily engaged in hot pot restaurant business.
- (11) NEWPAI LTD. is an exempted company with limited liability incorporated in the BVI and a wholly owned subsidiary of Newpai International. As of the Latest Practicable Date, NEWPAI LTD. has not engaged in any business activity.
- (12) Mr. Shi also serves as a director in three subsidiaries of Singapore Haidilao.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Despite holding multiple positions as directors or members of senior management in Sichuan Haidilao and/or other close associates of our Controlling Shareholders, Mr. Zhang (one of our Controlling Shareholders), Mr. Gou, Mr. Shi and Mr. Pan are our non-executive Directors and therefore are not involved in the day-to-day management of our Company. They are primarily responsible for the formulation of the overall business strategies and participating in making major decisions of our Company as members of our Board.

Our Directors are of the view that our Company will function independently from our Controlling Shareholders for the following reasons:

- (i) our two executive Directors, namely Ms. Dang Chunxiang and Mr. Sun Shengfeng, responsible for the day-to-day operation of our business, do not hold any role as a director or member of senior management in any close associates of our Controlling Shareholders;
- (ii) none of our independent non-executive Directors and other members of our senior management hold any role as a director or member of senior management in any close associate of our Controlling Shareholders. Together with our two executive Directors, the majority of our Board is independent from our Controlling Shareholders. Decisions of the Board require the approval of a majority vote from the Board. Therefore, the Board is not under significant influence of our Controlling Shareholders and can manage the operation of our Company independently from our Controlling Shareholders;
- (iii) according to the Articles of Association, with respect to any matters of conflict or potential conflict of interest which involve a transaction between our Company and another company or entity to which a Director holds office, such Director shall abstain from voting and shall be excluded from the quorum. In addition, the Trademark License Agreements can only be terminated by Sichuan Haidilao with prior written consents of our independent non-executive Directors, and the review and adjustment of sales prices under the Master Sales Agreement, Shuhai Sales Agreement and Youdingyou Sales Agreement will be made by our independent non-executive Directors;
- (iv) we have appointed three independent non-executive Directors, comprising one-third of the total members of our Board, to provide a balance of the number of potentially interested and independent Directors with a view to promote the interests of our Company and the Shareholders as a whole. The independent non-executive Directors will be entitled to engage professional advisers at our cost for advice on matters relating to any potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates;
- (v) each of our Directors is aware of his/her fiduciary duties and responsibilities under the Listing Rules as a director, which require that he/she acts in the best interests of our Company and our Shareholders as a whole;
- (vi) where a Shareholders' meeting is held to consider a proposed transaction in which the Controlling Shareholders have a material interest, the Controlling Shareholders shall abstain from voting on the resolutions and shall not be counted towards the quorum for the voting; and

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- (vii) our Company has appointed Somerley Capital Limited as our compliance adviser, which will provide advice and guidance to our Group in respect of compliance with the applicable laws and Listing Rules including various requirements relating to Directors' duties and corporate governance.

Financial Independence

Our Group has an independent financial system. We make financial decisions according to our own business needs and neither our Controlling Shareholders nor their close associates intervene with our use of funds. We have opened accounts with banks independently and have not shared any bank account with our Controlling Shareholders or their close associates. We have made tax filings and paid tax independently of our Controlling Shareholders and their close associates pursuant to applicable laws and regulations. We have established an independent finance department as well as implemented sound and independent audit, accounting and financial management systems. We have adequate internal resources and credit profile to support our daily operations.

As of the Latest Practicable Date there was no outstanding loan granted by our Controlling Shareholders or their close associates to us and no guarantees provided for our benefit by our Controlling Shareholders or any of their close associates.

Based on the above, our Company considers there is no financial dependence on our Controlling Shareholders and their close associates.

Operational Independence

We engage in our operations independently, making and implementing operational decisions independently. We have obtained all material licenses and permits necessary for production in our own names and are not dependent upon our Controlling Shareholders or their close associates for any such licenses and permits. We have independent access to raw materials suppliers and logistics service providers, and have sufficient capital, production facilities, logistics facilities and employees to operate our business independently from our Controlling Shareholders and their close associates. For other aspects of our operational independence from our Controlling Shareholders and their close associates, see “— Our Relationship with Haidilao Group” below.

In addition, we have established our internal organizational and management structure which includes shareholders' meetings, our Board of Directors and other committees and formulated the terms of reference of these bodies in accordance with the requirements of the applicable laws and regulations, the Listing Rules and the Articles of Association, so as to establish a regulated and effective corporate governance structure with independent departments, each with specific areas of responsibilities.

Based on the above, our Directors are of the view that our Group is able to operate independently from our Controlling Shareholders and their close associates.

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OUR RELATIONSHIP WITH HAIDILAO GROUP

Background of Haidilao Group

Haidilao Group, being Sichuan Haidilao Group and Singapore Haidilao Group, is primarily engaged in the hot pot restaurant business, among other ancillary businesses. Sichuan Haidilao was founded in 1994 in the PRC by Mr. Zhang, together with Ms. Shu, Mr. Shi Yonghong and Ms. Li Haiyan. As Sichuan Haidilao's operations expanded over the years, Singapore Haidilao was incorporated in 2013 with the aim to extend the hot pot restaurant business to overseas markets. Over the past two decades, Haidilao Group has developed into the largest Chinese hot pot restaurant chain and the No. 1 Chinese cuisine restaurant company in China in terms of sales value in 2014 and 2015, according to Frost & Sullivan. Over 50 million customers dining at Haidilao hot pot restaurants in 2015 and 8.6 million of them were with Haidilao Group's memberships. It was recognized as one of the Top 10 Famous Chinese Hot Pot Brands for the Year 2014 by China Cuisine Association. The Trademark Office of SAIC has also designated "Haidilao" ("海底撈") as a well-known trademark ("馳名商標") in 2011.

In 2013, 2014 and 2015, Haidilao Group owned 93, 111 and 142 hot pot restaurants in 24, 29 and 39 cities across China, respectively, and owned two, four and seven hot pot restaurants in two, three and five overseas locations, respectively. Haidilao Group plans to open 68 hot pot restaurants in 51 cities across China and two overseas locations in 2016; out of these 51 cities, 24 are cities in which Haidilao Group does not currently operate hot pot restaurants. Haidilao Group plans to open (i) 68 hot pot restaurants in the PRC and three hot pot restaurants in overseas locations in 2017, (ii) 74 hot pot restaurants in the PRC (20 in the first half of 2018 and 54 in the second half 2018) and five hot pot restaurants in overseas locations (two in the first half of 2018 and three in the second half 2018) in 2018, and (iii) 80 hot pot restaurants in the PRC and five hot pot restaurants in overseas locations in 2019. As of the Latest Practicable Date, in 2016, Haidilao Group has opened seven restaurants in six cities in China, closed three restaurants in three cities in China, and has entered into 21 lease agreements in 20 cities in China and one overseas location in Singapore for planned restaurant openings. As of the Latest Practicable Date, Haidilao Group owned 146 hot pot restaurants in 41 cities in the PRC and seven hot pot restaurants in Taiwan, Singapore, the United States, South Korea and Japan. In light of the public holidays in the first half of year (such as new year, Chinese new year and Labour Day) and the seasonality of the industry, Haidilao Group indicated that it typically opened new hot pot restaurants in the second half of year in recent years, and that it is in the course of building up the management teams and identifying locations for its other new hot pot restaurants.

For the three years ended 31 December 2013, 2014 and 2015, Sichuan Haidilao Group recorded a total revenue of approximately RMB4,350.5 million, RMB4,990.7 million and RMB5,084.7 million, respectively. Its gross profit amounted to approximately RMB2,936.3 million, RMB3,280.2 million and RMB3,097.7 million, respectively, over the same period. For the three years ended 31 December 2013, 2014 and 2015, Singapore Haidilao Group recorded a total revenue of approximately US\$12.9 million, US\$98.1 million and US\$275.3 million, respectively. Its gross profit amounted to approximately US\$8.6 million, US\$63.3 million and US\$178.9 million, respectively, over the same period.

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Delineation of Business between Haidilao Group and us

We were founded as an internal supplier of hot pot soup flavoring products to Haidilao Group in 2005, when Sichuan Haidilao established its Chengdu Branch. Subsequently, Sichuan Haidilao supplemented the Chengdu Branch's production and sales capabilities by establishing a number of branches and a subsidiary. These branches and subsidiary not only provided internal supply of Compound Condiments to Haidilao Group in China, but, with gradual expansion, also offered Compound Condiments to catering service providers and third-party distributors. Through third-party distributors, our Compound Condiments were sold at retailers including supermarkets, grocery stores, neighborhood stores and butcher shops. To optimize the corporate structure for future development and to more readily access the international capital market, Sichuan Haidilao injected the Core Business, together with the corresponding assets and liabilities, into our Group (for further details, see "Our History, Reorganization and Corporate Structure — Reorganization"). Since completion of the Reorganization, Haidilao Group no longer engages in the production and sales of Compound Condiments (except for sales of Haidilao Retail Products manufactured by us). We engage in the Core Business, being the manufacturing, distribution and sales, as well as research and development, of Compound Condiments, while Haidilao Group continues to carry out its hot pot restaurant business and ancillary businesses such as sales of fresh food and food processing, storage and delivery services. Accordingly, there is a clear delineation of business between our Group and Haidilao Group and Haidilao Group does not engage in any business which competes or is likely to compete, directly or indirectly, with the business of our Group, and which requires disclosure under Rule 8.10 of the Listing Rules.

Mutual and Complementary Relationship

We have entered into a number of agreements with Haidilao Group that, together, constitute the framework for our continued long-term, stable and mutually beneficial business relationship. These agreements, made on arms' length basis, cover both the provision of certain services by Haidilao Group to us, and the sales of our products to Haidilao Group. As a result of these contractual arrangements, Haidilao Group continues to be our largest customer, and we continue to be their sole supplier of hot pot soup flavoring products in China. This strong alignment of interests enables us to grow alongside Haidilao Group's anticipated expansion, while we maintain and extend our diversified customer base through new and broadened distribution channels, geographical expansion and the development and launching of new products. As of 31 December 2015, out of the 56 products under our three major product lines, 22 products were customized for exclusive supply to Haidilao hot pot restaurants, and 34 products were developed and produced for the retail market.

Our contractual arrangements with Haidilao Group

Along with our Reorganization, we have entered into a number of agreements with Haidilao Group, including: the Master Sales Agreement, the Trademark License Agreements, the Chengdu Lease Agreement and the Haidilao Warehouse Storage Service Agreement. The Master Sales Agreement governs the sales of our Haidilao Customized Products, for use at Haidilao hot pot restaurants in China, and Haidilao Retail Products, for display and sales to consumers at Haidilao hot pot restaurants. The Trademark License Agreements grant us exclusive use of certain trademarks of Class 30 on a royalty-free basis. The Chengdu Lease Agreement governs our rental of properties and

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fixtures from Haidilao Group for production and storage of products manufactured for Haidilao Group. The Haidilao Warehouse Storage Service Agreement governs the provision of warehousing and related logistics services from Haidilao Group to us. These agreements are all automatically renewable and without grounds of termination by Haidilao Group. Below are further details regarding each agreement:

- **Master Sales Agreement**

Pursuant to the Master Sales Agreement dated 24 June 2016, entered into among Sichuan Haidilao, Singapore Haidilao, and our wholly owned subsidiary, Yihai Shanghai, each for itself and on behalf of its subsidiaries, we are the sole supplier of hot pot soup flavoring products customized for Haidilao Group for use in its hot pot restaurants in China. Under the Master Sales Agreement, Haidilao Group may only engage other suppliers in the event that we are unable to satisfy the quantity of products demanded, after discussion with us and upon obtaining our written consent.

The Master Sales Agreement has a term of three years from 1 January 2016 to 31 December 2018. Subject to compliance with applicable laws and regulations (including but not limited to the Listing Rules) and requirements of securities regulatory authorities, the Master Sales Agreement may be automatically renewed for a further term of three years from time to time, unless: (i) Yihai Shanghai notifies Sichuan Haidilao and Singapore Haidilao to the contrary with one month's written notice prior to the expiry of the term of the Master Sales Agreement; (ii) the parties agree in writing to terminate the Master Sales Agreement during its term; or (iii) the Master Sales Agreement is terminated as required by applicable laws, regulations, requirements of securities regulatory authorities, or judgment or decision of any competent court. Upon renewal of the Master Sales Agreement, the parties may amend the terms of the Master Sales Agreement based on the then prevailing circumstances and our Group will re-comply with the applicable disclosure and/or independent shareholders' approval and other requirements under the Listing Rules.

Sales of Compound Condiments to Haidilao Group are made through individual orders specifying the type of product, purchase volume, sales price, delivery date, etc. The sales prices of Haidilao Customized Products and Haidilao Retail Products are determined by the parties after arm's length negotiations. Taking into account historical data and forecasted estimates, our independent non-executive Directors regularly review and reassess the sales prices to Haidilao Group semi-annually. Where appropriate, we adjust the sales prices to maintain a net profit margin for sales of Haidilao Customized Products same as that for our sales to independent third party distributors, in order to achieve fair and reasonable pricing. We also adjust sales prices of Haidilao Retail Products if there is any significant change in the cost incurred in connection with the production of the same.

Under the Master Sales Agreement, Haidilao Group licenses to us and our contract manufacturers, on a royalty free basis, the rights to use Haidilao Group Formulas in manufacturing Haidilao Customized Products. Haidilao Group owns the proprietary rights to the Haidilao Group Formulas, which are not patented but are protected through trade secrets law and confidentiality arrangements. The Master Sales Agreement requires us to keep confidential the Haidilao Group Formulas and, save for where we have obtained Haidilao Group's written consent, prohibits us from selling products that use these formulas to any of Haidilao Group's competitors that is primarily engaged in the hot pot business in China and has a market share of more than 0.5%. For any upgrades

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and developments in the Haidilao Group Formulas made through the joint efforts of Haidilao Group and us, Haidilao Group will own the proprietary rights and we and our contract manufacturers will be entitled to use such upgraded formulas for production of products we sell to Haidilao Group. For any upgrades and developments in Haidilao Group Formulas made through our own efforts, we will own the proprietary rights of such upgraded formulas unless otherwise agreed between the parties.

For further details of the Master Sales Agreement, see “Business — Sales and Marketing — Sales to Haidilao Group and Its Affiliates” and “Connected Transactions — Non-exempt Continuing Connected Transactions — C. Sales and Distribution — 1. Master Sales Agreement”.

- **Trademark License Agreements**

Pursuant to the Trademark License Agreements entered into between Sichuan Haidilao and our wholly owned subsidiary, Yihai Shanghai, Sichuan Haidilao agreed to license certain trademarks for use in relation to condiment products (Class 30) which have been or are being registered by Sichuan Haidilao in the PRC (the “**Licensed Trademarks**”) for our exclusive use on a royalty-free basis, for a perpetual term commencing from 1 January 2007 to the extent permissible under the Listing Rules, relevant laws and regulations. The Trademark License Agreements further provide that Sichuan Haidilao cannot terminate the agreements without prior written consent of our independent non-executive Directors, safeguarding our continuous use of the trademarks. Unless any force majeure event occurs, if Sichuan Haidilao unilaterally terminates the Trademark License Agreements, we are entitled to sue for specific performance or damages for breach of contract under PRC laws. The Trademark License Agreements do not specify the amount of damages. The Licensed Trademarks include “Haidilao (vertical)” (“海底撈(豎版)”) and 11 other trademarks, which we use in marketing materials as well as the packaging of our products to both Haidilao Group and other customers.

We believe that the Trademark License Agreements adequately protect our interests, considering that they: (i) are of a perpetual term commencing from 1 January 2007 subject to the conditions set out above, (ii) are made on a royalty-free basis, and (iii) cannot be terminated by Haidilao Group without prior written consent of our independent non-executive Directors. As Haidilao Group also uses the relevant trademarks registered under other classes in their usual business operations (primarily Class 43 in relation to catering services), transfer of the Licensed Trademarks (i.e. Class 30) to us is likely to be rejected by the relevant authorities on the basis that usage of same or similar trademarks by different owners may lead to confusion. Further, transfer of the relevant trademarks of all the registered classes to us would be commercially inefficient and costly. In light of Haidilao Group’s own usage, such transfer would necessarily involve our licensing of the same trademarks to Haidilao Group. Considerable transactional costs may also be incurred by us at different stages of any proposed transfer, including the negotiation of transfer and licensing terms and execution of transfer of rights. The Trademark License Agreements secure our exclusive rights to use the Licensed Trademarks in our production and sales in a cost-efficient and sustainable manner. We also believe that it is in the interests of both Haidilao Group and us to maintain the licensing of Licensed Trademarks by Haidilao Group to us in light of the aligned interest, see “— Our Relationship with Haidilao Group — Mutual and Complementary Relationship — The interests of our Group and Haidilao Group are aligned”.

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For further details of the Trademark License Agreements, see “Business — Intellectual Property — Trademark License from Haidilao Group” and “Connected Transactions — Exempt Continuing Connected Transactions — 1. Trademark License Agreements”.

- **Chengdu Lease Agreement**

Pursuant to the Chengdu Lease Agreement and the supplemental agreement dated 1 December 2015 and 5 January 2016 respectively, entered into between Sichuan Haidilao and our wholly owned subsidiary, Chengdu Yueyihai, Sichuan Haidilao agreed to lease a parcel of land together with properties and fixtures thereon for our production of Compound Condiments for sale to Haidilao Group. The Chengdu Lease Agreement also provides for the lease of warehouses for Compound Condiments we produce for sale to Haidilao Group. The Chengdu Lease Agreement has a term of three years commencing from 1 January 2016 and, subject to compliance with Listing Rules and applicable laws and regulations, may be renewed for a further term of three years from time to time. The Chengdu Lease Agreement does not provide for any grounds of termination by Sichuan Haidilao.

For further details of the Chengdu Lease Agreement, see “Connected Transactions — Non-exempt Continuing Connected Transactions — A. Property Lease — 1. Chengdu Lease Agreement”.

- **Haidilao Warehouse Storage Service Agreement**

Pursuant to the Haidilao Warehouse Storage Service Agreement dated 24 June 2016, entered into between Sichuan Haidilao and our wholly owned subsidiary, Yihai Shanghai, each for itself and on behalf of its subsidiaries, Sichuan Haidilao Group agreed to provide warehousing facilities and related services, including sorting process management, stock-taking and other logistics services, to our Group for products we sell to Haidilao Group. The Haidilao Warehouse Storage Service Agreement has a term of three years commencing from 1 January 2016 and, subject to compliance with Listing Rules and applicable laws and regulations, may be renewed for a further term of three years from time to time. The Haidilao Warehouse Storage Service Agreement does not provide for any grounds of termination by Sichuan Haidilao.

For further details of the Haidilao Warehouse Storage Service Agreement, see “Connected Transactions — Non-exempt Continuing Connected Transactions — B. Warehouse Storage — 1. Haidilao Warehouse Storage Service Agreement”.

As further disclosed in “Connected Transactions”, our Directors are of the view that (i) the continuing connected transactions under the Master Sales Agreement, Trademark License Agreements, Chengdu Lease Agreement and the Haidilao Warehouse Storage Service Agreement have been entered into in the ordinary and usual course of business of our Group; and (ii) the terms of such transactions have been negotiated on an arms’ length basis, on normal commercial terms, are fair and reasonable, and are in the interests of our Shareholders as a whole. We will comply with the applicable annual review, announcement and/or independent shareholders’ approval requirements under the Listing Rules.

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The interests of our Group and Haidilao Group are aligned

Both prior to and following the Reorganization, we are the sole supplier of hot pot soup flavoring products to Haidilao Group in China, playing a pivotal role in ensuring stable supply at competitive prices, whilst maintaining both quality and food safety control. Haidilao Group is our single largest customer. We are also party to a number of other arrangements with Haidilao Group, including the exclusive licensing of its trademarks of “Haidilao (vertical)” (“海底捞(豎版)”), “Laopai (black)” (“捞派(黑色)”) and “Laopai Xiaochu” (“捞派小厨”), the lease of properties in Chengdu and the provision of warehousing facilities and related services. Substantially all the ultimate shareholders of Haidilao Group are together interested in 78.10% of the total issued share capital of our Company prior to the completion of the Capitalization Issue and the Global Offering (or approximately 58.58% upon completion of the Capitalization Issue and the Global Offering, on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised). As further illustrated below, our Directors believe that the commercial interests of our Group and Haidilao Group are strongly aligned and it is in the interests of both our Group and Haidilao Group to maintain the stable relationship.

- **We are the sole supplier of hot pot soup flavoring products to Haidilao Group in China**

As disclosed in “— Mutual and Complementary Relationship” above, we have been and continue to be the sole supplier of hot pot soup flavoring products to Haidilao Group in China. The Master Sales Agreement between Haidilao Group and us has a term of three years from 1 January 2016 and shall be automatically renewed for a further term of three years from time to time, subject to compliance with Listing Rules and applicable laws and regulations. Furthermore, there is no termination ground under the Master Sales Agreement pursuant to which Haidilao Group may unilaterally terminate the agreement. We believe these provisions serve as safeguards in maintaining the continuous long-term cooperation between Haidilao Group and us.

While Haidilao Group may only engage other suppliers to produce hot soup flavoring products in the event that we are unable to satisfy the quantity of products demanded by it, Haidilao Group has agreed that it will only do so after discussion with us and upon obtaining our consent. We believe we are able to satisfy the quantity of products demanded by Haidilao Group by leveraging our own production capabilities and our relationship with contract manufacturers. We have our own production capabilities located in Zhengzhou, Henan Province and Chengdu, Sichuan Province, both of which are expected to have production capacity to cater for additional demand from Haidilao Group. We also engage third-party manufacturers to produce hot pot dipping sauce products and vegetable-oil-based hot pot soup flavoring products. Furthermore, we intend to expand our production facilities by constructing our Bazhou Production Base located in Bazhou, Hebei Province, the Phase I of which is expected to be completed by the first half of 2018 with a designed annual production capacity of approximately 35,000 tons. For further details, see “Business — Our Production — Our Production Facilities” and “Business — Our Production — Contract Manufacturers”.

We are committed to remain as a valued business partner of Haidilao Group. To that end, we have maintained a dedicated research and development team that formulates and upgrades product formulas based on market information and data it regularly collects and analyzes. The team also upgrades the

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Haidilao Group Formulas independently or jointly with Haidilao Group. We have continuously improved the hot pot soup flavoring formulas for Haidilao Group to meet its customers' evolving taste. Furthermore, our research and development team works closely with our production team in optimizing the manufacturing process to enhance product quality and production efficiency.

We believe that over the past decade, the consistent high quality of our products, our adherence to stringent food safety control, maintenance of stable supply and competitive prices have contributed to the success of Haidilao Group. Accordingly, in addition to the above contractual arrangements that ensure a stable relationship between Haidilao Group and us, we believe it would be commercially uneconomical for 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) our dominant market share (particularly in the mid- to high-end hot pot soup flavoring market), (ii) our long-standing position for over a decade as the sole supplier of hot pot soup flavoring products to Haidilao Group in the PRC and (iii) the time and costs devoted by both Haidilao Group and us to formulate, develop, and monitor compliance with food safety and quality control requirements of hot pot soup flavoring products supplied to Haidilao Group. Such alternative suppliers may not be able to achieve our production capacity or duplicate our cost structure within a short period of time, which may increase the operational costs of Haidilao Group. The stability in supply and quality of Haidilao Group's hot pot soup flavoring products may also be affected, jeopardizing Haidilao Group's reputation and, consequently, revenue. We believe the time, cost and uncertainty in connection with a change of Haidilao Group's supplier pose a significant entry barrier and effectively discourage Haidilao Group from turning to alternative suppliers.

- **Haidilao Group is our largest customer**

Haidilao Group's substantial volume of demand was an important factor that accelerated our success as the largest mid- to high-end hot pot soup flavoring manufacturer in China as measured by realized sales value in 2015, according to Frost & Sullivan. Our revenue from sales attributable to Haidilao Group accounted for 57.2%, 55.6% and 54.0% of our total revenue for the three years ended 31 December 2013, 2014 and 2015, respectively, and our sales volume to Haidilao Group accounted for 68.5%, 61.9% and 55.0% of our total sales volumes during the same periods, respectively. Revenue from sales of hot pot soup flavoring products attributable to Haidilao Group accounted for 65.9%, 64.6% and 63.6% of our total revenue from sales of hot pot soup flavoring products during the same periods, respectively. In contrast, revenue from sales of our hot pot dipping sauce products and Chinese-style compound condiment products attributable to Haidilao Group only made insignificant contribution to our total revenue from those product lines during the Track Record Period. Our new pricing policy for our sales to Haidilao Group was adopted in August 2014 and subsequently amended in January 2016. For further details, see "Business — Sales and Marketing — Pricing Policy — Pricing for Sales to Haidilao Group and its Affiliates". The change of our pricing policy with respect to sales to related parties had significantly affected our result of performance, particularly our revenue, gross profit and net profit during the Track Record Period and we may not be able to increase the price of our products sold to related parties at similar rates in the future, our historical results may not be reflective of our future performance and we may not be able to maintain similar rates of growth in the future. See "Summary — Pricing for our Sales to Related parties" and "Risk Factors — Risks Relating to Our Business and Our Industry — We have experienced rapid growth in a relatively short period of time and may not be able to maintain similar rates of growth in the future".

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The following table sets forth an analysis illustrating the impact of changes on pricing policy for related parties sales on our revenue, gross profit and net profit during the Track Record Period, assuming all other variables remain unchanged.

	2013			2014			2015		
	Revenue	Gross Profit	Net Profit	Revenue	Gross Profit	Net Profit	Revenue	Gross Profit	Net Profit
(Unaudited, RMB in thousands, except for percentages)									
Assuming there was no change on pricing policy for related parties sales during the Track Record Period	315,863	69,416	22,064	485,464	106,711	32,935	765,457	212,351	63,299
(Decrease) from our audited financial performance	N/A	N/A	N/A	(2.6%)	(10.7%)	(22.5%)	(9.7%)	(27.8%)	(49.2%)
Assuming new pricing policy for related parties sales implemented since August 2014 was adopted at the beginning of the Track Record Period	355,145	108,698	51,526	542,539	163,786	75,741	847,339	294,233	124,547
Increase from our audited financial performance	12.4%	56.6%	133.5%	8.9%	37.1%	78.2%	N/A	N/A	N/A

During the Track Record Period, the volume of products we sold to Haidilao Group had been increasing in line with the growth of business of Haidilao Group. We expect our sales to Haidilao Group to continue to rise as a result of the anticipated expansion of Haidilao Group's restaurant chain across China and around the globe. We believe the growth of Haidilao Group is driven by the following factors:

Growing per capita disposable income and urbanization and changing consumer lifestyle

As a result of China's robust economic growth and increasing disposable income, the number and frequency of consumers dining out in China have increased. There is increased dining out for family and friend gatherings not only during the important holidays or anniversaries, but also on weekends or for ad hoc parties, largely because of increasing affluence and the importance of family in Chinese culture. In addition, due to China's accelerating urbanization and significant increase in population mobility, Chinese consumers are increasingly receptive to a wider range of cuisine types. In particular, hot pot cuisine has gained an increasing popularity among Chinese consumers primarily due to its enticing flavor and taste, its ability to incorporate local species and ingredients as well as its interactive dining experiences that offers a friendly environment for family and friends gatherings and business entertainment.

Increasing trend towards chained restaurants outlets

In recent years, Chinese consumers are placing increasing importance on food safety and quality, health and wellness, cuisine flavor and tastes, as well as dining environment and service. Chained restaurants also typically have better back-end infrastructure, IT systems and stronger investment on

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food safety and control over their supply chains. Thus, chained restaurants have become more popular among consumers. In addition, “Standardization” is a critical feature to market success for hot pot restaurant chains. Establishment of central kitchens is gaining popularity among leading chain brands as it helps ensure the consistent quality of food. The use of central kitchens helps Haidilao Group ensure the consistent quality of food and timeliness of delivery across different locations, manage its inventory and facilitate greater efficiency through greater economies of scale.

Brand names and reputation

Stronger purchasing power has allowed Chinese consumers to be more conscious about food safety and health issues, and to be increasingly discerning the brand and reputation of the restaurants. “Haidilao” (海底捞) brand not only helps differentiate Haidilao Group’s cuisine and services from other dining options, but also attracts a large and loyal customer base. “Haidilao” (海底捞) brand has also enabled Haidilao Group to develop a number of competitive advantages, including higher entry barrier for its competitors in geographic regions where it has established strong presence, comprehensive local knowledge to identify desirable restaurant locations, strong bargaining power to negotiate and secure favorable lease terms with landlords of desirable restaurant locations, as well as the abilities to establish long-term relationships with quality suppliers and attract and retain experienced management staff and other employees.

We are aware that Haidilao Group as well as our other customers could be subject to one or more of the following risks: (i) the success of our catering service clients and restaurants customers largely depend on consumers’ perception of the hygiene, safety and quality of the food served and of the restaurant as a whole; (ii) the slowdown of China’s economic growth may adversely impact on the operation and business growth of our catering service clients and the level of consumption of our customers in general; (iii) our catering service clients may not successfully execute their growth plans and strategies; (iv) the Chinese consumers’ growing health consciousness may reduce their willingness to enjoy hot pot cuisines, which is often perceived to contain substantial amounts of oil, salt and other artificial additives; and (v) the Chinese government’s tightened regulations on food safety may significantly increase the operational cost of our catering service clients and restaurants customers. Materialization of one or more of these risks may affect the businesses and in turn demand for our products of Haidilao Group and/or our other customers, which may have a material adverse impact on our operations and financial conditions.

In the event that the demand for our hot pot condiments from Haidilao Group decreases significantly, we would solicit business from other customers utilizing our own formulas or formulas provided by customers, and expand our business by leveraging our production know-how, industry experience and existing network. In addition to the 22 products produced exclusively for Haidilao hot pot restaurants, we have a diversified product portfolio with 34 products being offered to retail market. We also have an extensive distribution network that enables us to market and sell our products to consumers through both physical and e-commerce channels in domestic and overseas markets. Furthermore, through our years of experience in serving Haidilao Group, we have accumulated extensive knowledge of China’s catering service industry. We possess market-oriented and solid

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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.

- **We engaged Haidilao Group to provide warehouse storage services**

As disclosed in “— Mutual and Complementary Relationship”, we have been using warehouses operated by branches and subsidiaries of Sichuan Haidilao for storage of products we sell to Haidilao Group. The geographic coverage of these warehouses as regional hubs and the engagement of personnel from Haidilao Group allow us to meet Haidilao's PRC based hot pot restaurants' demand for our products in an efficient and stable manner.

The Haidilao Warehouse Storage Service Agreement between Sichuan Haidilao Group and us has a term of three years commencing from 1 January 2016 and shall be renewed for a further term of three years from time to time, subject to compliance with Listing Rules and applicable laws and regulations. It does not provide for any grounds of termination by Sichuan Haidilao. Considering these protective provisions and the fact that such arrangements are in both parties' interest, we believe Haidilao Group and us would maintain a long-term collaboration in this regard.

During the Track Record Period, the storage service fees we paid to Haidilao Group were nil, RMB0.8 million and RMB2.9 million, respectively, representing nil, 9% and 22% of the total logistics and storage service fees incurred by us during the same period. We believe that even if we switch to third party service providers, we would be able to secure similar services at comparable rates.

For further details of our logistics arrangements, see “Business — Logistics”.

We have a diversified customer base

Although Haidilao Group is expected to remain a key customer of our Group, since our inception as Haidilao Group's internal supplier, we have evolved into a leading compound condiment manufacturer in China, primarily focused on the mid- to high-end segment of the Chinese hot pot condiment market, as further discussed in “Business”. In addition to Haidilao Group and its affiliates, we also sell our products to distributors (who in turn resell our products to sub-distributors and retailers) and third-party catering service providers. We have successfully established and developed our third-party customer base. For the three years ended 31 December 2013, 2014 and 2015, revenue from sales to third-party customers was RMB135.2 million, RMB219.8 million and RMB382.2 million, respectively, representing a year-on-year increase of 62.6% and 73.9%, respectively. Our sales to third-party customers as a proportion of our total sales have also been increasing steadily. For the three years ended 31 December 2013, 2014 and 2015, revenue from sales to third-party customers accounted for 42.8%, 44.1% and 45.1% of our total revenue, respectively, with a sales volume accounting for 31.4%, 37.7% and 44.0% of our total sales volume, respectively. We are able to accommodate an increase in demand from third-party customers, with minimal adjustments to our existing production facilities and our production team, within a reasonably short period of time and at nominal costs.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

We have established an extensive and fast-growing distribution network. The number of our distributors rapidly increased from 116 in 2013, to 212 in 2014 and 339 in 2015. We generally contract with our independent distributors on an annual basis and have maintained stable business relationships with our distributors. As of 31 December 2015, our distribution network extended to 31 provincial territories, all first-tier cities, 28 second-tier cities and 134 third- and fourth-tier cities in China as well as 11 overseas countries and markets, covering over 6,000 hypermarkets and supermarkets, including Walmart and Carrefour, and traditional retail channels, such as grocery stores, neighbourhood stores, and butcher shops. We began exploring overseas markets in 2015 and expanded our distribution network to 11 overseas countries and regions in North America, Europe and Asia. Our physical distribution network is supplemented by nine e-commerce channels, including Tmall.com and JD.com. For further details, see “Business — Sales and Marketing”. We intend to enlarge our distribution network by further penetrating into third- and fourth-tier cities and rural regions in China, and into overseas markets, especially those within North America, Europe and Southeast Asian regions.

As a supplier to catering service providers, we have been manufacturing customized compound condiment products for third-party catering service providers since March 2015. We also supply products manufactured for the retail market to catering service providers. We have established and developed our customer base amongst catering service providers and the number of our catering service clients has increased at a steady rate from 10 in 2013, to 10 in 2014 and 17 in 2015. We plan to expand our customized services and products to a greater number of catering service providers by actively marketing our robust production capabilities, developing tailored formulas, and manufacturing customized products pursuant to catering service providers’ specific requirements.

Furthermore, while we produce 22 hot pot soup flavoring products customized for exclusive supply to Haidilao Group, we developed and produce 16 hot pot soup flavoring products for retail markets. In addition to hot pot soup flavoring products, our retail product lines also include nine hot pot dipping sauce products and nine Chinese-style compound condiment products. For the years ended 31 December 2013, 2014 and 2015, revenue generated from hot pot dipping sauce products accounted for approximately 2.9%, 2.6% and 4.9% of our total revenue, respectively, and the revenue generated from Chinese-style compound condiment products accounted for approximately 13.0%, 13.2% and 11.2% of our total revenue, respectively. Our Chinese-style compound condiment products such as spicy stir-fry pot and pickles and fish stew condiments have experienced rapid growth since their launch. For instance, revenue from our sales of spicy stir-fry pot condiment products increased rapidly from RMB27.4 million in 2013 to RMB73.6 million in 2015. We endeavor to continue to broaden and optimize our product portfolio with the aim of increasing the proportion of revenue from Chinese-style compound condiment products, the sales of which are less affected by seasonality as compared to that of hot pot condiment products. For further details of the seasonality that sales of our products are subject to, see “Financial Information — Major Factors Affecting Our Results of Operations — Seasonality”.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Accordingly, while revenue from Haidilao Group is expected to increase in line with its continuous expansion and growth in China and around the globe, we expect that the revenue contribution from Haidilao Group as a percentage of our total revenue will remain at approximately the same level in the near future and will decrease over time. We expect such decrease due to the expected faster growth in sales of our products to third-party customers as a result of our active marketing efforts, our continuous expansion of distribution networks, as well as the launch of new products in the Chinese-style compound condiment product line.

Based on the above, our Directors are of the view that our Group is able to operate independently from Haidilao Group.

NON-COMPETITION UNDERTAKING

Each of our Controlling Shareholders has provided a non-competition undertaking on 25 June 2016 (the “**Non-competition Undertaking**”), pursuant to which each of our Controlling Shareholders has unconditionally and irrevocably undertaken that it will not, and will procure its close associates (except any member of our Group) not to, whether directly or indirectly, through or by facilitation of third parties, engage in any business that competes, or is likely to compete, directly or indirectly with our Group (the “**Restricted Business**”).

In addition, under the Non-competition Undertaking, each of our Controlling Shareholders unconditionally and irrevocably granted us the option to acquire new business opportunities, options for acquisitions, and pre-emptive rights in respect of the Restricted Business.

Our Company has unconditionally and irrevocably undertaken that it will not, and will procure its subsidiaries not to, whether directly or indirectly through third parties, engage in hot pot restaurant business that competes with our Controlling Shareholders.

Options for New Business Opportunities

Each of our Controlling Shareholders has unconditionally and irrevocably undertaken in the Non-competition Undertaking that:

- (a) within 20 business days of it becoming aware of any new business opportunity in the Restricted Business that is being offered to it (a “**New Business Opportunity**”), it will notify us in writing and provide to us all information reasonably required by us to make a decision on whether or not to engage in such business opportunity, including but not limited to the nature and details of the new business, as well as cost of acquisition (the “**Offer Notice**”). It is obliged to use its best efforts to procure that such opportunity is first offered to us on terms that are fair and reasonable and no less favorable than those terms first offered to it. It shall not engage, participate or hold any right or interest in any New Business Opportunity until the earlier of: (i) a written notice from us declining the offered opportunity, or (ii) our failure to respond within 20 business days, which may be extended by an additional 30 business days at our request, of our receipt of the Offer Notice; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (b) it shall procure that its close associates first offer to us any New Business Opportunity offered to them on the same terms to which they are subject, in accordance with the same procedures described in item (a) above.

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to take up any New Business Opportunity referred to us by our Controlling Shareholder(s) or their respective close associate(s). Within seven business days of receipt of an Offer Notice, we will notify our independent non-executive Directors for their consideration. We will disclose in our annual report and make an announcement in due course on any decision to pursue or decline any New Business Opportunity and the basis of such decision.

Options for Acquisition

In relation to any New Business Opportunity which has been offered to but has not been taken up by us, and has been retained by our Controlling Shareholder(s) or any of their close associate(s), each of our Controlling Shareholders has granted us the option and has agreed to procure its close associates to grant us the option (as the case may be) to purchase any equity interest, assets or other interests which form part of the new business, in accordance with applicable laws and regulations, the articles of association, shareholders' agreements and shareholders' undertaking of our Controlling Shareholder(s) or their close associate(s) (as the case may be) or any pre-emptive rights of third parties. The consideration and other terms for the acquisition of the new business will be determined after arm's length negotiation between our Controlling Shareholder(s) or their close associate(s) (as the case may be) and us.

Our independent non-executive Directors will be responsible for regularly reviewing, considering and deciding whether or not to exercise the options for acquisition.

Pre-emptive Rights

Each of our Controlling Shareholders has unconditionally and irrevocably undertaken that if it or any of its close associates intends to transfer, sell, lease, license or by any other means transfer or grant the right to any New Business Opportunity which has been offered to but has not been taken up by us, and has been retained by our Controlling Shareholders or any of their close associates (the "**Proposed Transaction**"), then we shall have the pre-emptive right to be offered the Proposed Transaction on the same terms as, and before or at the same time of, the offer of the Proposed Transaction to any third party, in accordance with applicable laws and regulations, the articles of association, shareholders' agreements and shareholders' undertaking of our Controlling Shareholder(s) or their close associate(s) (as the case may be). It shall notify us of the Proposed Transaction by written notice (the "**Selling Notice**"), which shall attach the terms of the Proposed Transaction and all information reasonably required by us to make a decision on whether or not to exercise our pre-emptive right. Our Controlling Shareholder(s) or any of their close associates (as the case may be) shall not engage or participate in any Proposed Transaction with any third party until the earlier of: (i) a written notice from us declining to exercise our pre-emptive right, or (ii) our failure to respond within 20 business days, which may be extended by an additional 30 business days at our request, of our receipt of the Selling Notice.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to exercise our pre-emptive rights. Within seven business days of receipt of a Selling Notice, we will notify our independent non-executive Directors and furnish them with necessary information for their consideration.

If we decide to exercise our pre-emptive right, the terms will be determined between the relevant Controlling Shareholder(s) or their close associate(s) (as the case may be) and us, in accordance with applicable laws and regulations and principles of fairness and reasonableness.

Any exercise of such options and pre-emptive rights described above would constitute connected transactions as defined under the Listing Rules and would be subject to the applicable disclosure and/or independent Shareholders' approval requirements under the Listing Rules. Under the Non-competition Undertaking, each of our Controlling Shareholders has undertaken that:

- (a) it will unconditionally and irrevocably commit to, and procure its close associates to, provide us with the necessary information required for ascertaining the enforcement and compliance of the Non-competition Undertaking, including annual confirmation of our Controlling Shareholders' and their close associates' compliance and enforcement of the Non-competition Undertaking, which includes whether our Controlling Shareholders and their close associates have given priority in offering us New Business Opportunities and other confirmations that our independent non-executive Directors consider appropriate;
- (b) it will allow us to disclose the details of the Non-competition Undertaking to any legal, regulatory or securities exchange authorities, including but not limited to disclosures required for the Listing; and
- (c) it will not, without our prior written consent, make any public announcement regarding, or provide or disclose to any company, entity, organization or individual, any information about our business or any materials or information relating to the Non-competition Undertaking, unless required by law or relevant regulatory authorities, or for the purposes of the Listing (or to maintain our listing status).

We will disclose in our annual report and make an announcement in due course on any decision to exercise or waive applicable pre-emptive rights and the basis of such decision.

In order to monitor ongoing compliance with the Non-competition Undertaking, we intend to adopt the following measures:

- (a) provision to our independent non-executive Directors of any Offer Notice or Selling Notice received, within seven business days of receipt;
- (b) disclosure in our annual reports of the findings of our independent non-executive Directors on each Offer Notice or Selling Notice received, and the basis of their decisions; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (c) disclosure in our annual reports of the confirmation by our Controlling Shareholders of compliance with the Non-competition Undertaking by them and their close associates, including that all relevant notices and pre-emptive offers have been given to us for all relevant business opportunities.

Our Directors are of the opinion that our independent non-executive Directors have sufficient experience for the purposes of assessing such new business opportunities. In addition, our independent non-executive Directors may appoint financial advisors or other professional experts to advise them in connection with their consideration of exercise of rights under the Non-competition Undertaking.

The Non-competition Undertaking will terminate upon the earlier of:

- (a) our Controlling Shareholders and their close associates, directly or indirectly, holding less than 30% in aggregate of our total share capital, ceasing to have control of voting rights of such shareholding, or ceasing to be controlling shareholders (as defined under the Hong Kong Listing Rules); or
- (b) our Shares no longer being listed on the Main Board of the Hong Kong Stock Exchange.

CONNECTED TRANSACTIONS

We will continue to engage in certain transactions with our Controlling Shareholders and other connected persons upon Listing. These transactions will constitute our continuing connected transactions under Chapter 14A of the Listing Rules.

RELEVANT CONNECTED PERSONS

The following entities with whom we have entered into transactions will be regarded as our connected persons under the Listing Rules:

Connected Persons	Connected Relationship
Sichuan Haidilao	Sichuan Haidilao Catering Corporation Ltd.* (四川海底撈餐飲股份有限公司), a company established in the PRC which is directly held as to 33.5% by Mr. Zhang and Ms. Shu (our Controlling Shareholders), 50% by Jingyuan Investment (which in turn is held as to 68% by Mr. Zhang and Ms. Shu), 8% by Mr. Shi Yonghong (our non-executive Director) and 0.1% by Mr. Gou Yiqun (our non-executive Director)
Singapore Haidilao	HAI DI LAO HOLDINGS PTE. LTD., a company incorporated in Singapore which is indirectly held as to approximately 62.7% by Mr. Zhang and Ms. Shu (our Controlling Shareholders), 14.9% by Mr. Shi Yonghong (our non-executive Director) and 2% by Mr. Gou Yiqun (our non-executive Director)
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 company established in the PRC and a non-wholly owned subsidiary of Jingyuan Investment (which in turn is held as to 68% by Mr. Zhang and Ms. Shu (our Controlling Shareholders), 16% by Mr. Shi Yonghong (our non-executive Director) and 10% by Mr. Gou Yiqun (our non-executive Director))
Youdingyou	Beijing Youdingyou Catering Management Co., Ltd.* (北京優鼎優餐飲管理有限公司), a company established in the PRC which is held as to approximately 31.9% by Mr. Shi Yonghong and 9.6% by Mr. Gou Yiqun, each a non-executive Director

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

The following table sets forth a summary of our continuing connected transactions:

Nature of Transactions	Applicable Listing Rules	Waiver sought	Proposed Annual Cap for the Year Ending December 31,		
			(RMB'000)		
			2016	2017	2018
Exempt continuing connected transactions					
1. Trademark License Agreements	14A.76(1)(a)	N/A	N/A	N/A	N/A
Non-exempt continuing connected transactions					
A. Property Lease					
1. Chengdu Lease Agreement	14A.34, 14A.35, 14A.49, 14A.51 to 14A.59 and 14A.71	Announcement requirement	4,000	4,300	4,500
B. Warehouse Storage					
1. Haidilao Warehouse Storage Service Agreement	14A.34, 14A.35, 14A.49, 14A.51 to 14A.59 and 14A.71	Announcement requirement	2,200	2,800	3,600
2. Shuhai Warehouse Storage Service Agreement	14A.34, 14A.35, 14A.49, 14A.51 to 14A.59 and 14A.71	Announcement requirement	3,000	3,900	5,000
C. Sales and Distribution					
1. Master Sales Agreement	14A.34 to 14A.36, 14A.49, 14A.51 to 14A.59 and 14A.71	Announcement, circular and independent shareholders' approval requirements	598,000	764,000	980,000
(a) Haidilao Customized Products			580,000	740,000	950,000

CONNECTED TRANSACTIONS

Nature of Transactions	Applicable Listing Rules	Waiver sought	Proposed Annual Cap for the Year Ending December 31,		
			(RMB'000)		
			2016	2017	2018
(b) Haidilao Retail Products			18,000	24,000	30,000
2. Shuhai Sales Agreement	14A.34 to 14A.36, 14A.49, 14A.51 to 14A.59 and 14A.71	Announcement, circular and independent shareholders' approval requirements	7,210	9,630	12,680
(a) Shuhai Customized Products			6,800	9,100	12,000
(b) Shuhai Retail Products			410	530	680
3. Youdingyou Sales Agreement	14A.34, 14A.35, 14A.49, 14A.51 to 14A.59 and 14A.71	Announcement requirement	8,900	16,300	26,400
(a) Youdingyou Customized Products			7,300	14,000	23,000
(b) Youdingyou Retail Products			1,600	2,300	3,400

EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into continuing connected transactions which will be exempt from the annual review, reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, as further discussed below.

1. Trademark License Agreements

Sichuan Haidilao and Yihai Shanghai, our wholly owned subsidiary, entered into the Trademark License Agreements each dated 1 December 2015, as supplemented by supplemental agreements each dated 24 June 2016 in respect of certain trademarks of Class 30 which have been or are being registered by Sichuan Haidilao in the PRC, pursuant to which Sichuan Haidilao agreed to license such

CONNECTED TRANSACTIONS

trademarks for our use in connection with our operations on an exclusive and royalty-free basis for a perpetual term commencing from 1 January 2007 to the extent permissible under the Listing Rules, relevant laws and regulations. The Trademark License Agreements further provide that Sichuan Haidilao cannot terminate the agreements without prior written consent of our independent non-executive Directors. Unless any force majeure event occurs, if Sichuan Haidilao unilaterally terminates the Trademark License Agreements, we are entitled to sue for specific performance or damages for breach of contract under PRC laws. The Trademark License Agreements do not specify the amount of damages. For details of our licensed trademarks, see “Appendix IV — Statutory and General Information — B. Further Information About Our Business — Intellectual Property Rights” and “Business — Intellectual Property”.

As the grant of the rights to use these trademarks by Sichuan Haidilao to our Group is on a royalty-free basis, each of the applicable percentage ratios (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will not exceed 0.1% on an annual basis. Accordingly, the Trademark License Agreements fall within the *de minimis* threshold under Rule 14A.76(1)(a) of the Listing Rules and the transactions under the Trademark License Agreements are exempt from the annual review, reporting, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We entered into the following transactions during our ordinary course of business which will constitute continuing connected transactions of our Company and will be subject to the annual review, reporting, announcement, circular and/or independent shareholders’ approval requirements under Chapter 14A of the Listing Rules, as applicable.

A. PROPERTY LEASE

1. Chengdu Lease Agreement

On 1 December 2015 and 5 January 2016, Sichuan Haidilao and Chengdu Yueyihai, our wholly owned subsidiary, entered into the Chengdu Lease Agreement, including the supplemental agreement, pursuant to which Chengdu Yueyihai agreed to lease from Sichuan Haidilao a parcel of land together with properties and fixtures thereon to be used for production and warehousing. The leased property, with a total site area of approximately 9,656.5 sq.m., is located in Longquanyi District, Chengdu City, PRC.

Principal Terms

The Chengdu Lease Agreement has an initial term of three years commencing from 1 January 2016. Subject to compliance with Listing Rules and applicable laws and regulations, the Chengdu Lease Agreement may be renewed for a further term of three years from time to time, unless Chengdu Yueyihai notifies Sichuan Haidilao to the contrary with one month’s written notice prior to the expiry of the agreement’s term. Upon renewal of the Chengdu Lease Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

CONNECTED TRANSACTIONS

The total rental payable by Chengdu Yueyihai for 2016 is RMB3,012,828. The total rental payable by Chengdu Yueyihai for 2017 and 2018 respectively shall be no more than that for 2016 and will be adjusted downwards if Chengdu Yueyihai decides not to continue to lease certain properties and fixtures. Payment shall be made every six months in arrears. Chengdu Yueyihai shall also reimburse relevant utility expenses (e.g. water and electricity) incurred by Sichuan Haidilao on a quarterly basis.

In the event that Chengdu Yueyihai is unable to continue to use the leased properties for the reasons that the properties are confiscated or ordered to be demolished by relevant governmental authorities, Sichuan Haidilao shall indemnify Chengdu Yueyihai from the loss incurred.

Pricing Policy

The rental payable under the Chengdu Lease Agreement was determined by both parties through arm's length negotiation with reference to (i) area leased, geographic location and profile of surrounding area, (ii) prevailing market rate in respect of the same or similar properties in the same area, and (iii) the estimated movements in prevailing market rate in the next three years.

Reasons for the Transaction

Historically, Haidilao Chengdu Branch engaged in the production of hot pot condiment with the production facilities (including production equipment, office equipment and etc.) located on these properties. During the Reorganization, Haidilao Chengdu Branch transferred all the production facilities and inventories in connection with the production of Compound Condiments to Chengdu Yueyihai and no longer engaged in the production of Compound Condiments since then. For details of the assets transfer, see "Our History, Reorganization and Corporate Structure — Reorganization — Onshore Reorganization — Assets Transfer from Haidilao Chengdu Branch to Chengdu Yueyihai". However, considering the lack of title certificates for the leased properties, the land together with properties and fixtures thereon under the Chengdu Lease Agreement were not injected into our Group and remained under the ownership of Sichuan Haidilao. For details of the leased properties, see "Business — Properties — Our Leased Properties". Considering (i) the proximity of Chengdu to the supply of raw materials required for our production, and (ii) the indemnity for losses incurred that Sichuan Haidilao has agreed to provide in the event that we are unable to continue to use the leased properties, we believe it is in the interest of our Company and our Shareholders as a whole to enter into the Chengdu Lease Agreement to save costs and to ensure smooth and stable operation. For further details, see "Relationship with Our Controlling Shareholders — Our Relationship with Haidilao Group".

Historical Amounts

As disclosed in "— Reasons for the Transaction" above, Haidilao Chengdu Branch was primarily engaged in the production of Compound Condiments with production facilities located on the leased properties prior to the Reorganization. All the production facilities and inventories in connection with Haidilao Chengdu Branch's production of Compound Condiments, except for the leased properties, were transferred to our Group on 31 December 2015 as part of the Reorganization. Thereafter,

CONNECTED TRANSACTIONS

Chengdu Yueyihai started to engage in the production of Compound Condiments with the production facilities located on the leased properties. Accordingly, there was no historical transaction between Chengdu Yueyihai and Sichuan Haidilao in relation to the lease of property for each of the three years ended 31 December 2013, 2014 and 2015.

Annual Caps

The following table sets forth proposed annual caps for annual rental and fees under the Chengdu Lease Agreement:

	Proposed Annual Cap for the Year Ending 31 December		
	(RMB'000)		
	2016	2017	2018
Annual Rental and Fees	4,000	4,300	4,500

The above proposed annual cap was determined based on the pricing mechanism as described above and the estimated utility expenses incurred in connection with our production on the leased properties.

B. WAREHOUSE STORAGE

We engaged Sichuan Haidilao Group (through its branches and subsidiaries) and Shuhai Supply Chain Group to provide warehouse storage and logistics services, primarily for our products for sale to Haidilao hot pot restaurants, to ensure our stable supply to Haidilao Group while achieving production and cost efficiency. Details of the transactions are as follow:

1. Haidilao Warehouse Storage Service Agreement

On 24 June 2016, Sichuan Haidilao and Yihai Shanghai, our wholly owned subsidiary, each for itself and on behalf of its subsidiaries, entered into the Haidilao Warehouse Storage Service Agreement, pursuant to which Sichuan Haidilao Group agreed to provide warehousing facilities and related services, including warehouse storage, sorting process management, stock-taking, and other logistics services, to our Group in connection with storage of our products.

Principal Terms

The Haidilao Warehouse Storage Service Agreement has an initial term of three years commencing from 1 January 2016. Subject to compliance with Listing Rules and applicable laws and regulations, the Haidilao Warehouse Storage Service Agreement may be renewed for a further term of three years from time to time, unless Yihai Shanghai notifies Sichuan Haidilao to the contrary with 30 days' written notice prior to the expiry of the agreement's term. Upon renewal of the Haidilao Warehouse Storage Service Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

CONNECTED TRANSACTIONS

The warehouses offered by Sichuan Haidilao Group to us are located in six cities, namely Shanghai (covering Eastern China), Xi'an (covering Shaanxi Province), Zhengzhou (covering Henan Province and Shanxi Province), Dongguan (covering Southern China), Wuhan (covering Central China) and Chengdu (covering Sichuan Province). The storage service fees will be charged on a per parcel basis, at a rate determinable by reference to factors such as location of the warehouse and services provided, and will be payable in the following month.

Pricing Policy

The storage service fees under the Haidilao Warehouse Storage Service Agreement were determined by both parties through arm's length negotiation with reference to (i) the geographic location of the warehouses, (ii) the quality of storage services provided by Sichuan Haidilao Group, and (iii) fees charged by Independent Third Parties for similar storage services with comparable warehouse facilities and locations.

Reasons for the Transaction

The warehouses are operated by branches and subsidiaries of Sichuan Haidilao that primarily engage in the provision of warehouse storage and logistics services business. We have been using such warehouse storage services for products we supply to Haidilao Group both prior to and following the Reorganization. We deliver our products to these warehouses as soon as production is completed. These warehouses serve as regional logistical hubs that provide comprehensive supply coverage for Haidilao hot pot restaurants. The span of this coverage, together with the engagement of personnel from Haidilao Group at these warehouses, allow us to ensure efficient fulfillment of sales orders to Haidilao hot pot restaurants.

Historical Amounts

The following table sets forth the historical amounts for the storage service fees paid by us to Sichuan Haidilao:

	Historical Amounts for the Year Ended 31 December		
	(RMB'000)		
	2013	2014	2015
Storage Service Fees.....	Nil ⁽¹⁾	674 ⁽¹⁾	2,759 ⁽²⁾

Notes:

- (1) There was no historical transaction between Yihai Shanghai and Sichuan Haidilao in relation to the warehouse storage services for 2013 and the eight months ended 31 August 2014 as we were part of Sichuan Haidilao Group until Chengdu Yueyihai took over the compound condiments sales business from the branches of Sichuan Haidilao.
- (2) In addition to the warehouses in Shanghai, Xi'an, Zhengzhou, Dongguan, Wuhan and Chengdu, we also used the warehouses in Beijing offered by Sichuan Haidilao Group in 2014 and 2015.

CONNECTED TRANSACTIONS

Annual Caps

The following table sets forth proposed annual caps for the storage service fees under the Sichuan Warehouse Storage Service Agreement:

	Proposed Annual Cap for the Year Ending 31 December		
	(RMB'000)		
	2016	2017	2018
Storage Service Fees.....	2,200	2,800	3,600

The proposed annual caps have been estimated based on the following factors:

- (i) the decrease in the number of warehouses we use, as we have ceased to use the warehouses in Beijing offered by Sichuan Haidilao Group from 2016 onwards;
- (ii) the amount of storage service fees paid by our Group during the Track Record Period;
- (iii) the expected increase in handling rate per parcel due to the increase in operating costs, including labour costs; and
- (iv) the estimated increase in the volume of products for storage and handling at these warehouses as a result of the anticipated expansion of Haidilao hot pot restaurant chain.

2. Shuhai Warehouse Storage Service Agreement

On 24 June 2016, Shuhai Supply Chain and Yihai Shanghai, our wholly owned subsidiary, each for itself and on behalf of its subsidiaries, entered into the Shuhai Warehouse Storage Service Agreement, pursuant to which Shuhai Supply Chain Group agreed to provide warehousing facilities and related services, including warehouse storage, sorting process management, stock-taking, and other logistics services, to our Group in connection with storage of our products.

Principal Terms

The Shuhai Warehouse Storage Service Agreement has an initial term of three years commencing from 1 January 2016. Subject to compliance with Listing Rules and applicable laws and regulations, the Shuhai Warehouse Storage Service 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 30 days' written notice prior to the expiry of the agreement's term. Upon renewal of the Shuhai Warehouse Storage Service Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

The storage service fees will be charged on a per parcel basis, at a rate determinable by reference to factors such as location of the warehouse and services provided, and will be payable in the following month.

CONNECTED TRANSACTIONS

Pricing Policy

The storage service fees under the Shuhai Warehouse Storage Service Agreement were determined by both parties through arm's length negotiation with reference to (i) the geographic location of the warehouses, (ii) the quality of storage services provided by Shuhai Supply Chain Group, and (iii) fees charged by Independent Third Parties for similar storage services with comparable warehouse facilities and locations.

Reasons for the Transaction

Shuhai Supply Chain is primarily engaged in the provision of storage and logistics services business. Since 2015, we have engaged Shuhai Supply Chain Group to provide warehouse storage services for our products for sale through e-commerce channels. Additionally, prior to 2016, we supplied products to Haidilao hot pot restaurants in Northern China through a warehouse in Beijing that was offered by Sichuan Haidilao Group leased from an Independent Third Party. In 2016, the lease of this warehouse expires. Therefore, we ceased to use this warehouse and have engaged Shuhai Supply Chain Group to provide the warehouse service originally provided by the subsidiary of Sichuan Haidilao, considering the service fees charged by Shuhai Supply Chain Group, the relevant expertise of Shuhai Supply Chain Group to provide warehouse service for catering service providers and our cooperation with Shuhai Supply Chain since 2015.

Historical Amounts

The following table sets forth the historical amounts for the storage service fees paid by us to Shuhai Supply Chain:

	Historical Amounts for the Year Ended December 31,		
	(RMB'000)		
	2013	2014	2015
Storage Service Fees.....	Nil	Nil	189

Annual Caps

The following table sets forth the proposed annual caps for the storage service fees under the Shuhai Warehouse Storage Service Agreement:

	Proposed Annual Cap for the Year Ending December 31,		
	(RMB'000)		
	2016	2017	2018
Storage Service Fees.....	3,000	3,900	5,000

CONNECTED TRANSACTIONS

The proposed annual caps have been estimated based on the following factors:

- (i) the expected increase in handling rate per parcel due to the increase in operating costs, including labour costs;
- (ii) the storage services to be provided by Shuhai Supply Chain. We engaged Shuhai Supply Chain Group to provide warehouse storage services in August 2015 and its services only covered our products for sale through e-commerce channels for the four months ended 31 December 2015. From 2016, its storage services will also be extended to the storage of our products for sale to Haidilao hot pot restaurants in Northern China;
- (iii) the estimated increase in the volume of products for storage and handling at these warehouses as a result of the anticipated expansion of the Haidilao hot pot restaurant chain; and
- (iv) the expected increase in the sales volume of our products through e-commerce channels in anticipation of our effort to optimize our e-commerce sales and distribution network.

C. SALES AND DISTRIBUTION

We sell two types of condiment products to Haidilao Group, Shuhai Supply Chain and Youdingyou, being: (i) products customized according to the ultimate customer's specifications, and (ii) products targeting retail market. We adopt different pricing policies for these two types of products. Details of the transactions are as follow:

1. Master Sales Agreement

On 24 June 2016, Sichuan Haidilao, Singapore Haidilao and Yihai Shanghai, our wholly owned subsidiary, each for itself and on behalf of its subsidiaries entered into the Master Sales Agreement, pursuant to which we agreed to supply to Haidilao Group both Haidilao Customized Products and Haidilao Retail Products.

Principal Terms

The Master Sales Agreement has a term of three years from 1 January 2016 to 31 December 2018. Subject to compliance with applicable laws and regulations (including but not limited to the Listing Rules) and requirements of securities regulatory authorities, the Master Sales Agreement may be automatically renewed for a further term of three years from time to time, unless: (i) Yihai Shanghai notifies Sichuan Haidilao and Singapore Haidilao to the contrary with one month's written notice prior to the expiry of the term of the Master Sales Agreement; (ii) the parties agree in writing to terminate the Master Sales Agreement during its term; or (iii) the 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 Master Sales Agreement, the parties may amend the terms of the Master Sales Agreement based on the then prevailing circumstances.

CONNECTED TRANSACTIONS

(a) *Sales of Haidilao Customized Products*

During the term of the Master Sales Agreement, we are the sole supplier of hot pot soup flavoring products customized for Haidilao Group for use in its hot pot restaurants in the PRC, save to the extent that Haidilao Group may engage other suppliers in the event that we are unable to satisfy the quantity of products demanded, after discussion with us and upon obtaining our written consent. Under the Master Sales Agreement, we may engage contract manufacturers to produce Haidilao Customized Products. Upon fulfillment of certain requirements relating to mass production and standardization, and upon confirmation of the types of products required by Haidilao Group, we shall be recognized as the sole supplier of the hot pot soup flavoring products customized for Haidilao Group to its overseas hot pot restaurants.

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

Haidilao Group owns the proprietary rights to the formulas of Haidilao Customized Products (the “**Haidilao Group Formulas**”) and licenses the Haidilao Group Formulas to us and our contract manufacturers to use for production on a royalty-free basis. We are required to, and shall use reasonable efforts to procure our contract manufacturers to: (i) keep confidential the Haidilao Group Formulas, and (ii) unless Haidilao Group has given written consent, refrain from selling products that use these formulas to any of Haidilao Group’s competitors that is 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 Haidilao Group and us, Haidilao Group will own the proprietary rights and we and our 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 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 Haidilao Group and us.

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

CONNECTED TRANSACTIONS

(b) *Sales of Haidilao Retail Products*

During the term of the Master Sales Agreement, we are the sole supplier of the Haidilao Retail Products to Haidilao Group for display and sales to consumers in Haidilao hot pot restaurants. Haidilao Retail Products are manufactured with our own formulas. Haidilao Group is not permitted to sell our products to any third party distributor.

Sales of Haidilao Retail Products will be made on the basis of individual orders specifying the type of product, purchase volume, delivery date and etc. The sales price of the Haidilao Retail Products shall be determined based on the pricing policy as set out below, and a price list for the Haidilao Retail Products by cities shall be provided to the Haidilao Group semi-annually. Payment shall be made on a monthly basis, following the delivery of products and our issuance of delivery invoices.

Pricing Policy

The sales prices of Haidilao Customized Products and Haidilao Retail Products shall be determined by the parties with reference to a number of factors, details of which are further disclosed below. We 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 our independent non-executive Directors. If there is any change in pricing policy in the future, we shall fully comply with the relevant requirements under Chapter 14A of the Listing Rules (if applicable) unless we apply for and obtain a separate waiver from the Stock Exchange.

(a) *Sales of Haidilao Customized Products*

The sales price of Haidilao Customized Products 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 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, our independent non-executive Directors 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 our sales to independent third party distributors. We also adjust sales prices if there is any significant change in the cost of sales and expenses incurred in connection with Haidilao Customized Products.

(b) *Sales of Haidilao Retail Products*

The sales price of Haidilao Retail Products shall be consistent with the pricing policy for similar products we offer 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. Our independent non-executive Directors regularly review and reassess the sales prices of the Haidilao Retail Products semi-annually and make adjustments if there is any significant change in the production cost.

CONNECTED TRANSACTIONS

Reasons for the Transaction

We have been the sole supplier of hot pot soup flavoring products for Haidilao Group in China, and our products have significantly contributed to the successful growth and expansion of Haidilao Group. Our mass production capabilities ensure the stable supply of products to Haidilao Group with competitive market prices, good quality and adherence to food safety standards. Our long-term relationship with Haidilao Group has allowed us to assume a pivotal role in their success. On the other hand, the continuous expansion and growth of the Haidilao Group in China and around the globe has significantly propelled the growth of our business and promoted customers' recognition and acceptance of our products and brand image. The display and sales of our products at Haidilao hot pot restaurants give us access to 50 million target customers dining at these restaurants annually, including 8.6 million target customers with Haidilao Group's memberships. Haidilao Group has been and is expected to continue to be our largest customer. By entering into the Master Sales Agreement, we ensure the continuity of our mutually beneficial relationship with Haidilao Group.

Historical Amounts

The following table sets forth the historical amounts for our sales to Haidilao Group:

	Historical Amounts		
	for the Year Ended 31 December		
	(RMB'000)		
	2013	2014	2015
Sales of Haidilao Customized Products	169,334	263,231	439,280
Sales of Haidilao Retail Products	2,766	5,412	8,306

Annual Caps

The following table sets forth proposed annual caps for the sales under the Master Sales Agreement:

	Proposed Annual Cap		
	for the Year Ending 31 December		
	(RMB '000)		
	2016	2017	2018
Sales of Haidilao Customized Products	580,000	740,000	950,000
Sales of Haidilao Retail Products	18,000	24,000	30,000

The proposed annual caps for Haidilao Customized Products have been estimated based on the following factors:

- (i) historical sales of Haidilao Customized Products by our Group to Haidilao Group, including sales volumes and sales prices;

CONNECTED TRANSACTIONS

- (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 our Group in connection with the production of Haidilao Customized Products; and
- (iv) the estimated increase in demand for Haidilao Customized Products as a result of anticipated expansion of the Haidilao hot pot restaurant chain across China as well as around the globe.

The proposed annual caps for Haidilao Retail Products have been estimated based on the following factors:

- (i) historical sales volume of Haidilao Retail Products by our Group to Haidilao Group;
- (ii) the prevailing market price of similar products sold by our Group to independent third party distributors;
- (iii) the prevailing production cost and expenses incurred by our Group in connection with the production of Haidilao Retail Products;
- (iv) the increase in sales price of Haidilao Retail Products in January 2016 due to the change of pricing policy of such products to follow that of similar products we offer to independent third party distributors (for more details, see “Business — Sales and Marketing — Pricing Policy — Pricing for Sales to Haidilao Group and its Affiliated” and “Financial Information — Description of Certain Statement of Operations Items — Gross Profit”); and
- (v) the estimated increase in demand for Haidilao Retail Products as a result of the anticipated expansion of the Haidilao hot pot restaurant chain across China as well as around the globe.

2. Shuhai Sales Agreement

On 24 June 2016, Shuhai Supply Chain and Yihai Shanghai, our wholly owned subsidiary, each for itself and on behalf of its subsidiaries, entered into the Shuhai Sales Agreement, pursuant to which we agreed to sell hot pot soup flavoring products, hot pot dipping sauce products and other compound condiment products (“**Shuhai Sales Products**”) to Shuhai Supply Chain Group for sales and distribution to its customers who are catering service providers.

Principal Terms

The Shuhai Sales Agreement has a term of three years from 1 January 2016 to 31 December 2018. Subject to compliance with applicable laws and regulations (including but not limited to the Listing Rules) and requirements of securities regulatory authorities, the Shuhai Sales Agreement may be automatically renewed for a further term of three years from time to time, unless Yihai Shanghai provides a written notice to terminate the agreement during its term. Upon renewal of the Shuhai Sales Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

CONNECTED TRANSACTIONS

During the term of the Shuhai Sales Agreement, we will supply both our products customized for Shuhai Supply Chain Group's customers who are catering service providers ("**Shuhai Customized Products**") and products targeting the retail market ("**Shuhai Retail Products**"). Shuhai Sales 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 our products to any third party distributor or any retail channel and shall ensure that its customers will not sell our products to any third party distributor.

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

Pricing Policy

The sales prices 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. We 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 our independent non-executive Directors. If there is any change in pricing policy in the future, we shall fully comply with the relevant requirements under Chapter 14A of the Listing Rules (if applicable) unless we apply for and obtain a separate waiver from the Stock Exchange.

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, our independent non-executive Directors regularly review and reassess 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 our sales to independent third party distributors. We 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.

In respect of the Shuhai Retail Products, the sales price shall be consistent with the pricing policy for similar products we offer 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. Our independent non-executive Directors regularly review and reassess the sales price of Shuhai Retail Products semi-annually and make adjustments if there is any significant change in the production cost.

CONNECTED TRANSACTIONS

Reasons for the Transaction

We supply our condiment products to a number of third-party catering service providers. We also strengthened our customized services to our catering service clients in 2015 and plan to further expand our 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 us access to potential catering service clients, and increases consumer exposure to our products and promote our brand image.

Historical Amounts

The following table sets forth the historical amounts for our sales to Shuhai Supply Chain Group:

	Historical Amounts for the Year Ended 31 December		
	(RMB '000)		
	2013	2014	2015
Sales of Shuhai Customized Products.....	Nil	968	4,029
Sales of Shuhai Retail Products	Nil	9	38

Annual Caps

The following table sets forth proposed annual caps for the sales under the Shuhai Sales Agreement:

	Proposed Annual Cap for the Year Ending 31 December		
	(RMB '000)		
	2016	2017	2018
Sales of Shuhai Customized Products.....	6,800	9,100	12,000
Sales of Shuhai Retail Products	410	530	680

The proposed annual caps for Shuhai Customized Products have been estimated based on the following factors:

- (i) historical sales of Shuhai Customized Products by our 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 our Group in connection with the production of Shuhai Customized Products; and

CONNECTED TRANSACTIONS

- (iv) the estimated increase in demand for Shuhai Customized Products. We expect the sales volume from Shuhai Customized Products to increase at a higher rate for the year 2016 as compared to that of 2017 and 2018. Shuhai Supply Chain began its operation in 2014 and has been broadening its client base, which is expected to lead to an increase in demand for Shuhai Customized Products from us. As the business operation of Shuhai Supply Chain Group begins to mature, it is expected that growth in sales volume from Shuhai Supply Chain Group will become relatively stable.

The proposed annual caps for Shuhai Retail Products have been estimated based on the following factors:

- (i) historical sales volume of Shuhai Retail Products by our Group to Shuhai Supply Chain Group;
- (ii) the prevailing market price of similar products sold by our Group to independent third party distributors;
- (iii) the prevailing production cost and expenses incurred by our Group in connection with the production of Shuhai Retail Products;
- (iv) the increase in sales price of Shuhai Retail Products in January 2016 due to the change of pricing policy of such products to follow that of similar products we offer to independent third party distributors; and
- (v) the estimated increase in demand for Shuhai Retail Products. We expect the sales volume from Shuhai Retail Products to increase at a higher rate for the year 2016 as compared to that of 2017 and 2018. Shuhai Supply Chain began its operation in 2014 and has been broadening its client base, which is expected to lead to an increase in demand for Shuhai Retail Products from us. As the business operation of Shuhai Supply Chain Group begins to mature, it is expected that growth in sales volume from Shuhai Supply Chain Group will become relatively stable.

3. Youdingyou Sales Agreement

On 24 June 2016, Yodingyou and Yihai Shanghai, our wholly owned subsidiary, each for itself and on behalf of its subsidiaries, entered into a sales agreement (the “**Youdingyou Sales Agreement**”), pursuant to which we agreed to sell hot pot soup flavoring products, hot pot dipping sauce products and other compound condiment products (“**Youdingyou Catering Products**”) to Youdingyou for use at spicy mixed stew restaurants it operates.

Principal Terms

The Youdingyou Sales Agreement has a term of three years from 1 January 2016 to 31 December 2018. Subject to compliance with applicable laws and regulations (including but not limited to the Listing Rules) and requirements of the securities regulatory authorities, the Youdingyou Sales

CONNECTED TRANSACTIONS

Agreement may be automatically renewed for a further term of three years from time to time, unless Yihai Shanghai provides a written notice to terminate the agreement during its term. Upon renewal of the Youdingyou Sales Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

During the term of the Youdingyou Sales Agreement, we will supply both our products customized for Youdingyou's restaurants ("**Youdingyou Customized Products**") and products targeting the retail market ("**Youdingyou Retail Products**"). Youdingyou Customized Products will be used solely by restaurants operated by Youdingyou and Youdingyou is not permitted to sell our products to any third party distributor or catering services provider.

We will semi-annually provide a price list for all the Youdingyou Catering Products to Youdingyou. The sales price of Youdingyou Catering Products shall be determined based on the pricing policy as set out below. Sales of Youdingyou Catering Products will be made on the basis of individual orders specifying the types of product, purchase volume, delivery date and etc. Payment shall be made by Youdingyou on a monthly basis following the delivery of products and our issuance of delivery invoices.

Pricing Policy

The sales prices of Youdingyou Customized Products and Youdingyou Retail Products shall be determined by the parties with reference to a number of factors, details of which are further disclosed below. We 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 our independent non-executive Directors. If there is any change in pricing policy in the future, we shall fully comply with the relevant requirements under Chapter 14A of the Listing Rules (if applicable) unless we apply for and obtain a separate waiver from the Stock Exchange.

In respect of the Youdingyou 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 Youdingyou 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, our independent non-executive Directors regularly review and re-assess our sales prices of Youdingyou Customized Products semi-annually and make adjustments as appropriate to maintain a net profit margin for such sales same as those for our sales to independent third party distributors. We also adjust sales prices if there is any significant change in the cost of sales and expenses incurred in connection with the customized products we sell to Youdingyou.

In respect of the Youdingyou Retail Products, the sales price shall be consistent with the pricing policy for similar products we offer 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

CONNECTED TRANSACTIONS

the Youdingyou Retail Products, and (ii) the prevailing market price of similar products. Our independent non-executive Directors regularly review and re-assess the sales price of Youdingyou Retail Products semi-annually and make adjustments if there is any significant change in the production cost.

Reasons for the Transaction

We supply our compound condiment products to a number of third-party catering service providers. We also strengthened our customized services to our catering service clients in 2015 and plan to further expand our customized services and sales to a greater number of catering service clients. Youdingyou is a fast-food-style restaurant chain that has been rapidly expanding in North East China with stable demand for spicy condiment products. As a restaurant chain, Youdingyou requires large amounts of standardized products, such as those that we regularly manufacture for sale in the retail market, and certain customized products that we are able to mass-produce. Its brand positioning as a mid-end, fast-food-style catering service provider fits well into our business plan, as detailed under the section headed “Business — Our Strategies — Enhance Our Sales and Distribution Capabilities.”

Historical Amounts

The following table sets forth the historical amounts for our sales to Youdingyou:

	Historical Amounts		
	for the Year Ended 31 December		
	(RMB'000)		
	2013	2014	2015
Sales of Youdingyou Customized Products	146	362	2,040
Sales of Youdingyou Retail Products	Nil	27	589

Annual Caps

The following table sets forth proposed annual caps for our sales to Youdingyou under the Youdingyou Sales Agreement:

	Proposed Annual Cap		
	for the Year Ending 31 December		
	(RMB'000)		
	2016	2017	2018
Sales of Youdingyou Customized Products	7,300	14,000	23,000
Sales of Youdingyou Retail Products.....	1,600	2,300	3,400

CONNECTED TRANSACTIONS

The proposed annual caps for Youdingyou Customized Products have been estimated based on the following factors:

- (i) historical sales of Youdingyou Customized Products by our Group to Youdingyou, 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 our Group in connection with the production of Youdingyou Customized Products; and
- (iv) the estimated increase in demand for Youdingyou Customized Products. We expect increased sales volume for 2016 due to the restaurant chain's rapid expansion in North East China. As the market for Youdingyou's restaurants saturates, growth in sales volume from Youdingyou is expected to slow down for 2017 and 2018.

The proposed annual caps for Youdingyou Retail Products have been estimated based on the following factors:

- (i) historical sales volume of Youdingyou Retail Products by our Group to Youdingyou;
- (ii) the prevailing market prices of similar products sold by our Group to independent third party distributors;
- (iii) the prevailing production costs and expenses incurred by our Group in connection with the production of Youdingyou Retail Products;
- (iv) the increase in sales price of Youdingyou Retail Products in January 2016 due to the change of pricing policy of such products to follow that of similar products we offer to independent third party distributors; and
- (v) the estimated increase in demand for Youdingyou Retail Products. We expect increased sales volume for 2016 due to the restaurant chain's rapid expansion in North East China. As the market for Youdingyou's restaurants saturates, the growth in sales volume from Youdingyou is expected to slow down for 2017 and 2018.

CONNECTED TRANSACTIONS

WAIVER APPLICATION FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

In respect of the (i) Chengdu Lease Agreement; (ii) the Haidilao Warehouse Storage Service Agreement; (iii) the Shuhai Warehouse Storage Service Agreement; and (iv) Youdingyou Sales Agreement, since the highest of all applicable percentage ratios (other than the profit ratio) calculated in accordance with Rule 14.07 of the Listing Rules is more than 0.1% but less than 5%, the transactions contemplated thereunder are exempt from the circular and independent shareholders' approval requirements, but are subject to the announcement, annual review and reporting requirements under Chapter 14A of the Listing Rules.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under the Listing Rules in respect of the transactions under the Chengdu Lease Agreement, the Haidilao Warehouse Storage Service Agreement, the Shuhai Warehouse Storage Service Agreement and the Youdingyou Sales Agreement, provided that the total value of the transactions under each agreement for each of the three years ending 31 December 2016, 2017 and 2018 will not exceed the relevant proposed annual caps set forth above.

In respect of the Master Sales Agreement and the Shuhai Sales Agreement, as both agreements are of the same nature and are entered into with parties associated with us by virtue of being the associates of Mr. Zhang and Ms. Shu, transactions under the Master Sales Agreement and the Shuhai Sales Agreement are aggregated under the Listing Rules. Since the highest of all applicable percentage ratios (other than the profit ratio) calculated in accordance with Rule 14.07 of the Listing Rules is more than 5%, the transactions contemplated under the Master Sales Agreement and the Shuhai Sales Agreement are subject to the announcement, circular, independent shareholders' approval, annual review and reporting requirements under Chapter 14A of the Listing Rules.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement, circular and independent shareholders' approval requirement under the Listing Rules in respect of the transactions under the Master Sales Agreement and the Shuhai Sales Agreement, provided that the total value of the transactions under each agreement for each of the three years ending 31 December 2016, 2017 and 2018 will not exceed the relevant proposed annual caps set forth above.

If any terms of the transactions subject to the waiver are altered or if we enter into any new agreements with any connected persons (within the meaning of the Listing Rules) in the future, we shall fully comply with the relevant requirements under Chapter 14A of the Listing Rules unless we apply for and obtain a separate waiver from the Stock Exchange.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on continuing connected transactions referred to in this prospectus, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

CONNECTED TRANSACTIONS

CONFIRMATION FROM OUR DIRECTORS

Our Directors (including our independent non-executive Directors) are of the view that (i) the continuing connected transactions as set out above have been and will be entered into during our ordinary and usual course of business on normal commercial terms or terms better to us, and are fair and reasonable and in the interest of us and our Shareholders as a whole; and (ii) the proposed annual caps for these transactions are fair and reasonable and in the interest of us and our Shareholders as a whole.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor is of the view that (i) the non-exempt continuing connected transactions are entered into in the Company's ordinary course of business on normal commercial terms or terms better to the Company, and are fair and reasonable and in the interest of the Company and its Shareholders as a whole; and (ii) the proposed annual caps for these transactions are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board of Directors comprises nine Directors, including two executive Directors, four non-executive Directors and three independent non-executive Directors. Our Directors are elected to serve a term of three years, which is renewable upon re-election and/or re-appointment.

The following table sets out information in respect of the Directors of our Company:

Name	Age	Position	Date of Appointment	Roles and responsibilities
Dang Chunxiang (黨春香)	44	Executive Director, Chief Executive Officer and General Manager	7 March 2016	Responsible for the overall management of our Company, implementation of the decisions of the Board; managing our Company's operations including production, procurement and human resources; and overseeing the financial goals of our Company
Sun Shengfeng (孫勝峰)	36	Executive Director, Chief Financial Officer	7 March 2016	Responsible for overseeing the financial, investment and risk management of our Company including budgeting, disclosure and reporting
Gou Yiqun (苟軼群)	43	Chairman, Non-executive Director	7 March 2016	Responsible for formulating our Company's corporate and business strategies and participating in making decision for our Company's strategic marketing projects and other major decisions
Zhang Yong (張勇)	46	Non-executive Director	7 March 2016	Participating in making major decisions for our Company
Shi Yonghong (施永宏)	47	Non-executive Director	7 March 2016	Participating in making major decisions for our Company
Pan Di (潘迪)	34	Non-executive Director	7 March 2016	Participating in making major decisions for our Company
Yau Ka Chi (邱家賜)	58	Independent Non-executive Director	20 June 2016	Participating in making major decisions for our Company and advising on issues relating to corporate governance and audit

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of Appointment	Roles and responsibilities
Qian Mingxing (錢明星)	54	Independent Non-executive Director	20 June 2016	Participating in making major decisions for our Company and advising on issues relating to corporate governance, nomination of Directors and remuneration of Directors and senior management
Ye Shujun (葉蜀君)	55	Independent Non-executive Director	20 June 2016	Participating in making major decisions for our Company and advising on issues relating to corporate governance, remuneration of Directors and senior management, nomination of Directors and audit

Executive Directors

Ms. Dang Chunxiang (黨春香), aged 44, was appointed as our executive Director, chief executive officer and general manager on 7 March 2016. She has been our Director since December 2015 and is primarily responsible for the overall management of the Company, implementation of the decisions of the Board; managing our Company's operations including production, procurement and human resources; and overseeing the financial goals of our Company. Ms. Dang has been the general manager of Yihai Shanghai since December 2015. Prior to this, Ms. Dang worked as a sales manager of Kebao Boloni Home Furnishing Co. Ltd.* (科寶博洛尼家居有限公司) from August 1998 to April 2002. From May 2002 to September 2008, she joined Beijing Yuanzhou Decoration Co., Ltd.* (北京元洲裝飾有限公司) as a manager of the kitchen cabinet department and was later promoted to director of the home furnishing management department. Ms. Dang was the vice general manager of Huawei Leren (Beijing) Trading Co., Ltd.* (華威樂仁(北京)貿易有限公司), a company engaging in construction materials trading from January 2009 to November 2010. Ms. Dang then joined Sichuan Haidilao and served as the head of the operations department from January 2011 to December 2014. Ms. Dang served as the head of the operations department and a standing deputy general manager of Yihai Shanghai from December 2014 to January 2015 and from January 2015 to December 2015, respectively.

Ms. Dang completed her graduate study in business administration at Renmin University of China (中國人民大學) in May 2010.

Mr. Sun Shengfeng (孫勝峰), aged 36, was appointed as our executive Director and chief financial officer on 7 March 2016. He is primarily responsible for overseeing matters relating to the financial, investment and risk management of our Company, including budgeting, disclosure and reporting. Mr. Sun has also served as the chief financial officer of Yihai Shanghai since August 2015. Mr. Sun served as the head of finance in Xi'an Yinqiao Biotechnology Co., Ltd.* (西安銀橋生物科技股份有限公司) from September 2003 to August 2007. He joined Sichuan Haidilao in September 2007 and

DIRECTORS AND SENIOR MANAGEMENT

has held various positions successively: he worked as assistant to the chief financial officer from September 2007 to November 2011, the chief accountant from November 2011 to December 2012, deputy head of the finance management department from December 2012 to August 2013, and deputy head of the asset management department from August 2013 to August 2015.

Mr. Sun passed the self-taught higher education examination for undergraduate study in business administration with Xi'an University of Technology (西安理工大學) and obtained a graduation certificate in June 2009. He completed his graduate study in business administration at Tsinghua University in September 2010. He was accredited as an accountant by the Ministry of Finance of the People's Republic of China (中華人民共和國財政部) in May 2005.

Non-executive Directors

Mr. Gou Yiqun (苟軼群), aged 43, was appointed as our chairman and non-executive Director on 7 March 2016. Mr. Gou has over 16 years of food industry and management experience within the Haidilao Group. He has been our Director since October 2013. He is primarily responsible for formulating our Company's corporate and business strategies and participating in the decision making for our Company's strategic marketing projects and other major decisions. Mr. Gou has also served as the chairman of Yihai (China) since December 2013. Prior to this, Mr. Gou worked as a teacher at Xi'an University of Finance and Economics (西安財經學院) from July 1994 to January 2000. Mr. Gou joined Haidilao Group in January 2000 and has held various positions successively after joining Haidilao Group. Mr. Gou was the financial officer of Sichuan Haidilao from December 2001 to June 2009, and has held the position of director of Sichuan Haidilao since July 2009. Between July 2009 and December 2014, Mr. Gou was also Sichuan Haidilao's chief financial officer and vice general manager. Mr. Gou also serves as a director and member of senior management of associates of our Controlling Shareholders; for further details, see "Relationship with our Controlling Shareholders — Independence From Our Controlling Shareholders — Management Independence".

Mr. Gou completed his study in commodity business at Shaanxi Commerce College* (陝西商業專科學校) in July 1993. He received an executive master of business administration degree from Renmin University of China (中國人民大學) in June 2010.

Mr. Zhang Yong (張勇), aged 45, was appointed as our non-executive Director on 7 March 2016. Mr. Zhang is one of the founders of the Haidilao Group and has over 20 years of food industry and management experience within the Haidilao Group. He has been our Director since December 2015 and is primarily responsible for participating in making major decisions for our Company. He served as the general manager of Sichuan Haidilao from April 1994 to March 2001. Between April 2001 and June 2009, Mr. Zhang served as both the executive director and the general manager of Sichuan Haidilao. Since July 2009, Mr. Zhang has served as the director and chairman of Sichuan Haidilao. Mr. Zhang also serves as a director and member of senior management of associates of our Controlling Shareholders; for further details, see "Relationship with our Controlling Shareholders — Independence From Our Controlling Shareholders — Management Independence".

Mr. Zhang completed the executive master of business administration program and completed the finance master of business administration program from Cheung Kong Graduate School of Business (長江商學院) in October 2011 and August 2012, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Shi Yonghong (施永宏), aged 46, was appointed as our non-executive Director on 7 March 2016. Mr. Shi is one of the founders of the Haidilao Group and has over 20 years of food industry and management experience within the Haidilao Group. He has been our Director since December 2015 and is primarily responsible for participating in making major decisions for our Company. Mr. Shi has held various positions at Sichuan Haidilao since April 1994. Mr. Shi was the vice general manager at Sichuan Haidilao between April 1994 and March 2001, before assuming the role of supervisor at Sichuan Haidilao between April 2001 and June 2009. Since July 2009, Mr. Shi has been a director at Sichuan Haidilao. Mr. Shi also serves as a director of associates of our Controlling Shareholders; for further details, see “Relationship with our Controlling Shareholders — Independence From Our Controlling Shareholders — Management Independence”.

Mr. Shi completed his study in mechanics at Sichuan Kongfen Group Technical School* (四川空分技工學校) in June 1988.

Mr. Pan Di (潘迪), aged 34, was appointed as our non-executive Director on 7 March 2016. Mr. Pan has been our Director since December 2015 and is primarily responsible for participating in making major decisions for our Company. Mr. Pan currently serves as a director with primary focus in investments in consumer and telecommunications, media and technology industries at Greenwoods Private Equity Funds (景林股權投資基金) since January 2010. He was an attorney with the securities department of King & Wood Mallesons in Shanghai from January 2007 to December 2009. Mr. Pan has been an independent non-executive director of Ernest Borel Holdings Limited (stock code: 1856), a company listed on the Hong Kong Stock Exchange, since December 2013. Mr. Pan also serves as a director of an associate of our Controlling Shareholders; for further details, see “Relationship with our Controlling Shareholders — Independence From Our Controlling Shareholders — Management Independence”.

Mr. Pan obtained a bachelor’s degree in law from Fudan University in July 2004. He passed the National Judicial Exam in the PRC in February 2008.

Independent Non-executive Directors

Mr. Yau Ka Chi (邱家賜), aged 58, was appointed as our independent non-executive Director on 20 June 2016. He is primarily responsible for participating in making major decisions for our Company and advising on issues relating to corporate governance and audit. Mr. Yau has over 30 years of experience in accounting and audit, initial public offering, corporate restructuring, merger and acquisition as well as management consulting. Mr. Yau joined Arthur Young Certified Public Accountants, Hong Kong office (香港雅特楊會計師事務所香港辦事處) as a junior audit assistant and then promoted to a senior auditor from September 1983 to April 1987. He then worked as an audit staff accountant and was later promoted to audit manager in Clarkson Gordon Chartered Accountants, Toronto Office (加拿大雅特楊會計師事務所多倫多辦事處) from July 1987 to June 1992. From August 1992 to June 1994, Mr. Yau was employed as an audit manager and was later promoted to audit senior manager in Ernst & Young, Hong Kong Office. From July 1995 to September 2015, Mr. Yau served as an audit senior manager and was promoted to an audit partner of Ernst & Young, Beijing Office and Ernst & Young Hua Ming LLP, Beijing. He has not held any positions since October 2015.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yau obtained a professional diploma in company secretaryship & administration from the Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) in November 1983. Mr. Yau has been a member of Illinois Certified Public Accountants Society since September 1989, a member of American Institute of Certified Public Accountants since January 1991 and an associate member of Hong Kong Institute of Certified Public Accountants since November 1992. Mr. Yau has also been a licensed certified public accountant issued by the Illinois Department of Financial and Professional Regulation since June 2009.

Mr. Qian Mingxing (錢明星), aged 53, was appointed as our independent non-executive Director on 20 June 2016. He is primarily responsible for participating in making major decisions for our Company and advising on issues relating to corporate governance, nomination of Directors and remuneration of Directors and senior management. Mr. Qian has been a professor at Peking University Law School (北京大學法學院) since August 1999. He worked as a teaching assistant and a lecturer of the law department at Peking University from August 1986 to August 1988 and August 1988 to August 1993, respectively. From August 1993 to August 1999, Mr. Qian was an associate professor at Peking University Law School.

Mr. Qian obtain a bachelor's degree in law and a master's degree in law from Peking University in July 1983 and July 1986, respectively. In June 2001, Mr. Qian obtained a doctoral degree of laws from Peking University.

Ms. Ye Shujun (葉蜀君), aged 54, was appointed as our independent non-executive Director on 20 June 2016. She is primarily responsible for participating in making major decisions for our Company and advising on issues relating to corporate governance, remuneration of Directors and senior management, nomination of Directors and audit. Ms. Ye has been an independent director of Beijing Sanfo Outdoors Products Co., Ltd. (北京三夫戶外用品股份有限公司) (stock code: 002780) since June 2011 and an independent director of Beijing New Universal Science and Technology Co., Ltd (北京萬向新元科技股份有限公司) (stock code: 300472) since June 2011, both being companies listed on the Shenzhen Stock Exchange (深圳證券交易所). Ms. Ye has also held the positions of lecturer, assistant professor and professor at the economic management college of Beijing Jiaotong University (北京交通大學) since December 1994.

Ms. Ye completed a program in international accounting and international tax at Xiamen University in January 1990. Ms. Ye then obtained a master's degree in economics from Tsinghua University in July 1994. She obtained a doctoral degree in management from Beijing Jiaotong University in July 2007.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The following table sets out the information in respect of members of the senior management of our Company:

<u>Name</u>	<u>Age</u>	<u>Position/Title</u>	<u>Date of Appointment</u>	<u>Role and Responsibilities</u>
Dang Chunxiang (黨春香)	44	Chief Executive Officer and General Manager	7 March 2016	Responsible for the overall management, implementation of the decisions of the Board; supervising the internal management; managing our Company's operations including production, procurement and human resources; and overseeing the financial goals of our Company
Sun Shengfeng (孫勝峰)	36	Chief Financial Officer	7 March 2016	Responsible for overseeing the financial, investment and risk management of our Company, including budgeting, disclosure and reporting
Du Zhuang (杜壯)	42	Vice General Manager	7 March 2016	Responsible for supervising the sales and marketing department and participating in making decisions for our Company's strategic marketing projects
Xu Hai (徐海)	42	Sales Director	7 March 2016	Responsible for developing sales strategies and plans, managing the sales teams and controlling the sales budget and expenses

Ms. Dang Chunxiang (黨春香), our executive Director, chief executive officer and general manager. See “—Board of Directors—Executive Directors” in this section for her biographical details.

Mr. Sun Shengfeng (孫勝峰), our executive Director and chief financial officer. See “—Board of Directors—Executive Directors” in this section for his biographical details.

Mr. Du Zhuang (杜壯), aged 41, was appointed as our vice general manager on 7 March 2016. He is primarily responsible for supervising the sales and marketing department and participating in making decisions for the Company's strategic marketing projects. Mr. Du has over 14 years of sales and marketing experience in the fast moving consumer goods sector. He has been a marketing director of Yihai Shanghai since January 2015. He worked as the head of the chain store department of Tianjin Dingjin Food Co., Ltd. (天津頂津食品有限公司) from June 2001 to October 2008. Mr. Du joined Sichuan Haidilao in October 2008 and held various positions successively including marketing

DIRECTORS AND SENIOR MANAGEMENT

manager from October 2008 to August 2009, sales manager from August 2009 to August 2010 and senior sales manager from September 2010 to June 2011. From June 2011 to November 2014, he served as a deputy head of the operation department of Shuhai (Beijing) Investment Co., Ltd.* (蜀海(北京)投資有限公司), a wholly owned subsidiary of Sichuan Haidilao.

Mr. Du completed his study for undergraduate program in husbandry at Beijing College of Agriculture (北京農學院) in July 1996.

Mr. Xu Hai (徐海), aged 42, has been appointed as our sales director on 7 March 2016. He is mainly responsible for developing sales strategies and plans, managing the sales teams and controlling the sales budget and expenses. Mr. Xu has over 8 years of sales and management experience in the fast moving consumer goods sector. He has been a sales director of Yihai Shanghai since January 2015. Mr. Xu then served as sales director of Beijing Pepsi-Cola Beverage Co., Ltd. (北京百事可樂飲料有限公司) from October 2007 to March 2009. Mr. Xu then served as a sales director of China of Tianjin Otsuka Beverage Co., Ltd. (天津大塚飲料有限公司) from April 2011 to June 2013. From June 2013 to December 2014, he served as a sales director of Shuhai (Beijing) Investment Co., Ltd.* (蜀海(北京)投資有限公司), a wholly owned subsidiary of Sichuan Haidilao.

Mr. Xu obtained a master's degree in business management from Northeastern University (東北大學) in July 2009.

JOINT COMPANY SECRETARIES

Mr. Sun Shengfeng (孫勝峰) was appointed as one of our Joint Company Secretaries on 12 March 2016. He is also our executive Director and chief financial officer. See “—Board of Directors—Executive Directors” in this section for his biographical details.

Mr. Wong Yat Tung (黃日東), aged 43, was appointed as another Joint Company Secretary of our Company on 12 March 2016. Mr. Wong has over eight years of experience in the corporate secretarial field. He has been working at SW Corporate Services Group Limited since July 2013 and is currently a manager of the company secretary division. Mr. Wong currently serves as the company secretary of Wonderful Sky Financial Group Holdings Limited (stock code: 1260), Tianjin Jinran Public Utilities Company Limited (stock code: 1265) and Auto Italia Holdings Limited (stock code: 0720), and joint company secretary of China Zheshang Bank Co., Ltd. (stock code: 2016) and Guangdong Join-Share Financing Guarantee Investment Co., Ltd. (stock code: 1543), which are companies listed on the Hong Kong Stock Exchange. Mr. Wong became an associate of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators respectively in December 2009. Mr. Wong obtained a bachelor's degree in quantitative analysis for business from City University of Hong Kong in December 1996 and a master's degree in corporate governance from the Hong Kong Polytechnic University in October 2009.

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES

We have established three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. The committees operate in accordance with terms of reference established by our Board.

Audit Committee

We have established an Audit Committee with terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraphs C.3 and D.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three Directors, namely, Mr. Yau Ka Chi, Mr. Shi Yonghong and Ms. Ye Shujun. The chairman of the Audit Committee is Mr. Yau Ka Chi, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the Audit Committee include, but are not limited to, assisting our Board by providing an independent view of the effectiveness of the financial reporting process; internal control; risk management system and corporate governance of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

Remuneration Committee

We have established a Remuneration Committee with terms of reference in compliance with paragraph B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of three Directors, namely, Ms. Ye Shujun, Mr. Gou Yiqun, and Mr. Qian Mingxing. Ms. Ye Shujun serves as the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include, but are not limited to, the following: (i) making recommendations to our Board on our policy and structure for remuneration of all the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) reviewing and approving senior management's remuneration proposals with reference to our corporate goals and objectives; and (iii) making recommendations to the Board on the remuneration packages of individual Directors and senior management.

Nomination Committee

We have established a Nomination Committee with terms of reference in compliance with paragraph A.5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of three Directors, namely, Mr. Gou Yiqun, Ms. Ye Shujun and Mr. Qian Mingxing. Mr. Gou Yiqun serves as the chairman of the Nomination Committee. The primary duties of the Nomination Committee include, but are not limited to, reviewing the structure, size and composition of our Board of Directors, assessing the independence of our independent non-executive Directors and making recommendations to our Board on matters relating to the appointment of Directors.

DIRECTORS AND SENIOR MANAGEMENT

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive remuneration including salaries, discretionary bonuses, allowances, benefit in kind, and our contribution to the pension scheme.

We determine the remuneration of our Directors and senior management with reference to factors including their position, time commitment, responsibilities, performance and experiences.

The aggregate amount of remuneration (including salaries, discretionary bonuses, allowances and benefits) paid by our Company to our Directors for the years ended 31 December 2013, 2014 and 2015 was approximately RMB356,000, RMB747,000 and RMB1,326,000, respectively. None of our Directors waived any remuneration during that period.

The aggregate amount of remuneration (including salaries, discretionary bonuses, allowances and benefits) paid by our Company to the five highest paid individuals for the years ended 31 December 2013, 2014 and 2015 was approximately RMB729,000, RMB1,308,000 and RMB2,177,000, respectively.

Save as disclosed above, no other payments have been paid or are payable by our Company or any of our subsidiaries to our Directors or the five highest paid individuals.

It is estimated that the aggregate amount of remuneration (including salaries, discretionary bonuses, allowances, benefit in kind, and our contribution to the pension scheme) payable by our Company to our Directors for the year ending 31 December 2016 will be approximately RMB1.82 million.

During the Track Record Period, no remuneration was paid by our Company to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company or as compensation for loss of office in connection with the management positions of any subsidiary of our Company.

COMPLIANCE ADVISER

We have appointed Somerley Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company on the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (3) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and

DIRECTORS AND SENIOR MANAGEMENT

- (4) where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares or any other matters under Rule 13.10 of the Listing Rules.

The term of the appointment will commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

RSU SCHEME

Our Company has adopted the RSU Scheme to incentivize our Directors, senior management, employees and our business partners. The term of the RSU Scheme is ten years. An award of restricted share units under the RSU Scheme gives the grantee a conditional right upon vesting of the award obtain either Shares or an equivalent value in cash with reference to the market value of the Shares on or about the date of vesting, as determined by the Board in its absolute discretion, less any tax, fees, levies, stamp duty and other charges applicable.

The RSU Trustee will procure JLJH to hold and deal with the relevant Shares under the scheme and the dividends paid on them according to the instructions of our Company acting through the Board or its duly authorized committee. The Board shall have the sole and absolute right to (i) interpret and construe the provisions of the RSU Scheme, (ii) determine the persons who will be granted awards under the RSU Scheme, the terms and conditions on which awards are granted and when the RSUs granted pursuant to the RSU Scheme may vest, (iii) make such appropriate and equitable adjustments to the terms of the awards granted under the RSU Scheme as it deems necessary and (iv) make such other decisions or determinations as it shall deem appropriate in the administration of the RSU Scheme.

An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares underlying the RSU Scheme. As of the Latest Practicable Date, no RSU had been granted or agreed to be granted by our Company pursuant to the RSU Scheme.

Please refer to the section headed “Appendix IV — Statutory and General Information — D. RSU Scheme” of this prospectus.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

Each of the following persons will, immediately following the completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option), have an interest or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings:

Name	Capacity/Nature of interest	Shares held as of the Latest Practicable Date ⁽¹⁾		Immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised) ⁽²⁾	
		Number of Shares held	Approximate % of Shareholding	Number of Shares held	Approximate % of Shareholding
UBS Trustees (B.V.I.) Limited ⁽³⁾	Trustee	258,978,556	47.76%	372,547,021	35.82%
Mr. Zhang ⁽³⁾	Founder of a discretionary trust Interest of controlled corporation	258,978,556	47.76%	372,547,021	35.82%
Ms. Shu ⁽³⁾	Founder of a discretionary trust Interest of controlled corporation	258,978,556	47.76%	372,547,021	35.82%
ZYSP YIHAI ⁽³⁾	Registered owner	258,978,556	47.76%	372,547,021	35.82%
Cititrust Private Trust (Cayman) Limited ⁽⁴⁾	Trustee	123,212,000	22.72%	177,243,492	17.04%
Twice Happiness Limited ⁽⁴⁾	Trust holding company	123,212,000	22.72%	177,243,492	17.04%

SUBSTANTIAL SHAREHOLDERS

Name	Capacity/Nature of interest	Shares held as of the Latest Practicable Date ⁽¹⁾		Immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised) ⁽²⁾	
		Number of Shares held	Approximate % of Shareholding	Number of Shares held	Approximate % of Shareholding
Mr. Shi Yonghong ⁽⁴⁾	Founder of a discretionary trust Interest of controlled corporation Interest of spouse	123,212,000	22.72%	177,243,492	17.04%
Ms. Li Haiyan ⁽⁴⁾	Founder of a discretionary trust Interest of controlled corporation Interest of spouse	123,212,000	22.72%	177,243,492	17.04%
SYH YIHAI ⁽⁴⁾	Registered owner	61,606,000	11.36%	88,621,746	8.52%
LHY YIHAI ⁽⁴⁾	Registered owner	61,606,000	11.36%	88,621,746	8.52%
JLJH YIHAI ⁽⁵⁾	Nominee for another person	53,680,000	9.90%	77,220,000	7.43%
Vistra Fiduciary (HK) Limited ⁽⁵⁾ ..	Trustee of a trust	53,680,000	9.90%	77,220,000	7.43%

Notes:

- (1) The calculation is based on the assumption that the Series A Preferred Shares will be converted into ordinary shares of our Company on a one-for-one basis and the total number of 542,222,222 Shares in issue as of the Latest Practicable Date.
- (2) The calculation is based on the total number of 1,040,000,000 Shares in issue immediately after the completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and without taking into account any Shares that may be issued upon any exercise of Over-allotment Option).
- (3) The entire share capital of ZYSP YIHAI is wholly owned by UBS Trustees (B.V.I.) Limited as the trustee of the ZYSP Trust. ZYSP Trust is a discretionary trust set up by Mr. Zhang and Ms. Shu as the settlors and protectors on 1 June 2016 for their own benefit. Mr. Zhang and Ms. Shu (as founders of the ZYSP Trust) and UBS Trustees (B.V.I.) Limited are taken to be interested in the Shares held by ZYSP YIHAI for the purpose of the SFO.
- (4) The entire share capital of SYH YIHAI and LHY YIHAI is wholly owned by Twice Happiness Limited and ultimately owned by Cititrust Private Trust (Cayman) Limited as the trustee of the SL Trust. 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. Mr. Shi Yonghong and Ms. Li Haiyan (as founders of the SL Trust), Twice Happiness Limited and Cititrust Private Trust

SUBSTANTIAL SHAREHOLDERS

(Cayman) Limited are taken to be interested in the Shares held by SYH YIHAI and LHY YIHAI for the purpose of the SFO. Mr. Shi Yong 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.

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

Other than as disclosed herein, the Directors are not aware of any person who will, immediately following the completion of the Capitalization Issue and the Global Offering, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 and Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings.

SHARE CAPITAL

Our Company's authorized and issued share capital is as follows:

Authorized share capital:	US\$
5,000,000,000 Shares	50,000

Issued and to be issued, fully paid or credited as fully paid upon the completion of Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised):	Number of Shares	US\$	Approximate percentage of issued share capital (%)
Shares in issue as at the date of this prospectus	488,000,000	4,880	46.92%
Shares to be issued upon the conversion of Series A Preferred Shares	54,222,222	542.22	5.21%
Shares to be issued under the Capitalization Issue	237,777,778	2,377.78	22.86%
Shares to be issued under the Global Offering	<u>260,000,000</u>	<u>2,600</u>	<u>25.00%</u>
Total	<u>1,040,000,000</u>	<u>10,400</u>	<u>100%</u>

Issued and to be issued, fully paid or credited as fully paid upon the completion of Capitalization Issue and the Global Offering (assuming the Over-allotment Option is exercised in full):	Number of Shares	US\$	Approximate percentage of issued share capital (%)
Shares in issue as at the date of this prospectus	488,000,000	4,880	45.23%
Shares to be issued upon the conversion of Series A Preferred Shares	54,222,222	542.22	5.03%
Shares to be issued under the Capitalization Issue	237,777,778	2,377.78	22.04%
Shares to be issued under the Global Offering	260,000,000	2,600	24.10%
Shares to be issued pursuant to the Over-allotment Option	<u>39,000,000</u>	<u>390</u>	<u>3.61%</u>
Total	<u>1,079,000,000</u>	<u>10,790</u>	<u>100%</u>

RANKING

The Offer Shares are Shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank in full for all dividends or other distributions declared, made or paid after the date of this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Capitalization Issue, the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and conversion of the Series A Preferred Shares upon completion of the Global Offering; and
- (ii) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to the section headed “Appendix IV — Statutory and General Information — A. Further Information about Our Company — 3. Shareholders’ Resolutions passed on 20 June 2016”.

This mandate will expire at the earlier of:

- (i) the conclusion of our next annual general meeting; or
- (ii) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Please refer to the section headed “Appendix IV — Statutory and General Information — A. Further Information about Our Company — 3. Shareholders’ Resolutions passed on 20 June 2016” for details of this general mandate.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately following the completion of the Capitalization Issue, the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and conversion of the Series A Preferred Shares upon completion of the Global Offering.

This mandate only relates to repurchases made on the Hong Kong Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in “Appendix IV — Statutory and General Information — A. Further Information about Our Company — 6. Share Repurchase Mandate.”

SHARE CAPITAL

This mandate will expire at the earlier of:

- (i) the conclusion of our next annual general meeting; or
- (ii) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Please refer to the section headed “Appendix IV — Statutory and General Information — A. Further Information about Our Company — 3. Shareholders’ Resolutions passed on 20 June 2016” for details of this repurchase mandate.

RSU SCHEME

The RSU Scheme was conditionally adopted pursuant to the written resolutions of the Shareholders of our Company passed on 24 February 2016. Please refer to the section headed “Appendix IV — Statutory and General Information — D. RSU Scheme” for details of the RSU Scheme.

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The following discussion should be read in conjunction with our audited consolidated financial information, together with the accompanying notes, as set forth in the Accountant's Report in Appendix I to this prospectus. Our consolidated financial information have been prepared in accordance with International Financial Reporting Standards ("IFRS") which may differ in material aspects from generally accepted principles in other jurisdiction, including the United States.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. Factors that could cause or contribute to such differences include those disclosed in the section headed "Risk Factors."

OVERVIEW

We are a leading and fast-growing compound condiment manufacturer in China. The hot pot condiment sector, which consists of hot pot soup flavoring condiment and hot pot dipping sauce condiment, is the second largest segment in the compound condiment industry as measured by sales value. We are the second largest hot pot condiment manufacturer in China as measured by sales value in 2015, according to Frost & Sullivan. As the only hot pot condiment manufacturer primarily focused on China's fast-growing mid- to high-end segment, we are the largest mid- to high-end hot pot soup flavoring condiment manufacturer as measured by sales value in 2015, which accounts for over 30% market share, over three times that of the second largest market participant, according to Frost & Sullivan. In addition, during the Track Record Period, we achieved the highest sales value growth rate among the five largest hot pot condiment manufacturers in China.

We are the sole supplier of hot pot soup flavoring products for Haidilao Group in China and our products have significantly contributed to the successful growth of Haidilao Group. Haidilao Group was the largest Chinese hot pot restaurant chain and the No.1 Chinese cuisine restaurant company in China as measured by sales value in both 2014 and 2015, according to Frost & Sullivan. In 2013, 2014 and 2015, Haidilao Group owned 93, 111 and 142 hot pot restaurants in 24, 29 and 39 cities across China, respectively, and owned two, four and seven hot pot restaurants in two, three and five overseas locations, respectively. In line with Haidilao Group's successful expansion, our revenue derived from sales to Haidilao Group increased from RMB180.6 million in 2013 to RMB277.0 million in 2014, and further to RMB457.8 million in 2015. We sell our condiment products under "Haidilao" (海底捞) brand across product lines. We have the exclusive right to use the "Haidilao" (海底捞) brand for our condiment products on a royalty-free basis for a perpetual term commencing from 1 January 2007 subject to certain conditions, and is only terminable with consent of our independent non-executive Directors.

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During the Track Record Period, we have experienced substantial growth. Our revenue increased at a CAGR of 63.8% from RMB315.9 million in 2013 to RMB847.3 million in 2015 and our net profit increased at a CAGR of 137.6% from RMB22.1 million in 2013 to RMB124.5 million in 2015. Our gross profit margin increased from 22.0% in 2013 to 34.7% in 2015 and our net profit margin increased from 7.0% in 2013 to 14.7% in 2015.

We offer a wide range of condiment products, ranging from hot pot condiments to Chinese-style compound condiments such as spicy stir-fry pot and pickles and fish stew condiments. As of 31 December 2015, we had three major product lines with 56 products. We have established an extensive nationwide distribution network. As of 31 December 2015, our 339 distributors covered 31 provincial territories, all first-tier cities, 28 second-tier cities and 134 third- and fourth-tier cities in China as well as 11 overseas countries and markets, enabling our products to reach over 6,000 hypermarkets and supermarkets in China, including Walmart and Carrefour, and traditional retail channels, such as grocery stores, neighborhood stores, and butcher shops. In addition, we have established and have been continuously strengthening our presence in overseas markets through our distributors. Our physical network is further supplemented by e-commerce channels such as Tmall.com and JD.com. Our products are sold to 11 overseas countries and markets in North America, Europe and Asia. For the years ended 31 December 2013, 2014 and 2015, our revenue from sales to distributors increased rapidly from RMB125.1 million to RMB217.0 million and further to RMB370.4 million, representing a CAGR of 72.3%, accounting for 39.6%, 43.5% and 43.7%, respectively, of our total revenue.

BASIS OF PRESENTATION

Our Company is a holding company incorporated as an exempted company with limited liability in the Cayman Islands on 18 October 2013. Pursuant to the Reorganization, our Company became the holding company of the companies now comprising our Group on 31 December 2015. For further details, see “History, Reorganization and Corporate Structure — Reorganization.” Our financial information presents the combined results and financial position of us as if the current group structure had been in existence throughout the Track Record Period and as if the business of our Group was transferred to us at the beginning of the earliest period presented or when such businesses were established, whichever is the shorter period, but exclude the business which is not a part of our Group pursuant to the Reorganization and have historically been managed separately from the business of our Group. Historically, except for the depreciation of building and the amortisation of land use right of Haidilao Chengdu Branch amounting to RMB235,000, RMB235,000 and RMB1,668,000 for each of the years ended 31 December 2013, 2014 and 2015 were allocated between the listing and non-listing business based on the actual usage area of each business, there was no other significant allocation made. The related amounts charged to the profit and loss of the listing business during the years ended 31 December 2013, 2014 and 2015 were RMB164,000, RMB164,000 and RMB1,170,000, respectively. No adjustments are made to reflect fair value of these assets and liabilities, or recognize any new assets or liabilities as a result of the Reorganization. All significant intra-group transactions and balances have been eliminated on consolidation.

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MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial conditions are affected by many factors, ranging from macroeconomic conditions that affect China's economy and China's condiment industry to company-specific factors including the following:

Sales Volume and Pricing of Our Products

Our results of operations are directly affected by our sales volume and the pricing of our products.

Sales volume of our products

The sales volume of our products sold to third parties increased significantly during the Track Record Period, which was mainly driven by (i) the Chinese consumers' rising acceptance of compound condiments as a result of their new consumption habits, (ii) their growing consciousness of health and food safety, and (iii) the expansion of our distribution network. During the Track Record Period, the number of our distributors increased from 116 as of December 31, 2013, to 212 as of December 31, 2014 and further to 339 as of December 31, 2015, which enabled our nationwide distribution network coverage to expand from 25 provincial territories, all first-tier cities, 22 second-tier cities and 35 third- and fourth-tier cities as of 31 December 2013, to 29 provincial territories, all first-tier cities, 25 second-tier cities and 82 third- and fourth-tier cities as of 31 December 2014, and further to 31 provincial territories, all first-tier cities, 28 second-tier cities and 134 third- and fourth-tier cities as well as 11 overseas countries and markets as of 31 December 2015. The significant increase in the sales volume of our products sold to related parties during the Track Record Period was mainly due to the business growth of Haidilao Group associated with the increase in its hot pot restaurants in China. In 2013, 2014 and 2015, Haidilao Group owned 93, 111 and 142 hot pot restaurants in 24, 29 and 39 cities across China, respectively, and owned two, four and seven hot pot restaurants in two, three and five overseas locations, respectively. In line with Haidilao Group's successful expansion, the sales volume of our products sold to related parties increased from 10,220 tons in 2013 to 13,045 tons in 2014, and further to 16,952 tons in 2015.

Pricing of our products

The pricing of our products sold to third parties is affected by our product positioning strategy and the competitive landscape of the compound condiment industry in China. Our ability to maintain or increase the average selling price of our products sold to third parties will largely depend on our ability to compete effectively and differentiate our products through strong brand recognition, product innovation, our nationwide sales and distribution network and product portfolio.

The pricing of our products sold to related parties is determined by our pricing policy for connected party transaction, please see "Connected Transactions" for further details. During the Track Record Period, we increased the pricing of our products sold to related parties twice in August 2014 and August 2015, respectively, pursuant to our pricing policy for connected party transaction. As a result of the price increase, the average selling price per kilogram of our hot pot soup flavoring

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products sold to related parties increased from RMB17.0 in 2013 to RMB20.8 in 2014 and further to RMB27.0 in 2015, and the average selling price per kilogram of our Chinese-style compound condiment products sold to related parties increased from RMB11.6 in 2013 to RMB15.9 in 2014 and further to RMB19.6 in 2015.

To maintain a consistent pricing policy for our retail products, in January 2016, we further amended our pricing policies for retail products sold to Haidilao Group and its affiliates. Under the amended policies, pricing for these products follows pricing applied to sales to third parties.

The table below sets forth information on our revenue, sales volume and average selling price by product type, and distribution channels for the periods indicated.

	Year ended 31 December								
	2013			2014			2015		
	Revenue (RMB in thousands)	Sales Volume (Tons)	Average Selling Price Per Kilogram (RMB)	Revenue (RMB in thousands)	Sales Volume (Tons)	Average Selling Price Per Kilogram (RMB)	Revenue (RMB in thousands)	Sales Volume (Tons)	Average Selling Price Per Kilogram (RMB)
Hot pot soup flavoring products:									
Related parties.....	169,690	9,998	17.0	266,328	12,804	20.8	446,743	16,566	27.0
Third parties.....	87,527	3,018	29.0	145,146	4,848	29.9	251,909	8,235	30.6
Sub Total.....	257,217	13,016	19.8	411,474	17,652	23.3	698,652	24,801	28.2
Hot pot dipping sauce products:									
Related parties.....	—	—	—	153	8	19.1	53	3	17.7
Third parties.....	9,084	503	18.1	12,584	719	17.5	41,157	2,259	18.2
Sub Total.....	9,084	503	18.1	12,737	727	17.5	41,210	2,262	18.2
Chinese-style compound condiment products:									
Related parties.....	2,566	222	11.6	3,715	233	15.9	7,511	383	19.6
Third parties.....	38,429	1,500	25.6	62,064	2,291	27.1	87,720	3,338	26.3
Sub Total.....	40,995	1,722	23.8	65,779	2,524	26.1	95,231	3,721	25.6
Total.....	315,863	16,032	19.7	498,231	21,857	22.8	847,339	32,048	26.4

During the Track Record Period, our average selling price for our sales to related parties was generally lower than that of our sales to third parties, mainly because (i) in 2013 and part of 2014, as we were still a part of Haidilao Group prior to our Reorganization, the price of our products sold to Haidilao Group was based on a cost plus basis in accordance with Haidilao Group's internal management practice, and (ii) starting from August 2014, we implemented a new pricing policy for our sales to related parties, as our sales to related parties do not require material marketing efforts, the price of the major products sold to related parties was determined with reference to historical sales price and our estimated overall net profit margin through sales to independent third party distributors in accordance with the pricing formula.

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Sales and Distribution Network

We employ a distributor model and primarily sell our products to regional distributors who then typically engage sub-distributors or retailers to sell our products. As of 31 December 2015, our 339 distributors covered 31 provincial territories, all first-tier cities, 28 second-tier cities and 134 third- and fourth-tier cities in China and 11 overseas countries and markets, enabling our products to reach over 6,000 hypermarkets and supermarkets in China, including Walmart and Carrefour, and traditional retail channels, such as grocery stores, neighborhood stores, and butcher shops.

As of 31 December 2013, 2014 and 2015, we had 116, 212 and 339 distributors, respectively. We have increased the number of our distributors in selected key areas to enhance our distribution capabilities.

Our physical network is further supplemented by nine e-commerce channels such as Tmall.com and JD.com. In addition, we have established and have been continuously strengthening our market share in overseas markets. Our products are sold to 11 overseas countries and regions in North America, Europe and Asia. For the years ended 31 December 2013, 2014 and 2015, our revenue from sales to distributors increased rapidly from RMB125.1 million to RMB217.0 million and further to RMB370.4 million, representing a CAGR of 72.3%, accounting for 39.6%, 43.5% and 43.7%, respectively, of our total revenue. In addition, based on our management's judgment about the segregation of certain operating costs related to related parties sales and third parties sales and taking into account of the new pricing policy for related parties sales implemented in August 2014, we believe that our calculated net profit generated from sales to third parties had increased steadily and constituted a significant portion of our overall net profit during the Track Record Period. Further, we believe that the proportionate net profit contribution from our sales to related parties had increased significantly during the Track Record Period primarily as a result of the new pricing policy. However, the proportionate revenue and sales volume contribution from our sales to related parties had been in a downward trend during the Track Record Period primarily as a result of the rapid growth of our sales to third parties.

Product Mix

Our market leadership is built upon the success of our products. We aim to provide comprehensive and high-quality products by relentlessly executing the following strategies: (i) consistent focus on the mid- to high-end sector, (ii) continuous expansion into new segments of the compound condiment market, and (iii) uncompromising commitment of product quality to keep abreast of the evolving customer expectations and food safety standards. We offer a wide range of condiment products, ranging from hot pot condiments to Chinese-style compound condiments such as spicy stir-fry pot and pickles and fish stew condiments. As of 31 December 2015, we had three major product lines with 56 products.

The margins of our products vary among product types. Our Chinese-style compound condiment products usually command a higher margin than that of our other products. Due to the different pricing policy, our products sold to third parties have a higher margin than our products sold to related parties.

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Cost of Raw Materials

Our cost of sales primarily consists of cost of raw materials which primarily consist of vegetable oil (mostly soybean oil and a small amount of rapeseed oil), animal oil (beef tallow), chili peppers, prickly ash and other spices and ingredients, and packaging materials, including plastic bags, wrapping papers, cardboard boxes and product labels. In 2013, 2014 and 2015, cost of soybean oil represented 25.4%, 20.2% and 18.1%, respectively, of our cost of sales. In addition, the prices of soybean oil and other raw materials such as packaging materials are subject to volatility due to market supply and demand, climate, environmental conditions, commodity price fluctuations, currency fluctuations, changes in governmental policies and natural disasters. In particular, the average purchase price of soybean oil, our key raw material, steadily decreased during the Track Record Period, and the average purchase price of prickly ash, our another key raw material, slightly rose in recent years. We have entered into exchange-traded hedging activities in relation to the commodity prices of soybean oil. Our hedging activities reduce the impact of price increases of soybean oil on our production, thereby protecting us against adverse short-term price upward movements, but also limit the benefits of short-term price downward movements.

Seasonality

Sales of our products are subject to seasonality. During the Track Record Period, we have experienced higher sales in the second half of each year, primarily because (i) hot pot dishes are more popular during cold seasons (ii) the corporate, friend and family gatherings are more frequent during holidays at year-end. Through the diversification of our product portfolio, for example our Chinese-style compound condiment products, we believe that we have mitigated, to a certain extent, the adverse impacts on us from the seasonality.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

The preparation of our consolidated financial information requires selecting accounting policies and making estimates and assumptions that affect items reported in the combined financial information. The determination of these accounting policies is fundamental to our results of operations and financial position and requires management to make subjective and complex judgments about matters that are inherently uncertain based on information and data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of assumptions and subjective judgments as to future events and are subject to change, and the use of different assumptions or data could produce materially different results. In addition, actual results could differ from estimates and may have a material adverse effect on our business, financial position, results of operations or cash flows. For more information regarding our significant accounting policies and the summary of significant accounting judgments and estimates, see Note 2 to the Accountant's Report set forth in Appendix I to this prospectus.

Revenue Recognition

See "Appendix I Accountant's Report — II. Notes to the Financial Information — 2. Summary of significant accounting policies and accounting estimates — 2.21 Revenue recognition".

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Property, Plant and Equipment

See “Appendix I Accountant’s Reports — II. Notes to the Financial Information — 2. Summary of significant accounting policies and accounting estimates — 2.5 Property, plant and equipment”.

Inventories

See “Appendix I Accountant’s Report — II. Notes to the Financial Information — 2. Summary of significant accounting policies and accounting estimates — 2.13 Inventories”.

Cash and Cash Equivalents

See “Appendix I Accountant’s Report — II. Notes to Financial Information — 2. Summary of significant accounting policies and accounting estimates — 2.15 Cash and cash equivalents”.

Current and Deferred Income Tax

See “Appendix I Accountant’s Report — II. Notes to the Financial Information — 2. Summary of significant accounting policies and accounting estimates — 2.18 Current and deferred Income Tax”.

SELECTED RESULTS OF OPERATIONS AND FINANCIAL POSITION

The following table sets forth a summary of our consolidated results of operations and financial position for each of the years ended 31 December 2013, 2014 and 2015 and as of 31 December 2013, 2014 and 2015.

	Year ended 31 December					
	2013		2014		2015	
	RMB	% of revenue	RMB	% of revenue	RMB	% of revenue
	(in thousands, except percentages)					
Revenue	315,863	100.0%	498,231	100.0%	847,339	100.0%
Cost of sales	(246,447)	(78.0%)	(378,753)	(76.0%)	(553,106)	(65.3%)
Gross profit	69,416	22.0%	119,478	24.0%	294,233	34.7%
Distribution expenses	(29,709)	(9.4%)	(44,311)	(8.9%)	(93,898)	(11.1%)
Administrative expenses	(10,255)	(3.2%)	(17,309)	(3.5%)	(38,255)	(4.5%)
Other incomes and gains — net	32	—	(691)	(0.1%)	3,479	0.4%
Operating profit	29,484	9.3%	57,167	11.5%	165,559	19.5%
Finance income/(expenses) — net	35	—	(11)	—	1,361	0.2%
Profit before income tax	29,519	9.3%	57,156	11.5%	166,920	19.7%
Income tax expense	(7,455)	(2.4%)	(14,646)	(2.9%)	(42,373)	(5.0%)
Profit for the year	22,064	7.0%	42,510	8.5%	124,547	14.7%

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Consolidated Statements of Financial Position

	As of 31 December		
	2013	2014	2015
	(RMB in thousands)		
Assets			
Non-current assets			
land use rights	9,399	9,179	7,330
Property, plant and equipment.....	107,989	123,463	120,491
Intangible assets	—	26	823
Deferred income tax assets.....	2,351	5,378	5,697
Prepayments for property, plant and equipment..	14,784	15,338	1,748
Total non-current assets	134,523	153,384	136,089
Current assets			
Inventories.....	59,431	83,336	102,754
Trade receivables	1,517	10,909	63,838
Prepayments and other receivables	27,023	28,786	51,467
Derivative financial instruments.....	—	—	—
Cash and cash equivalents.....	2,247	9,222	235,216
Total current assets	90,218	132,253	453,275
Total assets	224,741	285,637	589,364
Equity			
Equity attributable to owners of the company			
Share capital.....	12	12	31
Reserves	37,674	45,726	141,893
Total equity	37,686	45,738	141,924
Liabilities			
Non-current liabilities			
Redeemable convertible preferred shares.....	—	—	186,667
Current liabilities			
Trade payables.....	18,872	37,071	43,324
Other payables and accruals.....	168,183	188,800	196,915
Current income tax liabilities.....	—	14,028	20,534
Total current liabilities	187,055	239,899	260,773
Total liabilities	187,055	239,899	447,440
Total equity and liabilities	224,741	285,637	589,364

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DESCRIPTION OF CERTAIN STATEMENT OF OPERATIONS ITEMS

The following summarizes components of certain items appearing in the Accountant's Report set out in Appendix I to this prospectus, which we believe will be helpful in understanding the period-to-period discussion that follows below.

Revenue

Our revenue represents our gross revenue from operations, net of VAT and related discounts. We derive our revenue from sales of (i) hot pot soup flavoring products, (ii) hot pot dipping sauce products; (iii) Chinese-style compound condiment products and (iv) others. Our revenue can also be categorized as sales to (i) related parties, which mainly represent our sales to Haidilao Group and (ii) third parties, which mainly represent our sales to our distributors and third party catering service providers and our sales through our e-commerce channels. Our revenue increased from RMB315.9 million in 2013 to RMB498.2 million in 2014 and further increased to RMB847.3 million in 2015, mainly as a result of (i) the increase in our sales to distributors as a result of the expansion of our distribution network, (ii) the increase in our product portfolio and (iii) the increase of our sales to related parties.

We have been the sole supplier of hot pot soup flavoring products for Haidilao Group in China. The products we sell to Haidilao Group are primarily customized hot pot soup flavoring products meeting Haidilao Group's specific demands and requirements. We also sell our retail condiment products to Haidilao Group, who displays them in its hot pot restaurants for its customers to select and purchase.

Other than sales to related parties, we sell our products to ultimate customers through (i) our sales to distributors, who then typically engage sub-distributors or retailers to sell our products through various channels, including supermarkets, grocery stores, neighborhood shops, and butcher shops, (ii) our sales through major Chinese e-commerce channels, including Tmall.com and JD.com, and (iii) our direct sales of our condiment products to catering service providers. During the Track Record Period, our direct sales of our condiment products to catering service providers were RMB1.0 million, RMB0.4 million and RMB1.5 million, respectively; and our sales through our online channels were RMB2.7 million, RMB1.4 million and RMB5.5 million, respectively. The drop of our online sales in 2014 was mainly due to the restructuring of our online channels in 2014, which temporarily slowed down our online sales. However, as a result of this restructuring and our strengthened online marketing activities, our online sales increased significantly in 2015.

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The following table sets forth our revenue by product type in absolute amounts and as percentages of our revenue for the periods presented:

	Year ended 31 December					
	2013		2014		2015	
	RMB	% of revenue	RMB	% of revenue	RMB	% of revenue
(in thousands, except percentages)						
Revenue from hot pot soup flavoring products.....	257,217	81.4%	411,474	82.6%	698,652	82.5%
Revenue from hot pot dipping sauce products	9,084	2.9%	12,737	2.6%	41,210	4.9%
Revenue from Chinese-style compound condiment products.....	40,995	13.0%	65,779	13.2%	95,231	11.2%
Revenue from others	8,567	2.7%	8,241	1.6%	12,246	1.4%
Total revenue	315,863	100.0%	498,231	100.0%	847,339	100.0%

Revenue from hot pot soup flavoring products. Our revenue from hot pot soup flavoring products increased from RMB257.2 million in 2013 to RMB411.5 million in 2014 and further increased to RMB698.7 million in 2015, representing a CAGR of 64.8%.

The following table sets forth our revenue from hot pot soup flavoring products by sales channels in absolute amounts and as percentages of our revenue from hot pot soup flavoring products for the periods presented:

	Year ended 31 December					
	2013		2014		2015	
	RMB	% of Hot pot soup flavoring revenue	RMB	% of Hot pot soup flavoring revenue	RMB	% of Hot pot soup flavoring revenue
(in thousands, except percentages)						
Hot pot soup flavoring products:						
Revenue from related parties	169,690	66.0%	266,328	64.7%	446,743	63.9%
Revenue from third parties...	87,527	34.0%	145,146	35.3%	251,909	36.1%
Total revenue from hot pot soup flavoring products .	257,217	100.0%	411,474	100.0%	698,652	100.0%

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Sales of hot pot soup flavoring products to related parties. Our sales of hot pot soup flavoring products to related parties had grown significantly during the Track Record Period. For the years ended 31 December 2013, 2014 and 2015, our hot pot soup flavoring revenue to related parties were RMB169.7 million, RMB266.3 million and RMB446.7 million, respectively. The substantial increase in hot pot soup flavoring products sales to related parties was mainly due to (i) Haidilao Group's rapid business growth and its hot pot restaurant chain expansion, which in turn increased its demand for our products, and (ii) our price increase for our sales to related parties in August 2014 and August 2015, respectively. We expect that revenue from sales of hot pot soup flavoring products to related parties will continue to constitute a major part of our total revenue in the foreseeable future, but will gradually decrease as a percentage of our total revenue due to the increase of our scale and distribution network.

Sales of hot pot soup flavoring products to third parties. We offer our hot pot soup flavoring products to third parties under individually negotiated contracts. For the years ended 31 December 2013, 2014 and 2015, our hot pot soup flavoring revenue to third parties were RMB87.5 million, RMB145.1 million and RMB251.9 million, respectively. Our hot pot soup flavoring products sales to third parties have experienced rapid growth, primarily as a result of the continuous increased demand associated with the expansion of our distribution networks.

Revenue from hot pot dipping sauce products. Our revenue from hot pot dipping sauce products increased from RMB9.1 million in 2013 to RMB12.7 million in 2014 and further increased to RMB41.2 million in 2015, representing a CAGR of 113.0%.

The following table sets forth our revenue from hot pot dipping sauce by sales channels in absolute amounts and as percentages of our revenue from hot pot dipping sauce for the periods presented:

	Year ended 31 December					
	2013		2014		2015	
	RMB	% of hot pot dipping sauce revenue	RMB	% of hot pot dipping sauce revenue	RMB	% of hot pot dipping sauce revenue
	(in thousands, except percentages)					
Hot pot dipping sauce products:						
Revenue from related parties	—	—	153	1.2%	53	0.1%
Revenue from third parties...	9,084	100.0%	12,584	98.8%	41,157	99.9%
Total revenue from hot pot dipping sauce products ...	9,084	100.0%	12,737	100.0%	41,210	100.0%

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Sales of hot pot dipping sauce to related parties. We start to sell a small amount of our hot pot dipping sauce products to our related parties in 2014. Most of our sales of hot pot dipping sauce products to related parties represented our sales to Haidilao Group for display and sales at Haidilao hot pot restaurants. For the years ended 31 December 2013, 2014 and 2015, our revenue from hot pot dipping sauce products sold to related parties were nil, RMB0.15 million and RMB0.05 million, respectively.

Sales of hot pot dipping sauce to third parties. For the years ended 31 December 2013, 2014 and 2015, our revenue from dipping sauce sold to third parties were RMB9.1 million, RMB12.6 million and RMB41.2 million, respectively. Our hot pot dipping sauce products sales to third parties experienced significant growth from 2014 to 2015 primarily because of the introduction of several new hot pot dipping sauce products into the market and expansion of our distribution network.

Revenue from Chinese-style compound condiment products. Our revenue from Chinese-style compound condiment products increased from RMB41.0 million in 2013 to RMB65.8 million in 2014 and further increased to RMB95.2 million in 2015, representing a CAGR of 52.4%.

The following table sets forth our revenue from Chinese-style compound condiment products by sales channels in absolute amounts and as percentages of our revenue from compound condiment products for the periods presented:

	Year ended 31 December					
	2013		2014		2015	
	RMB	% of Chinese-style compound condiment products revenue	RMB	% of Chinese-style compound condiment products revenue	RMB	% of Chinese-style compound condiment products revenue
	(in thousands, except percentages)					
Chinese-style compound condiment products:						
Revenue from related parties	2,566	6.3%	3,715	5.6%	7,511	7.9%
Revenue from third parties...	38,429	93.7%	62,064	94.4%	87,720	92.1%
Total revenue Chinese-style compound condiment products	40,995	100.0%	65,779	100.0%	95,231	100.0%

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Sales of Chinese-style compound condiment products to related parties. For the years ended 31 December 2013, 2014 and 2015, our revenue from Chinese-style compound condiment products sold to related parties were RMB2.6 million, RMB3.7 million and RMB7.5 million, respectively. Our sales of Chinese-style compound condiment products to related parties mainly represent (i) our sales to Shuhai Supply Chain, our affiliated company specialized in providing “one-stop-shop” supply chain services to catering service providers, to satisfy third-party catering service providers’ needs for consistent high-quality condiment products, and (ii) our sales to Haidilao Group for its in-house use. Haidilao Group also displays our Chinese-style compound condiment products in its hot pot restaurants for its customers to select and purchase. The increase in our sales of Chinese-style compound condiment products to related parties during the Track Record Period was mainly due to the increased demands from Shuhai Supply Chain, who sells our products to its catering service clients.

Sales of Chinese-style compound condiment products to third parties. For the years ended 31 December 2013, 2014 and 2015, our revenue from Chinese-style compound condiment products sold to third parties were RMB38.4 million, RMB62.1 million and RMB87.7 million, respectively. Our sales of Chinese-style compound condiment products to third parties have experienced significant growth primarily as a result of the continuous launch of new products and rapid expansion of our distribution network during the Track Record Period. We expect our sales of Chinese-style compound condiment products to third parties will continue to increase both in absolute amount and as a percentage of our total revenue as we will further launch new products, expand our distribution network and strengthen our marketing efforts.

Revenue from others. Our revenue from others primarily consists of our sales of certain raw materials, such as chili peppers and spices, to our related parties because we have a procurement cost advantage on them due to our scale and procurement volume. For the years ended 31 December 2013, 2014 and 2015, our revenue from others were RMB8.6 million, RMB8.2 million and RMB12.2 million. After April 2016, as part of our efforts to reduce our connected transactions, we have ceased to sell raw materials to our related parties.

Costs of Sales

Our costs of sales primarily consist of raw materials, changes in inventories of finished goods and work in progress, employee benefit expenses, depreciation expenses, utilities and others.

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The following table sets forth the components of our costs of sales for the periods presented:

	Year ended 31 December					
	2013		2014		2015	
	RMB	% of revenue	RMB	% of revenue	RMB	% of revenue
(in thousands, except percentages)						
Costs of sales:						
Raw materials	239,977	76.0%	323,491	64.9%	502,031	59.2%
Soybean oil	62,606	19.8%	76,634	15.4%	100,029	11.8%
Chili peppers	20,003	6.3%	39,056	7.8%	65,655	7.7%
Prickly ash	30,871	9.8%	47,038	9.4%	91,350	10.8%
Packaging materials	20,262	6.4%	28,084	5.6%	41,405	4.9%
Beef tallow	5,933	1.9%	12,627	2.5%	32,930	3.9%
Other raw materials	100,302	31.8%	120,502	24.2%	170,662	20.1%
Changes in inventories of finished goods and work in progress	(23,219)	(7.4)%	(4,581)	(0.9)%	(21,933)	(2.6)%
Employee benefit expense	16,368	5.2%	26,877	5.4%	31,424	3.7%
Depreciation and Amortization	4,717	1.5%	16,319	3.3%	16,440	1.9%
Utilities	4,670	1.5%	7,539	1.5%	9,248	1.1%
Others	3,934	1.2%	9,108	1.8%	15,896	1.9%
Total costs of sales	246,447	78.0%	378,753	76.0%	553,106	65.3%

Our costs of raw materials primarily include vegetable oil (mostly soybean oil and a small amount of rapeseed oil), animal oil (beef tallow), chili peppers, prickly ash and other spices and ingredients, and packaging materials, including plastic bags, wrapping papers, cardboard boxes and product labels. During the Track Record Period, the continuous increase in our raw materials costs was primarily due to the increase in our sales volume. The significant increase in our depreciation expenses from 2013 to 2014 was due to the commencement of operation of our Zhengzhou production facilities. In addition, during the Track Record Period, as part of our efforts to reduce the impact of price increases of soybean oil on our production, we had entered into exchange-traded hedging activities in relation to the commodity prices of soybean oil. As a result of our hedging activities, we reduced the cost of soybean oil of nil, RMB0.4 million and RMB1.2 million, respectively, during the Track Record Period. For further details about our hedging activities, see “Business — Hedging.”

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Gross Profit

Gross profit represents the excess of revenue over costs of sales. The following tables set out our gross profit and gross profit margin for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB	%	RMB	%	RMB	%
(in thousands, except percentages)						
Hot pot soup flavoring products	49,446	19.2%	89,322	21.7%	238,170	34.1%
Related parties.....	10,697	6.3%	25,856	9.7%	108,175	24.2%
Third parties.....	38,749	44.3%	63,466	43.7%	129,995	51.6%
Hot pot dipping sauce products	3,145	34.6%	3,339	26.2%	13,316	32.3%
Related parties.....	—	—	8	5.2%	11	20.8%
Third parties.....	3,145	34.6%	3,331	26.5%	13,305	32.3%
Chinese-style compound condiment products	16,148	39.4%	26,673	40.5%	41,163	43.2%
Related parties.....	46	1.8%	274	7.4%	2,000	26.6%
Third parties.....	16,102	41.9%	26,399	42.5%	39,163	44.6%
Others	677	7.9%	144	1.7%	1,584	12.9%
Total	<u>69,416</u>	<u>22.0%</u>	<u>119,478</u>	<u>24.0%</u>	<u>294,233</u>	<u>34.7%</u>

In 2013 and most part of 2014, as we were still a part of the Haidilao Group prior to our Reorganization, our gross profit and gross profit margin for our sales to related parties were significantly lower than that of our sales to third parties primarily because (i) in 2013 and part of 2014, as we were still a part of Haidilao Group prior to our Reorganization, the price of our products sold to Haidilao Group was based on a cost plus basis in accordance with Haidilao Group's internal management practice, and (ii) starting from August 2014, we implemented a new pricing policy for our sales to related parties, as our sales to related parties do not require material marketing efforts, the price of the major products sold to related parties was determined with reference to historical sales price and our estimated overall net profit margin through sales to third-party distributors in accordance with the pricing formula. For further details regarding our pricing policy for connected transactions, see "Connected Transactions" and "Business — Pricing Policy." In August 2015, we further increased the price of certain Haidilao Customized Products and Haidilao Retail Products sold to Haidilao Group. As a result of the new pricing strategy, our gross profit and gross profit margin for our sales to related parties increased significantly in 2015. However, since the price of the major products sold to related parties is determined with reference to our estimated overall net profit margin for our sales to third parties, the gross profit margin for our sales to related parties has been and will continue to be relatively lower than our gross profit margin for our sales to third parties. To maintain a consistent pricing policy for our retail products, in January 2016, we further amended our pricing policies for "Related-party Retail Products". Under the amended policies, pricing for these products follows pricing applied to sales to third parties.

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During the Track Record Period, the increase in our gross profit margin for our hot pot soup flavoring and Chinese-style compound condiment products was primarily because (i) we changed our pricing policy for sales to related parties and (ii) in response to the changing customers' preference towards low-residue products, we modified the formulas of our retail products and upgraded our production techniques to improve the customers' dining experiences by reducing the amount of solid materials contained in our retail products while still preserving the original taste and flavor, such reduction of solid materials in our retail products led to the decrease in the amount of raw materials consumed per product, such as prickly ash, as a result, we successfully lowered the raw materials costs and hence the cost of sales per product accordingly, which in turn contributed to the increase in our gross profit margin. The fluctuation of our gross profit margin for our hot pot dipping sauce products during the Track Record Period was primarily because our contract manufactures raised their prices for the hot pot dipping sauce products sold to us in the middle of 2014, while our price adjustment for hot pot dipping sauce products was made in early 2015.

Distribution Expenses

Our distribution expenses mainly consist of employee benefit expenses, advertising and other marketing expenses, transportation and related charges, travel and entertainment expenses, warehouse fee and others.

The following table sets forth our selling and distribution expenses for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	RMB	% of revenue	RMB	% of revenue	RMB	% of revenue
	(in thousands, except percentages)					
Employee benefit expense ...	9,927	3.1%	17,616	3.5%	38,457	4.5%
Advertising and other						
marketing expenses	7,156	2.3%	12,472	2.5%	31,449	3.7%
<i>Marketing materials</i>	4,725	1.5%	6,399	1.3%	20,882	2.5%
<i>Marketing events</i>	2,344	0.7%	4,035	0.8%	7,855	0.9%
<i>Marketing promotion</i>						
<i>and research</i>	87	0.1%	2,038	0.4%	2,712	0.3%
Transportation and related						
charges	7,277	2.3%	8,665	1.7%	13,099	1.5%
Travel expenses						
/Entertainment expenses....	1,396	0.4%	1,293	0.3%	2,528	0.3%
Warehouse fee.....	—	—	674	0.1%	3,132	0.4%
Other expenses.....	3,953	1.3%	3,591	0.8%	5,233	0.7%
Total distribution						
expenses	<u>29,709</u>	<u>9.4%</u>	<u>44,311</u>	<u>8.9%</u>	<u>93,898</u>	<u>11.1%</u>

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Our distribution expenses were 9.4%, 8.9% and 11.1% of our revenue for the years ended 31 December 2013, 2014 and 2015, respectively. We increased our spending on advertising and promotional activities significantly, particularly our expenses on marketing materials and marketing events, as part of our efforts to expand into new territorial markets and promote our products recognition, in line with our expansion of our distribution network and increased marketing activities. For example, in 2015 we significantly increased the number of tasting events we host and display stands for our products at major supermarkets, grocery stores and neighborhood stores to attract new customers, and we also purchased a large amount of products flyers and brochures to enhance our marketing activities. We also increased our sales personnel from 110 employees as of 31 December 2013 to 374 employees as of 31 December 2015. Our distribution expenses may continue to increase in absolute amounts as we strive to strengthen our leading market position.

Administrative Expenses

Our administrative expenses primarily consist of employee benefit expense for our administrative and management personnel, depreciation of property, plant and equipment, Listing related expenses, legal and professional fees and other miscellaneous expenses.

The following table sets forth our administrative expenses for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	RMB	% of revenue	RMB	% of revenue	RMB	% of revenue
	(in thousands, except percentages)					
Employee benefit expense ...	4,368	1.4%	7,150	1.4%	14,988	1.8%
Depreciation of property, plant and equipment	1,518	0.5%	3,813	0.8%	2,470	0.3%
Listing related expense	—	—	—	—	9,760	1.2%
Legal and professional fees..	887	0.3%	1,949	0.4%	4,661	0.6%
Other expenses.....	3,482	1.0%	4,397	0.9%	6,376	0.6%
Total administrative expenses.....	10,255	3.2%	17,309	3.5%	38,255	4.5%

Our administrative expenses have increased as a result of our business expansion. Our administrative expenses were 3.2%, 3.5% and 4.5% of our revenue for the years ended 31 December 2013, 2014 and 2015, respectively. The increase in our administrative expenses from 2013 to 2015 was primarily due to the increase in the number of employees at our headquarters as a result of our Reorganization and business growth. In 2015, we incurred a significant amount of listing related expense and legal and professional fees mainly for our Reorganization and proposed listing. We expect our administrative expenses to continue to increase in absolute amounts as our business expands and as we incur additional administrative costs associated with being a public company.

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Other Income/(Expenses)-net

Our other income/(expenses)-net primarily consist of our income and losses related to scrap materials, grant from government, losses on disposal of property, plant and equipment, and others.

The following table sets forth our other net income for the periods indicated:

	Year ended 31 December		
	2013	2014	2015
	(RMB in thousands)		
Sales of scrap materials	325	331	594
Government grant	—	—	2,864
Losses on disposal of property, plant and equipment.....	(344)	(1,194)	(2)
Others.....	51	172	23
Total other income (expenses) - net	32	(691)	3,479

The government grant in 2015 was from Shanghai local government to award our investment and operation in Shanghai. The losses on disposal of property, plant and equipment in 2014 was primarily due to the disposal of our previous production equipment of our Chengdu production facilities.

Operating Profit

Operating profit represents the excess of revenue and other net income (expenses) - net over cost of sales, distribution expenses and administrative expenses. The following tables set out our operating profit and operating profit margin for the periods indicated:

	Year ended 31 December					
	2013		2014		2015	
	RMB	Operating profit margin	RMB	Operating profit margin	RMB	Operating profit margin
	(in thousands, except percentages)					
Operating profit	29,484	9.3%	57,167	11.5%	165,559	19.5%

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Finance Incomes/(Expenses) — net

Finance incomes/(expenses) — net consist of the exchange gain/(loss) from our U.S. dollar-denominated assets and the interest income from our cash and cash equivalent.

The following table sets forth our finance costs for the periods indicated:

	Year ended 31 December		
	2013	2014	2015
	(RMB in thousands)		
Finance incomes/(expenses) — net			
Interest incomes.....	35	4	57
Exchange gain/(loss).....	—	(15)	1,304
Total	35	(11)	1,361

We had a large amount of U.S. dollars in late 2015 arising from the investment we received from our Pre-IPO Investors and the significant exchange gain in 2015 was due to the devaluation of RMB against U.S. dollars in late 2015.

Income Tax

Cayman Islands

We are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

Hong Kong

Our wholly owned Hong Kong subsidiary, Yihai (China) (Hong Kong), is subject to Hong Kong profit tax on its activities conducted in Hong Kong. Dividends from our Hong Kong subsidiary to us are exempt from withholding tax.

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PRC

In March 2007, the PRC government enacted the New EIT Law, and promulgated the related regulation Implementation Regulations for the PRC Enterprise Income Tax Law. The law and regulation came into effect on 1 January 2008. The New EIT Law applies a uniform EIT rate of 25% to all domestic enterprises and foreign-invested enterprises and defines new tax incentives for qualifying entities. Therefore, all of our PRC subsidiaries are subject to an income tax rate of 25%.

In addition, the New EIT Law treats enterprises established outside of China that have “de facto management bodies” located in China as a PRC resident enterprise for tax purposes. A “de facto management body” is defined as a management body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. We currently do not believe that we are, or our Hong Kong subsidiary is, a PRC resident enterprise because we do not believe that we or our Hong Kong subsidiary meet all of the conditions for determining whether the “de facto management body” of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC but there is no assurance in this regard. If we are considered a “PRC resident enterprise” for PRC tax purposes, we would be subject to the PRC enterprise income tax on our global income. See “Risk Factors — Risks Relating to China — The Company or any of its non-PRC subsidiaries may be deemed to be a PRC tax resident under the EIT Law and our non-PRC shareholders may be subject to PRC withholding tax on dividends and PRC taxes on gains from transfers of our Shares.”

Pursuant to the New EIT law and its implementation rules, dividends payable to foreign investors are subject to a 10% withholding tax. Under the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income, or the Double Tax Avoidance Arrangement, a qualified Hong Kong tax resident which is determined by the competent PRC tax authority to have satisfied relevant requirements under the Double Tax Avoidance Arrangement and other applicable PRC laws is entitled to a reduced withholding tax rate of 5%.

As of the Latest Practicable Date, we had paid all relevant taxes applicable to us and had no disputes or unresolved tax issues with relevant tax authorities.

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RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated results of operations by absolute amount and as a percentage of our revenue for the periods indicated. This information should be read together with our audited consolidated financial statements and related notes included elsewhere in this prospectus. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	Year ended 31 December					
	2013		2014		2015	
	RMB	% of revenue	RMB	% of revenue	RMB	% of revenue
	(in thousands, except percentages)					
Revenue	315,863	100.0%	498,231	100.0%	847,339	100.0%
Cost of sales	(246,447)	(78.0%)	(378,753)	(76.0%)	(553,106)	(65.3%)
Gross profit	69,416	22.0%	119,478	24.0%	294,233	34.7%
Distribution expenses	(29,709)	(9.4%)	(44,311)	(8.9%)	(93,898)	(11.1%)
Administrative expenses	(10,255)	(3.2%)	(17,309)	(3.5%)	(38,255)	(4.5%)
Other incomes and gains — net	32	—	(691)	(0.1%)	3,479	0.4%
Operating profit	29,484	9.3%	57,167	11.5%	165,559	19.5%
Finance income/(expenses) — net	35	—	(11)	—	1,361	0.2%
Profit before income tax	29,519	9.3%	57,156	11.5%	166,920	19.7%
Income tax expense	(7,455)	(2.4%)	(14,646)	(2.9%)	(42,373)	(5.0%)
Profit for the year	<u>22,064</u>	<u>7.0%</u>	<u>42,510</u>	<u>8.5%</u>	<u>124,547</u>	<u>14.7%</u>

Year Ended 31 December 2015 Compared to Year Ended 31 December 2014

Revenue. Our total revenue increased by 70.1% from RMB498.2 million in 2014 to RMB847.3 million in 2015. This increase was primarily due to (i) the increase from sales to third parties as a result of the expansion of our distribution network and (ii) the increase from sales to related parties as a result of (a) the demand increase from Haidilao Group fueled by its business growth and (b) the two rounds of price increase for our sales to related parties in August 2014 and August 2015.

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Revenue from hot pot soup flavoring products. Our revenue from hot pot soup flavoring increased by 69.8% from RMB411.5 million in 2014 to RMB698.7 million in 2015.

- *Sales of hot pot soup flavoring products to related parties.* Our revenue from sales of hot pot soup flavoring products to related parties increased by 67.7% from RMB266.3 million in 2014 to RMB446.7 million in 2015. This substantial increase was mainly due to (i) the demand increase from the Haidilao Group as a result of its business growth and (ii) the two rounds of price increase for our sales to related parties in August 2014 and August 2015. In 2015, our revenue from sales of hot pot soup flavoring products to related parties accounted for 52.7% of our total revenue, compared to 53.5% of our total revenue in 2014.
- *Sales of hot pot soup flavoring products to third parties.* Our revenue from sales of hot pot soup flavoring products to third parties increased by 73.6% from RMB145.1 million in 2014 to RMB251.9 million in 2015, primarily as a result of the expansion of our distribution network and our strengthened marketing activities to promote our products. As a percentage of our total revenue, our revenue from sales of hot pot soup flavoring products to third parties in 2015 was 29.7%, compared to 29.1% of our total revenue in 2014.

Revenue from hot pot dipping sauce products. Our revenue from hot pot dipping sauce increased by 223.5% from RMB12.7 million in 2014 to RMB41.2 million in 2015.

- *Sales of hot pot dipping sauce to related parties.* Our revenue from sales of hot pot dipping sauce products to related parties was RMB0.05 million in 2015, as compared to RMB0.15 million in 2014.
- *Sales of hot pot dipping sauce to third parties.* Our revenue from sales of hot pot dipping sauce products to third parties increased by 227.1% from RMB12.6 million in 2014 to RMB41.2 million in 2015, primarily as a result of the introduction and strengthened marketing of several new popular hot pot dipping sauce products in 2015. As a percentage of our revenue, our revenue from sales of hot pot dipping sauce products to third parties was 4.9% in 2015, compared to 2.5% of our total revenue in 2014.

Revenue from Chinese-style compound condiment products. Our revenue from sales of Chinese-style compound condiment products increased by 44.8% from RMB65.8 million in 2014 to RMB95.2 million in 2015.

- *Sales of Chinese-style compound condiment products to related parties.* Our revenue from sales of Chinese-style compound condiment products to related parties increased by 102.2% from RMB3.7 million in 2014 to RMB7.5 million in 2015. This increase was mainly due to the increased sales of our Chinese-style compound condiment products to Shuhai Supply Chain mainly as a result of the increased demands for our customized Chinese-style compound condiment products from its catering service clients. In 2015, our revenue from sales of Chinese-style compound condiment products to related parties accounted for 0.9% of our total revenue, compared to 0.7% of our total revenue in 2014.

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- *Sales of Chinese-style compound condiment products to third parties.* Our revenue from sales of Chinese-style compound condiment products to third parties increased by 41.3% from RMB62.1 million in 2014 to RMB87.7 million in 2015, primarily as a result of the expansion of our distribution network. As a percentage of our revenue, our revenue from sales of Chinese-style compound condiment products to third parties in 2015 was 10.4%, compared to 12.5% of our total revenue in 2014.

Revenue from others. Our revenue from others increased from RMB8.2 million in 2014 to RMB12.2 million in 2015, primarily due to the increase in our sales to our related parties.

Costs of sales. Our cost of sales increased by 46.0% from RMB378.8 million in 2014 to RMB553.1 million in 2015, including:

Raw materials. Our raw materials increased by 55.2% from RMB323.5 million in 2014 to RMB502.0 million in 2015 mainly due to the increase in our sales volume, which was partially offset by the downward trend of the price of soybean oil, one of our major raw materials.

Employee benefit. Our employee benefit increased by 16.7% from RMB26.9 million in 2014 to RMB31.4 million in 2015 mainly due to the increase in our production staff.

Depreciation and Amortization. Our depreciation and amortization was RMB16.4 million in 2015, as compared to RMB16.3 million in 2014.

Changes in inventories of finished goods and work in progress. Our changes in inventories of finished goods and work in progress was RMB21.9 million in 2015, as compared to RMB4.6 million in 2014, mainly as a result of our business growth.

Utilities. Our utilities increased by 22.7% from RMB7.5 million in 2014 to RMB9.2 million in 2015 mainly as a result of our business growth.

Others. Others was RMB15.9 million in 2015, as compared to RMB9.1 million in 2014.

Gross profit. Our gross profit increased by 146.3% from RMB119.5 million in 2014 to RMB294.2 million in 2015. Our gross profit margin increased from 24.0% in 2014 to 34.7% in 2015, primarily because (i) we increased the prices of our products sold to related parties in August 2014 and August 2015, (ii) the price of soybean oil, one of our major raw materials, was in downward trend, (iii) we improved our production techniques which helped lower our production costs and (iv) our other cost of sales related expenses increased at a slower pace than our revenue growth as we benefited from increasing economies of scale.

Gross profit margin of hot pot soup flavoring products. Our gross profit margin of hot pot soup flavoring products increased from 21.7% in 2014 to 34.1% in 2015.

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Our gross profit margin of hot pot soup flavoring products sold to related parties increased from 9.7% in 2014 to 24.2% in 2015 mainly because we increased the prices of our hot pot soup flavoring products sold to related parties in 2015 and improved our production techniques which helps lower the production costs. Our gross profit margin of hot pot soup flavoring products sold to third parties increased from 43.7% in 2014 to 51.6% in 2015 mainly due to the improvement in our production techniques.

Gross profit margin of hot pot dipping sauce products. Our gross profit margin of hot pot dipping sauce products increased from 26.2% in 2014 to 32.3% in 2015. Such gross profit margin was lower than its normal scale in 2014 mainly because our contract manufactures raised their prices for our hot pot dipping sauce products in the middle of 2014, while our price adjustment was made in early 2015.

Gross profit margin of Chinese-style compound condiment products. Our gross profit margin of Chinese-style compound condiment products increased from 40.5% in 2014 to 43.2% in 2015.

Our gross profit margin of Chinese-style compound condiment products sold to related parties increased from 7.4% in 2014 to 26.6% in 2015 mainly because we increased the prices of our Chinese-style compound condiment products sold to related parties in 2015 and improved our production techniques which helps lower the production costs. Our gross profit margin of Chinese-style compound condiment products sold to third parties increased from 42.5% in 2014 to 44.6% in 2015 mainly due to the improvement in our production techniques.

Distribution expenses. Our distribution expenses increased by 111.9% from RMB44.3 million in 2014 to RMB93.9 million in 2015. This increase was primarily because (i) we enlarged sales force which increased from 178 employees in 2014 to 374 employees in 2015, which in turn increased our employee benefit expenses from RMB17.6 million in 2014 to RMB38.5 million in 2015 and (ii) we increased our marketing activities and broadened our distribution network to promote our products, which in turn increased our advertising and other marketing expenses from RMB12.5 million in 2014 to RMB31.4 million in 2015. As a result, as a percentage of our revenue, our distribution expenses increased from 8.9% in 2014 to 11.1% in 2015.

Administrative expenses. Our administrative expenses increased by 121.0% from RMB17.3 million in 2014 to RMB38.3 million in 2015, primarily due to (i) the increase in the number of employees at our headquarters as a result of the restructure of our headquarters functions, which increased from 47 in 2014 to 112 in 2015 and (ii) the RMB9.8 million listing expenses and RMB4.7 million legal and professional fees that we incurred in 2015 in connection with our proposed listing and Reorganization. As a percentage of our revenue, our administrative expenses increased from 3.5% in 2014 to 4.5% in 2015.

Other incomes and gains/(expenses) — net. We recorded a net of other incomes and gains of RMB3.5 million in 2015, as compared to a net of other expenses of RMB0.7 million in 2014, primarily due to the government grant of RMB2.9 million we received in 2015.

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Operating profit. Our operating profit increased by 189.6% from RMB57.2 million in 2014 to RMB165.6 million in 2015. Our operating profit margin increased from 11.5% in 2014 to 19.5% in 2015, primarily due to our improved gross profit margin.

Finance incomes/(expenses) — net. We recorded a net of finance incomes of RMB1.4 million in 2015, as compared to a net of finance expenses of RMB11,000 in 2014, primarily due to the foreign exchange gain in connection with our Pre-IPO Investment.

Profit before income tax. Our profit before income tax increased by 192.0% from RMB57.2 million in 2014 to RMB166.9 million in 2015.

Income tax expense. Our income tax increased from RMB14.6 million in 2014 to RMB42.4 million.

Profit for the year. As a result of the foregoing, our profit increased significantly from RMB42.5 million in 2014 to RMB124.5 million in 2015.

Year Ended 31 December 2014 Compared to Year Ended 31 December 2013

Revenue. Our total revenue increased by 57.7% from RMB315.9 million in 2013 to RMB498.2 million in 2014. This increase was primarily due to (i) the increased demand from Haidilao Group as a result of its business growth, (ii) the expansion of our distribution network and (iii) the price increase for our sales to related parties in August 2014.

Revenue from hot pot soup flavoring products. Our revenue from hot pot soup flavoring increased by 60.0% from RMB257.2 million in 2013 to RMB411.5 million in 2014.

- **Sales of hot pot soup flavoring products to related parties.** Our revenue from sales of hot pot soup flavoring products to related parties increased by 56.9% from RMB169.7 million in 2013 to RMB266.3 million in 2014. This substantial increase was mainly due to (i) the demand increase from the Haidilao Group as a result of its business growth and (ii) the price increase for our sales to the Haidilao Group in August 2014. In 2014, our revenue from sales of hot pot soup flavoring products to related parties accounted for 53.5% of our total revenue, compared to 53.7% of our total revenue in 2013.
- **Sales of hot pot soup flavoring products to third parties.** Our revenue from sales of hot pot soup flavoring products to third parties increased by 65.8% from RMB87.5 million in 2013 to RMB145.1 million in 2014, primarily as a result of the expansion of our distribution network and our strengthened marketing activities to promote our products. As a percentage of our total revenue, our revenue from sales of hot pot soup flavoring products to third parties in 2014 was 29.1%, compared to 27.7% of our total revenue in 2013.

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Revenue from hot pot dipping sauce products. Our revenue from hot pot dipping sauce increased by 40.2% from RMB9.1 million in 2013 to RMB12.7 million in 2014.

- *Sales of hot pot dipping sauce products to related parties.* We didn't sell hot pot dipping sauce to our related parties in 2013. Our revenue from sales of hot pot dipping sauce products to related parties was RMB0.15 million in 2014.
- *Sales of hot pot dipping sauce products to third parties.* Our revenue from sales of hot pot dipping sauce products to third parties increased by 38.5% from RMB9.1 million in 2013 to RMB12.6 million in 2014, primarily as a result of the increased customers' demand. As a percentage of our total revenue, our revenue from sales of hot pot dipping sauce products to third parties was 2.5% in 2014, compared to 2.9% of our total revenue in 2013.

Revenue from Chinese-style compound condiment products. Our revenue from sales of Chinese-style compound condiment products increased by 60.5% from RMB41.0 million in 2013 to RMB65.8 million in 2014.

- *Sales of Chinese-style compound condiment products to related parties.* Our revenue from sales of Chinese-style compound condiment products to related parties increased by 44.8% from RMB2.6 million in 2013 to RMB3.7 million in 2014. This increase was mainly due to the increased sales of our Chinese-style compound condiment products to Shuhai Supply Chain as a result of the increased demands for our customized Chinese-style compound condiment products from its catering service clients. In 2014, our revenue from sales of Chinese-style compound condiment products to related parties accounted for 0.7% of our total revenue, compared to 0.8% of our total revenue in 2013.
- *Sales of Chinese-style compound condiment products to third parties.* Our revenue from sales of Chinese-style compound condiment products to third parties increased by 61.5% from RMB38.4 million in 2013 to RMB62.1 million in 2014, primarily as a result of the launch of several new products and the expansion of our distribution network. As a percentage of our total revenue, our revenue from sales of Chinese-style compound condiment products to third parties in 2014 was 12.5%, compared to 12.2% of our total revenue in 2013.

Revenue from others. Our revenue from others was RMB8.2 million in 2014, as compared to RMB8.6 million in 2013.

Costs of sales. Our cost of sales increased by 53.7% from RMB246.4 million in 2013 to RMB378.8 million in 2014, including:

Raw materials. Our raw materials increased by 34.8% from RMB240.0 million in 2013 to RMB323.5 million in 2014 mainly due to the increase in our sales volume, which was partially offset by the price decrease of soybean oil, one of our major raw materials.

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Employee benefit. Our employee benefit increased by 64.2% from RMB16.4 million in 2013 to RMB26.9 million in 2014 mainly due to the increase in our production staff.

Depreciation and Amortization. Our depreciation and amortization increased from RMB4.7 million in 2013 to RMB16.3 million in 2014 mainly due to the commencement of our production facility at Zhengzhou.

Changes in inventories of finished goods and work in progress. Our changes in inventories of finished goods and work in progress was RMB4.6 million in 2014, as compared to RMB23.2 million in 2013, the significant amount in 2013 was mainly because we purchased a large amount of chili pepper at the end of 2013 as we anticipated that the price of chili peppers may significantly increase in 2014.

Utilities. Our utilities increased by 61.6% from RMB4.7 million in 2013 to RMB7.5 million in 2014 mainly as a result of our business growth.

Others. Others was RMB9.1 million in 2014, as compared to RMB3.9 million in 2013.

Gross profit. Our gross profit increased by 72.1% from RMB69.4 million in 2013 to RMB119.5 million in 2014. Our gross profit margin increased from 22.0% in 2013 to 24.0% in 2014, primarily because (i) we increased the prices of our products sold to related parties in August 2014, (ii) the price of soybean oil, one of our major raw materials, decreased and (iii) our other cost of sales related expenses increased at a slower pace than our revenue growth as we benefited from increasing economies of scale.

Gross profit margin of hot pot soup flavoring products. Our gross profit margin of hot pot soup flavoring products increased from 19.2% in 2013 to 21.7% in 2014. Our gross profit margin of hot pot soup flavoring products sold to related parties increased from 6.3% in 2013 to 9.7% in 2014 mainly because the price increase in August 2014. Our gross profit margin of hot pot soup flavoring products sold to third parties was 43.7% in 2014, as compared to 44.3% in 2013.

Gross profit margin of hot pot dipping sauce products. Our gross profit margin of hot pot dipping sauce products decreased from 34.6% in 2013 to 26.2% in 2014 mainly because our contract manufacturers raised their prices for our hot pot dipping sauce products in the middle of 2014, while we did not make any price adjustment in 2014.

Gross profit margin of Chinese-style compound condiment products. Our gross profit margin of Chinese-style compound condiment products increased from 39.4% in 2013 to 40.5% in 2014.

Our gross profit margin of Chinese-style compound condiment products sold to related parties increased from 1.8% in 2013 to 7.4% in 2014. In 2013 and most part of 2014, our gross profit and gross profit margin for our sales to related parties were significantly lower than that of our sales to third parties mainly due to the different pricing strategy. Our gross profit margin of Chinese-style compound condiment products sold to third parties increased from 41.9% in 2013 to 42.5% in 2014, mainly because we launched several new products in 2014, which had higher gross margins.

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Distribution expenses. Our distribution expenses increased by 49.2% from RMB29.7 million in 2013 to RMB44.3 million in 2014. This increase was primarily due to (i) the increase in our sales force, which increased from 110 in 2013 to 178 in 2014, which in turn increased our employee benefit expenses from RMB9.9 million in 2013 to RMB17.6 million in 2014 and (ii) the expansion of our distribution network and our strengthened marketing activities to promote our products, which in turn increased our advertising and other marketing expenses from RMB7.2 million in 2013 to RMB12.5 million in 2014. As a percentage of our revenue, our distribution expenses decreased from 9.4% in 2013 to 8.9% in 2014 due to our increased scale.

Administrative expenses. Our administrative expenses increased by 68.8% from RMB10.3 million in 2013 to RMB17.3 million in 2014, primarily due to the increase in the number of employees at our headquarters as a result of our business growth, which increased from 21 in 2013 to 47 in 2014. As a percentage of our revenue, our administrative expenses remained stable in 2013 and 2014.

Other incomes and gains/(losses) — net. We recorded a net of other losses of RMB0.7 million in 2014 primarily due to the loss on disposal of property, plant and equipment of RMB1.2 million in connection with our disposal of certain equipment of Chengdu production facilities, as compared to a net of other incomes and gains of RMB32,000 in 2013.

Operating profit. Our operating profit increased by 93.9% from RMB29.5 million in 2013 to RMB57.2 million in 2014. Our operating profit margin increased from 9.3% in 2013 to 11.5% in 2014, primarily due to our improved gross profit margin.

Finance incomes/(expenses) — net. We recorded a net of finance expenses of RMB11,000 in 2014, as compared to a net of finance incomes of RMB35,000 in 2013.

Profit before income tax. Our profit before income tax increased by 93.6% from RMB29.5 million in 2013 to RMB57.2 million in 2014.

Income tax expense/(benefit). Our income tax increased from RMB7.5 million in 2013 to RMB14.6 million in 2014.

Profit for the year. As a result of the foregoing, our profit increased from RMB22.1 million in 2013 to RMB42.5 million in 2014.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We have historically met our working capital and other capital requirements principally from cash flow generated from our operating activities. Going forward, we believe that our liquidity requirement will be satisfied by using a combination of cash flow generated from our operating activities, other funds raised from the capital markets from time to time and the proceeds from this Global Offering.

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Cash Flow

The following table presents selected cash flow data from our combined statements of cash flows for the periods indicated:

	Years ended 31 December		
	2013	2014	2015
	(RMB in thousands)		
Net cash (used in)/generated from operating activities	(5,822)	73,322	89,638
Net cash used in investing activities	(12,399)	(37,397)	(22,551)
Net cash (used in)/generated from financing activities	(30,958)	(28,935)	157,603
Net (decrease)/increase in cash and cash equivalents	(49,179)	6,990	224,690
Cash and cash equivalents at end of year	2,247	9,222	235,216

Net cash generated from or used in operating activities

We had net cash generated from operating activities of RMB89.6 million in 2015, which was primarily attributable to (i) a profit before income tax of RMB166.9 million, and (ii) adjusted for depreciation of property, plant and equipment of RMB19.2 million, (iii) offset by changes in certain working capital items that negatively impact the cash flow from operating activities, mainly including an increase of inventories of RMB19.4 million and an increase in trade and other receivables and prepayments of RMB75.4 million associated with our business growth, and (iv) adjusted for changes in a working capital item that positively impacts the cash flow from operating activities, namely an increase of trade and other payables and prepayments of RMB35.9 million.

We had net cash generated from operating activities of RMB73.3 million in 2014, which was primarily attributable to (i) a profit before income tax of RMB57.2 million, and (ii) adjusted for depreciation of property, plant and equipment of RMB20.1 million, (iii) adjusted for changes in a working capital item that positively impacts the cash flow from operating activities, namely an increase in trade and other payables and accruals of RMB33.3 million associated with our business growth, (iv) offset by changes in certain working capital items that negatively impact the cash flow from operating activities, mainly including an increase of inventory of RMB23.9 million and an increase in trade and other receivables and prepayments of RMB11.4 million associated with our business growth.

We had net cash used in operating activities of RMB5.8 million in 2013, which was primarily attributable to (i) a profit before income tax of RMB29.5 million, and (ii) adjusted for depreciation of property, plant and equipment of RMB6.6 million, (iii) adjusted for changes in certain working capital items that negatively impact the cash flow from operating activities, mainly including an increase of inventories of RMB29.5 million and an increase in trade and other receivables and prepayments of RMB11.0 million associated with our business growth and (iv) offset by changes in a working capital item that positively impacts the cash flow from operating activities, namely a increase in trade and other payables and accruals of RMB7.3 million.

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Net cash used in investing activities

We had net cash used in investing activities of RMB22.6 million in 2015, which was attributable to the purchases of property, plant and equipment of RMB22.0 million associated with the acquisition of the land use right of our Zhengzhou production facility and purchase of intangible assets of RMB0.9 million, and was partially offset by proceeds from disposal of property, plant and equipment of RMB0.3 million.

We had net cash used in investing activities of RMB37.4 million in 2014, which was primarily attributable to the purchases of property, plant and equipment of RMB37.8 million associated with the renovation of Chengdu production facilities, and was partially offset by proceeds from disposal of property, plant and equipment of RMB0.4 million.

We had net cash used in investing activities of RMB12.4 million in 2013, which was attributable to the purchases of property, plant and equipment of RMB17.2 million associated with the construction of our Zhengzhou production facilities, and was partially offset by proceeds from disposal of property, plant and equipment of RMB4.8 million.

Net cash generated from or used in financing activities

We had net cash generated from financing activities of RMB157.6 million in 2015, which was attributable to the proceeds from issuance of Series A Preferred Shares of RMB186.7 million in connection with our Pre-IPO Investment, the proceeds from issuance of common shares of RMB17.7 million in connection with our Pre-IPO Investment, and deemed distribution to equity holders of RMB47.1 million in connection with our Reorganization, and decrease in other payables to related parties of RMB0.3 million.

We had net cash used in financing activities of RMB28.9 million in 2014, which was primarily attributable to the deemed distribution to equity holders of RMB34.5 million, and increase in other payables to related parties of RMB5.5 million.

We had net cash used in financing activities of RMB30.9 million in 2013, which was attributable to the deemed distribution to equity holders of RMB28.6 million, and increase in other payable to related parties of RMB2.3 million.

Capital Commitments and Operating Lease Commitments

We did not have any material capital commitments as of 31 December 2013, 2014 and 2015.

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We lease various offices and warehouses under non-cancellable operating lease agreements. The future minimum lease payable under non-cancellable operating leases contracted for at the balance sheet dates but not recognized as liabilities, are as follows:

	As of 31 December		
	2013	2014	2015
	(RMB in thousands)		
Within one year	—	—	3,013
Between one to five years.....	—	—	6,026
Total	<u>—</u>	<u>—</u>	<u>9,039</u>

Net Current Assets and Liabilities

The following table sets forth the breakdown of our current assets and current liabilities as of the dates indicated below:

	As of 31 December			As of
	2013	2014	2015	30 April
	(RMB in thousands)			
Current Assets				
Inventories	59,431	83,336	102,754	67,251
Trade receivables	1,517	10,909	63,838	45,917
Prepayments and other receivables	27,023	28,786	51,467	53,902
Derivative financial instruments	—	—	—	—
Cash and cash equivalents.....	2,247	9,222	235,216	204,128
Total current assets	<u>90,218</u>	<u>132,253</u>	<u>453,275</u>	<u>371,198</u>
Current Liabilities				
Trade payables	18,872	37,071	43,324	23,225
Other payables and accruals	168,183	188,800	196,915	159,839
Current income tax liabilities	—	14,028	20,534	—
Total current liabilities	<u>187,055</u>	<u>239,899</u>	<u>260,773</u>	<u>183,064</u>
Net Current (Liabilities)/Assets	<u>(96,837)</u>	<u>(107,646)</u>	<u>192,502</u>	<u>188,134</u>

As of 30 April 2016, we had net current assets of RMB188.1 million, representing a decrease of RMB4.4 million from our net current assets of RMB192.5 million as of 31 December 2015. The decrease was mainly due to a decrease in inventories of RMB35.5 million and a decrease in cash and cash equivalents of RMB31.1 million, which was partially offset by a decrease in our other payables of accruals of RMB37.1 million.

As of 31 December 2015, we had net current assets of RMB192.5 million, representing an increase of RMB300.1 million from our net current liabilities of RMB107.6 million as of 31 December 2014. The increase was mainly due to an increase in cash and cash equivalent of RMB226.0 million

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associated with our improved profit and investment from our Pre-IPO Investors, an increase in prepayments and other receivables of RMB22.7 million and an increase in trade receivables of RMB52.9 million, which was partially offset by the increase in other payables and accruals of RMB8.1 million.

As of 31 December 2014, we had net current liabilities of RMB107.6 million, representing an increase of RMB10.8 million from our net current liabilities of RMB96.8 million as of 31 December 2013. The increase was mainly due to an increase in other payables and accruals of RMB20.6 million, an increase in current income tax liabilities of RMB14.0 million, and an increase in trade payables of RMB18.2 million, which was partially offset by an increase in inventories of RMB23.9 million and an increase in cash and cash equivalent of RMB7.0 million.

As of 31 December 2013, we had net current liabilities of RMB96.8 million. This was mainly due to the significant amount of other payables associated with the construction of our Zhengzhou production facility.

Working Capital

During the Track Record Period, we have met our working capital needs mainly from our cash and cash equivalents on hand, cash generated from operations and equity investment. We manage our cash flow and working capital by closely monitoring and managing our operation and expansion plans. We also diligently review future cash flow requirements to ensure that we maintain sufficient working capital to support our business operations and expansion plans.

As of 31 December 2013 and 2014, our net current liabilities position was primarily because (i) we were part of Haidilao Group prior to the Reorganization, and most of our cash and cash equivalent had been distributed to Haidilao Group pursuant to its overall cash management practice, and (ii) there was a significant amount due to related parties under current other payables as of 31 December 2013 and 2014 primarily associated with the construction of our Zhengzhou production facilities. Since 2015 and in connection with the Reorganization, we ceased distributing cash and cash equivalent to Haidilao Group, and we repaid a large amount due to related parties in 2015. In addition, we received a significant amount of equity investment from our Pre-IPO Investors in late 2015. As a result, we recorded net current assets as of 31 December 2015 and 30 April 2016.

In March 2016, we obtained a credit facility of up to US\$5 million from DBS Bank (China) Limited, all of which remains available for drawdown.

In 2016, we anticipate that our total capital expenditures will amount to RMB93.5 million, consisting of approximately RMB89.8 million for the construction of our Bazhou Production Base and RMB3.7 million for purchases of property, plant and equipment.

Taking into account the financial resources available to us, including our cash and cash equivalents on hand and cash generated from operations, banking facilities as well as estimated net proceeds from the Global Offering, our Directors are of the opinion that we have sufficient working capital required for our operations at present and for at least the next 12 months from the date of this prospectus.

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BALANCE SHEET ITEMS

Current Assets and Liabilities

	As of 31 December		
	2013	2014	2015
	(RMB in thousands)		
Assets			
Non-current assets			
Land use rights	9,399	9,179	7,330
Property, plant and equipment.....	107,989	123,463	120,491
Intangible assets	—	26	823
Deferred income tax assets.....	2,351	5,378	5,697
Prepayments for property, plant and equipment.....	14,784	15,338	1,748
Total non-current assets	<u>134,523</u>	<u>153,384</u>	<u>136,089</u>
Current assets			
Inventories.....	59,431	83,336	102,754
Trade receivables	1,517	10,909	63,838
Prepayments and other receivables.....	27,023	28,786	51,467
Derivative financial instruments.....	—	—	—
Cash and cash equivalents.....	2,247	9,222	235,216
Total current assets	<u>90,218</u>	<u>132,253</u>	<u>453,275</u>
Total assets	<u>224,741</u>	<u>285,637</u>	<u>589,364</u>
Equity			
Equity attributable to owners of the Company			
Share capital.....	12	12	31
Reserves	37,674	45,726	141,893
Total equity	<u>37,686</u>	<u>45,738</u>	<u>141,924</u>
Liabilities			
Non-current liabilities			
Redeemable convertible preferred shares.....	—	—	186,667
Current liabilities			
Trade payables.....	18,872	37,071	43,324
Other payables and accruals.....	168,183	188,800	196,915
Current income tax liabilities.....	—	14,028	20,534
Total current liabilities	<u>187,055</u>	<u>239,899</u>	<u>260,773</u>
Total liabilities	<u>187,055</u>	<u>239,899</u>	<u>447,440</u>
Total equity and liabilities	<u>224,741</u>	<u>285,637</u>	<u>589,364</u>

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Property, Plant and Equipment

As of 31 December 2013, 2014 and 2015, our property, plant and equipment were RMB108.0 million, RMB123.5 million and RMB120.5 million, respectively. During the Track Record Period, our property, plant and equipment included primarily buildings, production facilities, machinery and equipment, and storage facilities at our Zhengzhou production facilities and Chengdu production facilities.

Inventories

Our inventories consist of primarily raw materials, finished goods and work-in-progress. As of 31 December 2013, 2014 and 2015, we had inventories valued at RMB59.4 million, RMB83.3 million and RMB102.8 million, respectively. The continuous increase in our inventories during the Track Record Period was in line with our business growth. As of 31 December 2015, our inventories were RMB102.8 million, of which, RMB101.8 million had been utilized as of 31 March 2016.

The following table sets forth the details of our inventories as of the dates indicated:

	As of 31 December		
	2013	2014	2015
	(RMB in thousands)		
Raw materials	15,655	34,979	32,464
Work-in-progress.....	2,955	2,158	3,621
Finished goods	40,821	46,199	66,669
Total inventories	59,431	83,336	102,754

The following table sets forth the turnover days of our inventories during the Track Record Period.

	31 December		
	2013	2014	2015
Turnover days of inventories ⁽¹⁾	66.2	68.8	61.4

Note:

(1) Turnover days of inventories for a certain period is the arithmetic mean of the opening and closing balances of inventories for the relevant period divided by cost of sales for the relevant period and multiplied by 365 for each year.

Our turnover days of inventories remained relatively stable in 2013 and 2014. The decrease in our inventories turnover days from 2014 to 2015 was because since later 2014, we improved our inventory management by making production plan for our third parties only upon receipt of their orders, which in turn lowered our inventory level for our finished goods.

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Trade Receivables

Our trade receivables represent the outstanding amounts receivable by us from our customers. We generally provide trade credit to our related parties for a period of 30 days from the invoice date. We usually do not provide trade credit to our distributors. However, during the peak seasons, we provide trade credit to certain major distributors, for periods of ranging from 30 to 60 days from the invoice date, depending on several factors, including the customer's financial position, volume, track record and other factors. Our trade receivables increased from RMB1.5 million as of 31 December 2013 to RMB10.9 million as of 31 December 2014, and further to RMB63.8 million as of 31 December 2015. The significant increase in our trade receivables during the Track Record Period was mainly because our trade receivables were significantly lower than the normal scale in 2013 and 2014, because prior to the Reorganization, we were part of Haidilao Group and therefore we offset a large amount of trade receivables from Haidilao Group for our due to Haidilao Group in the fourth quarter of 2013 and 2014. In connection with the Reorganization, we did not make such offset in the fourth quarter of 2015. The trade receivables from third parties also increased during the Track Record Period which reflects our increase in sales to third parties as a result of the expansion of our distribution network and increase in the number of our distributors.

The following table sets forth the details of our trade and other receivables as of the dates indicated:

	As of 31 December		
	2013	2014	2015
	(RMB in thousands)		
Third parties	344	3,038	5,331
Related parties	1,175	8,097	58,507
Subtotal	1,519	11,135	63,838
Less: provision for impairment	(2)	(226)	—
Trade receivables — net	1,517	10,909	63,838

The following table sets forth the aging analysis of trade receivables as of the dates indicated:

	As of 31 December		
	2013	2014	2015
	(RMB in thousands)		
Within 3 months	1,519	11,135	63,838

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The following table sets forth the turnover days of our trade receivables during the Track Record Period.

	Year Ended 31 December		
	2013	2014	2015
Turnover days of trade receivables ⁽¹⁾	1.8	4.6	16.1

Note:

- (1) Turnover days of trade receivables for a certain period is the arithmetic mean of the opening and closing balances of trade receivables for the relevant period divided by revenue for the relevant period and multiplied by 365 for each year.

Our turnover days of trade receivables increased from 1.8 days in 2013 to 4.6 days in 2014 and further to 16.1 days in 2015 primarily because (i) our trade receivables turnover days were significantly lower than the normal scale in 2013 and 2014 due to the offset we made with respect to trade receivables from Haidilao Group, in connection with the Reorganization, we did not make such offset in 2015 and our trade receivables turnover days returned to normal scale and (ii) our trade receivables increased during the Track Record Period as a result of the our business growth.

As of 31 December 2015, our trade receivables were RMB63.8 million, which consist of RMB58.5 million for related parties and RMB5.3 million for third parties. As of 30 April 2016, all such amount had been settled.

During the Track Record Period, none of our trade receivables were past due.

Prepayments and Other Receivables

Our prepayments mainly represent prepayments for purchase of raw materials, prepayments for property, plant and equipment, value added tax recoverable and others. Our other receivables mainly represent deposit for futures contracts, deposit for utilities and others. The deposit for futures represent our purchase of soybean oil futures contracts in connection with our hedging activities. Our prepayments and other receivables increased from RMB27.0 million as of 31 December 2013 to RMB28.8 million as of 31 December 2014, and further increased to RMB51.5 million as of 31 December 2015, which was in line with our business growth. The decrease in prepayments for property, plant and equipment from 2014 to 2015 was mainly due to the completion of the renovation of Chengdu production facilities and the increase in prepayment for legal and professional fees in 2015 was mainly due to our Reorganization and proposed listing.

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Trade Payables

Our trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. As of 31 December 2013, 2014 and 2015, our trade payables were RMB18.9 million, RMB37.1 million and RMB43.3 million, respectively. The increase in our trade payables during the Track Record Period reflects the increased purchase of raw materials related to the increase in production volume in response to the sales volume growth of our products.

The following table sets forth our trade payables by category as of the dates indicated:

	As of 31 December		
	2013	2014	2015
	(RMB in thousands)		
Within 3 months	18,223	36,859	42,937
3 to 6 months	283	101	352
6 months to 1 year.....	366	111	35
Total	18,872	37,071	43,324

The following table sets forth the turnover days of our trade payables during the Track Record Period.

	Year Ended 31 December		
	2013	2014	2015
Turnover days of trade payables ⁽¹⁾	24.8	27.0	26.5

Note:

(1) Turnover days of trade payables for a certain period is an arithmetic mean of the opening and closing balances of the trade payables for the relevant period divided by cost of sales for the relevant period and multiplied by 365 for each year.

In 2013, 2014 and 2015, our turnover days of trade payables remained relatively stable and was correlated with our usual up to 90 days payment schedule for our suppliers.

Other Payables and Accruals

Our other payables and accruals consist mainly of (i) payables to related parties in connection with the construction of our Zhengzhou production facilities, (ii) sales rebates and deferred revenue, (iii) wages, salaries and other employee benefits, (iv) transportation, (v) advance from customers, (vi) other tax payables, (vii) Listing related expenses and others. As of 31 December 2013, 2014 and 2015, our other payables and accruals were RMB168.2 million, RMB188.8 million and RMB196.9 million, respectively.

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The following table sets forth the components of our other payables and accruals as of the dates indicated:

	As of 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Related parties	156,955	162,478	141,633
Sales rebates and deferred revenue.....	5,350	9,134	15,466
Wages, salaries and other employee benefits	3,278	6,710	10,590
Transportation.....	—	2,546	7,044
Advances from customers	1,772	1,261	6,147
Other tax payables	151	5,569	5,773
Listing related expenses	—	—	5,521
Suppliers' deposits	648	422	1,886
Marketing expenses payables	—	—	1,540
Payables for legal and professional fees.....	—	472	601
Others.....	29	208	714
Total	<u>168,183</u>	<u>188,800</u>	<u>196,915</u>

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. It is the view of our Directors that each of the significant related party transactions set out in note 29 of our historical financial information in the Accountant's Report in Appendix I to this prospectus were conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

Amounts due from related parties

As of 31 December 2013, 2014 and 2015, the amounts due from related parties were RMB1.2 million, RMB8.1 million and RMB59.0 million, respectively. The amounts due from related parties during the Track Record Period primarily consisted of amounts due from Haidilao Group in connection with our sales of products to them. The significant increase in our amounts due from related parties during the Track Record Period was mainly because our due from related parties in 2013 and 2014 were significantly lower than the normal scale, because prior to the Reorganization, we were under common control with Haidilao Group and therefore we offset a large amount of trade receivables from Haidilao Group for our due to Haidilao Group in the fourth quarter of 2013 and 2014. In connection with the Reorganization, we did not make such offset in the fourth quarter of 2015.

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Amounts due to related parties

As of 31 December 2013, 2014 and 2015, the amounts due to related parties were RMB157.0 million, RMB162.5 million and RMB141.6 million, respectively. The amounts due to related parties during the Track Record Period primarily consisted of our due to Sichuan Haidilao for the construction of our Zhengzhou production facilities. The significant decrease in 2015 was because we repaid a large amount in 2015. We had repaid all amounts due to related parties as of the Latest Practicable Date.

For further details regarding our transactions with related parties, see “Connected Transactions.”

INDEBTEDNESS

Statement of indebtedness

We did not have any borrowings as of 31 December 2013, 2014 and 2015. As of 31 December 2015, the Group has Series A Preferred Shares which were classified as financial liabilities at fair value through profit and loss. Our ability to obtain adequate external financing will depend on a number of factors, including our financial performance and results of operations, as well as factors beyond our control.

As of 30 April 2016, being the latest practicable date for the purpose of this indebtedness statement, except for the Series A Preferred Shares, we did not have any outstanding debt securities, borrowings or indebtedness in the nature of borrowings, acceptance credits, charges, mortgages, hire purchase and finance lease commitments or any guarantees. Since 30 April 2016, there has been no material adverse change in our indebtedness.

In March 2016, we obtained a credit facility of up to US\$5 million from DBS Bank (China) Limited, all of which remains available for drawdown.

Contingent liabilities

We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we are involved in such material legal proceedings, we would record any loss or contingency when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

As of the Latest Practicable Date, we did not have any material contingent liabilities or guarantees.

Off-balance Sheet Commitments and Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties or related parties. We do not have retained or contingent interests in assets transferred to an unconsolidated entity or a similar arrangement that serves as credit, liquidity or market risk support to such entity for such assets. We have not entered into any derivative

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contracts that are indexed to our Shares and classified as shareholders' equity, or that are not reflected in our consolidated financial statements. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

KEY FINANCIAL RATIOS

The following table sets out a summary of certain financial ratios as of the dates or for the periods indicated:

	As of 31 December		
	2013	2014	2015
Current ratio	48.2%	55.1%	173.8%
Quick ratio	16.5%	20.4%	134.4%
	For the Year Ended/As of 31 December		
	2013	2014	2015
Asset-liability ratio	83.2%	84.0%	75.9%
Return on total assets	10.7%	16.7%	28.5%
Return on equity	98.0%	101.9%	132.7%
Gross profit margin	22.0%	24.0%	34.7%
Net profit margin	7.0%	8.5%	14.7%

Current Ratio

Current ratio is our current assets divided by our current liabilities at the end of each financial period. Our current ratio increased from 48.2% in 2013 to 55.1% in 2014 and further increased to 173.8% in 2015. The significant increase in our current ratio in 2015 was mainly due to (i) the significant increase in our cash and cash equivalent from our Pre-IPO Investment and (ii) the significant increase in our trade receivables mainly because we ceased to offset our trade receivables with Haidilao Group in 2015.

Quick Ratio

Quick ratio is our current assets less inventories as a percentage of current liabilities at the end of each financial period. Our quick ratio increased from 16.5% in 2013 to 20.4% in 2014 and further increased to 134.4% in 2015. The reasons for the significant increase in our quick ratio in 2015 were the same as that of the increase for our current ratio.

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Asset-liability Ratio

Asset-liability ratio is calculated by dividing total liabilities by total assets. Our asset-liability ratio as of 31 December 2013, 2014 and 2015, was 83.2%, 84.0% and 75.9%, respectively. As of 31 December 2013 and 2014, our asset-liability ratio was relatively high because (i) we were a wholly owned subsidiary of Haidilao Group prior to the Reorganization, and most of our current assets, particularly cash and cash equivalent had been distributed to Haidilao Group pursuant to its overall cash management practice, and (ii) there was a significant amount due to related parties in 2013 and 2014 primarily associated with the construction of our Zhengzhou production facilities. As of 31 December 2015, our asset-liability ratio was 75.9% mainly because while our Pre-IPO investment in December 2015 increased our cash and cash equivalents, which is classified as current assets, it also proportionately resulted in an large amount of Series A Preferred Shares, which is classified as current liabilities. As our Series A Preferred Shares will be converted into ordinary shares before listing, we expect our asset-liability ratio will drop significantly after the conversion.

Return on Equity

Return on equity is our profit divided by the arithmetic mean of the opening and closing balances of our equity at the end of each financial period. Our return on equity increased from 98.0% in 2013 to 101.9% in 2014 and further increased to 132.7% in 2015, primarily due to our improved profit. During the Track Record Period, our return on equity was high mainly because the amount of our equity remained small prior to the Reorganization. As our Series A Preferred Shares will be converted into ordinary shares before listing, we expect our return on equity ratio will return to a normal scale after the conversion.

Return on Total Assets

Return on total assets is our profit divided by the arithmetic mean of the opening and closing balances of our total assets financial period. Our return on total assets increased from 10.7% in 2013 to 16.7% in 2014 and further increased to 28.5% in 2015, primarily due to our improved profit.

Gross Profit Margin

Gross profit margin is our gross profit divided by our revenue for each financial period. Our gross profit margin increased from 22.0% in 2013 to 24.0% in 2014 and further increased to 34.7% in 2015, for reasons regarding changes of our gross profit margin, see “— Description of Certain Statement of Operations Items”.

Net Profit Margin

Net profit margin is our net profit before non-controlling interests divided by our revenue for each financial period. Our net profit margin increased from 7.0% in 2013 to 8.5% in 2014 and further increased to 14.7% in 2015, for reasons regarding changes of our net profit margin, see “— Description of Certain Statement of Operations Items”.

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LISTING EXPENSES

During the year ended 31 December 2015, we have incurred about RMB9.8 million expenses for the Global Offering, and we expect to incur an additional RMB59.4 million until the completion of the Global Offering, of which approximately RMB14.7 million is expected to be charged to our consolidated income statement and approximately RMB44.8 million is expected to be capitalized as deferred expenses and charged against equity upon the Listing under the relevant accounting standards. We do not expect these expenses to have a material impact on our results of operation for 2016.

SENSITIVITY ANALYSIS

The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in cost of raw materials, soybean oil and prickly ash on our net profit and net profit margin during the Track Record Period, assuming all other variables remain unchanged.

	2013		2014		2015	
	Changes in	Changes in	Changes in	Changes in	Changes in	Changes in
	Net Profit	Net Profit Margin	Net Profit	Net Profit Margin	Net Profit	Net Profit Margin
Hypothetical Fluctuations in Cost of Raw Materials	(RMB in Thousands)	(%)	(RMB in Thousands)	(%)	(RMB in Thousands)	(%)
+5%	(8,924)	(40.4%)	(11,774)	(9.5%)	(18,183)	(14.6%)
+3%	(5,324)	(24.1%)	(6,922)	(5.6%)	(10,653)	(8.6%)
+0%	—	0.0%	—	0.0%	—	0.0%
-3%	5,475	24.8%	7,636	6.1%	11,939	9.6%
-5%	9,074	41.1%	12,488	10.0%	19,469	15.6%

	2013		2014		2015	
	Changes in	Changes in	Changes in	Changes in	Changes in	Changes in
	Net Profit	Net Profit Margin	Net Profit	Net Profit Margin	Net Profit	Net Profit Margin
Hypothetical Fluctuations in Cost of Soybean oil	(RMB in Thousands)	(%)	(RMB in Thousands)	(%)	(RMB in Thousands)	(%)
+15%	(6,968)	(31.6%)	(8,602)	(20.2%)	(10,610)	(8.5%)
+8%	(3,681)	(16.7%)	(4,579)	(10.8%)	(5,359)	(4.3%)
+0%	—	—	—	—	—	—
-8%	3,832	17.4%	4,618	10.9%	6,645	5.3%
-15%	7,118	32.3%	8,641	20.3%	11,896	9.6%

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	2013		2014		2015	
	Changes in Net Profit	Changes in Net Profit Margin	Changes in Net Profit	Changes in Net Profit Margin	Changes in Net Profit	Changes in Net Profit Margin
Hypothetical Fluctuations in Cost of Prickly Ash	(RMB in Thousands)	(%)	(RMB in Thousands)	(%)	(RMB in Thousands)	(%)
+30%	(6,871)	(31.1%)	(10,564)	(24.9%)	(19,911)	(16.0%)
+15%	(3,398)	(15.4%)	(5,272)	(12.4%)	(9,634)	(7.7%)
+0%	—	0.0%	—	0.0%	—	0.0%
-15%	3,548	16.1%	5,311	12.5%	10,920	8.8%
-30%	7,021	31.8%	10,603	24.9%	21,197	17.0%

MARKET RISK DISCLOSURE

Our activities expose us to a variety of financial risks, including market risk (including currency risk), credit risk and liquidity risk. Our overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

Market Risk

Foreign exchange risk

The Group mainly operates in the PRC with most of the transaction denominated and settled in RMB. However, the Group has certain cash denominated in HKD and USD, which is exposed to foreign currency translation risk. Details of the Group's cash and cash equivalents are disclosed in Notes 14 of this section respectively.

During the Relevant Periods, the Group has not hedged its foreign exchange risk because the exposure is not significant.

If USD had weakened/strengthened by 5% against RMB with all other variables held constant, the post-tax profit would have been nil, approximately RMB60,000 and RMB9,975,000 lower/higher, for the years ended 31 December 2013, 2014, 2015, respectively, mainly as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD.

Price risk

The Group is exposed to commodity price risk. To manage its price risk arising from future commercial transactions on one of the major raw materials-soybean oil, the Group purchased futures contracts in Dalian Commodity Exchange.

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The table below summarises the impact of increases/decreases of the fair value of the unsettled futures contracts on the Group's post-tax profit for the year and on equity. The analysis is based on the assumption that the fair value of the futures contracts had increased/decreased by 10% with all other variables held constant:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Impact on other comprehensive income.....	<u>—</u>	<u>—</u>	<u>770</u>

Credit Risk

The Group is exposed to credit risk in relation to its cash and deposits, trade and other receivables.

The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets. To manage this risk arising from cash and deposits, the Group only transacts with state-owned financial institutions and reputable commercial banks which are all high-credit-quality financial institutions in the PRC and Hong Kong. There has been no recent history of default in relation to these financial institutions.

Trade receivables at the end of each reporting period were mainly due from Haidilao Group (as defined under Note 29 of the Accountant's Report) and the distributors in cooperation with the Group. As at 31 December 2013, 2014 and 2015, the amounts due from Haidilao Group represented 77%, 74% and 90% of total trade receivables of the Group. The management of the Group believes the credit risk on amounts due from related parties is limited because they continuously monitor the credit quality and financial conditions of the related parties. Ageing analysis of the Group's trade receivables is disclosed in Note 11 of the Accountant's Report. The directors of the Company believe that the credit risk inherent in the Group's outstanding trade receivables balances due from the distributors is low.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The Directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

Liquidity Risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

Cash flow forecasting is performed by group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs as well as the liabilities to other parties.

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The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 3 years	Total
	RMB'000	RMB'000	RMB'000
As of 31 December 2013			
Trade payables	18,872	—	18,872
Other payables and accruals	166,260	—	166,260
Total	<u>185,132</u>	<u>—</u>	<u>185,132</u>
As of 31 December 2014			
Trade payables	37,071	—	37,071
Other payables and accruals	181,970	—	181,970
Total	<u>219,041</u>	<u>—</u>	<u>219,041</u>
As of 31 December 2015			
Redeemable convertible preferred shares	—	186,667	186,667
Trade payables	43,324	—	43,324
Other payables and accruals	184,995	—	184,995
Total	<u>228,319</u>	<u>186,667</u>	<u>414,986</u>

Hedging Risk

Prices of soybean oil, one of the major raw materials used in our production, experienced frequent short-term volatile fluctuations in the past ten years. We have entered into exchange-traded hedging activities in relation to the commodity prices of soybean oil. Our hedging policy is to hedge our exposure to price increases of soybean oil. We do not use derivatives for speculative purposes. As a result, historically, we only purchased long soybean oil futures contracts, and we had never taken short soybean oil futures positions. These contracts are purchased and traded on Dalian Commodity Exchange, the only regulated commodity futures exchange in China offering soybean oil futures contracts. Our hedging activities not only reduce the impact of price increases of soybean oil on our production, thereby protecting us against adverse short-term price upward movements, but also limit the benefits of short-term price downward movements.

We have formulated internal guidance on hedging activities, under which our Board supervises our hedging activities. Our Board is primarily responsible for formulating and monitoring our hedging risk management procedures and a hedging team is further established to implement these procedures and conduct hedging activities.

In 2013, 2014 and 2015, our aggregated soybean oil hedged positions were 380 tons, 3,740 tons and 10,810 tons, with an aggregate contract value of RMB2.6 million, RMB25.2 million and RMB58.5 million, respectively. During the Track Record Period, our aggregated soybean oil hedged positions

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were equivalent to 4.5%, 50.2% and 76.3%, respectively, of our total actual soybean oil procurement volume. We are not obligated to pay the shortfall if the loss of the soybean oil futures contracts exceeds the deposit amount, in such event, the deposit will be forfeited and such soybean oil futures contracts will be terminated. During the Track Record Period, due to our prudent hedging strategy and policy, we did not experience any forfeiture of our deposit for soybean oil futures contracts. The maximum financial exposure on the outstanding positions of our soybean oil futures contracts as of 31 December 2013, 2014 and 2015 were the deposit amount for soybean oil futures contracts we held at the respective date which were RMB32,000, nil and RMB0.9 million, respectively.

As a result of our hedging activities, we reduced the cost of soybean oil of nil, RMB0.4 million and RMB1.2 million, respectively during the Track Record Period. For further details about our hedging activities, see “Business — Hedging.”

DIVIDEND POLICY

Subject to the Cayman Islands Companies Law and our Articles of Association, we may declare dividends in any currency through a general meeting, but no dividend may be declared in excess of the amount recommended by our Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realized or unrealized, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of a share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Islands Companies Law.

Except as provided under the terms of a particular issue, or with respect to the rights attached to any Shares, (i) all dividends will be declared and paid according to the amounts paid up on the Shares in respect of which the dividend is paid, but no amount paid up on a Share in advance of calls may for this purpose be treated as paid up on the Share; and (ii) all dividends will be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any of our Shareholders or in respect of any Shares all sums of money (if any) presently payable by such Shareholder to us on account of calls or otherwise.

In addition, the declaration of dividends is subject to the discretion of our Board, and the amounts of dividends actually declared and paid will also depend on:

- our general business conditions;
- our financial results;
- our capital requirements;
- interests of our shareholders; and
- any other factors which our Board may deem relevant.

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Our future dividend payments to our Shareholders will also depend upon the availability of dividends received from our PRC subsidiaries. PRC laws require that dividends be paid out of the net profit calculated according to PRC accounting principles. PRC laws also require PRC enterprises to set aside part of their net profit as statutory reserves before they distribute the net proceeds. These statutory reserves are not available for distribution as cash dividends. In addition, the dividends paid by our PRC subsidiaries are also subject to the withholding tax imposed by the PRC laws.

Our Board has absolute discretion in whether to declare any dividend for any year and, if it decides to declare a dividend, how much dividend to declare. The Company has not paid or declared any dividend since its inception. In the future, we expect to distribute no less than 20% of our annual distributable profit as dividends. There is, however, no assurance that we will be able to distribute dividends of such amount or any amount each year or in any year. We will continue to re-evaluate our dividend policy in light of our financial position and the prevailing economic climate. However, the determination to pay dividends will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial conditions, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant.

RECENT DEVELOPMENTS

Our Directors confirm that, since 31 December 2015 and up to the Latest Practicable Date, there has been no material change in our business, results of operations and financial conditions and no event has occurred that would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

For the four months ended 30 April 2016, our revenue and gross profit were RMB272.8 million and RMB92.0 million, respectively, compared with RMB219.9 million and RMB60.3 million, respectively, in the same period of the prior year. Our unaudited financials as of and for the four months ended 30 April 2016 and 30 April 2015 have been reviewed by the reporting accountant in accordance with International Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, since 31 December 2015 and up to the date of this prospectus, there has been no material adverse change in our financial position or prospects, throughput or revenue, gross profit margin and no event has occurred that would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

DISTRIBUTABLE RESERVES

As of 31 December 2015, we estimated our distributable reserves were approximating to our retained earnings of RMB115.3 million.

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UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of Global Offering (without taking into account the impact upon the conversion of Series A Preferred Shares) as if it had taken place on 31 December 2015 and based on the consolidated net tangible assets attributable to shareholders of the Company as at 31 December 2015 as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 31 December 2015 or at any future date.

	Consolidated net tangible assets attributable to owners of the Company as of 31 December 2015 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidate net tangible assets attributable to owners of the Company ⁽⁴⁾	Unaudited pro forma adjusted consolidated net tangible assets per share ⁽⁴⁾	
		(in Thousands of RMB)		(RMB) ⁽³⁾	(HK\$)
Based on the Offer Price of HK\$2.98 per share	141,101	588,364	729,465	0.74	0.87
Based on the Offer Price of HK\$3.42 per share	141,101	681,553	822,654	0.83	0.99

Note:

- (1) The consolidated net tangible assets attributable to owners of the Company as of 31 December 2015 is extracted from the Accountant's Report set forth in Appendix I to this prospectus, which is based on the consolidated net assets attributable to owners of the Company as of 31 December 2015 of RMB141,924,000 with an adjustment for the intangible assets as of 31 December 2015 of RMB823,000.
- (2) The estimated net proceeds from the Global Offering are based on the individual Offer Price of HK\$2.98 and HK\$3.42 per share, being the lower end to higher end of the stated offer price range, respectively, after deduction of the underwriting fees and other related expenses payable by the Company, and based on the assumption that a total of 260,000,000 Ordinary Shares will be issued and no over-allotment option will be granted.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per share are determined after the adjustment as described in note 2 above and on the basis that 985,777,778 shares are in issue, assuming the Global Offering and Capitalization Issue had been completed on 31 December 2015, no over-allotment option will be granted and the Series A Preferred Shares were not converted.
- (4) On 14 December 2015, Glorious Future Holding Limited and Charlin Holdings Limited subscribed 54,222,222 Series A Preferred Shares of the Company for an aggregate consideration of RMB186,667,000. Upon completion of the Listing and Global Offering, the entire Series A Preferred Shares will be automatically converted to Ordinary Shares on a one-for-one basis. If the Series A Preferred Shares were assumed to be converted on 31 December 2015, the unaudited pro forma adjusted consolidated net tangible assets of our Company will increase by RMB186,667,000, being the carrying amounts of the Series A Preferred Shares as at 31 December 2015. Accordingly, the unaudited pro forma

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adjusted consolidated net tangible assets attributable to owners of our Company would be RMB916,132,000 (based on the Offer Price of HK\$2.98 per share) and RMB1,009,321,000 (based on the Offer Price of HK\$3.42 per share) respectively. On the basis that 1,040,000,000 Shares are in issue after the conversion of Series A Preferred Shares, the unaudited pro forma adjusted consolidated net tangible assets per share would be RMB0.88 (equivalent to HK\$1.04) (based on the Offer Price of HK\$2.98 per share) and RMB0.97 (equivalent to HK\$1.15) (based on the Offer Price of HK\$3.42 per share) respectively.

- (5) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2015.
- (6) For the purpose of the unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at rate of RMB0.8464 to HK\$1.00, the PBOC rate prevailing on 23 June 2016. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Hong Kong Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see the section titled “Business — Our Strategies” in this prospectus for a detailed discussion of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK\$3.20 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$2.98 and HK\$3.42 per Offer Share), we estimate that we will receive net proceeds of approximately HK\$750.2 million from the Global Offering (after deducting the underwriting commissions and other estimated expenses and assuming the Over-allotment Option is not exercised).

In line with our business strategies, we intend to use the net proceeds from the Global Offering for the following purposes and in the amounts set out below:

- approximately 30%, or HK\$225.1 million, will be used to construct Phase I of our Bazhou Production Base located in Bazhou, Hebei Province, of which approximately (i) 70% will be used for construction and engineering and (ii) 30% will be used for purchase of equipment. Our Bazhou Production Base will (i) increase our production capacity and reduce our need for contract manufacturers, particularly during our peak season, (ii) optimize our product portfolio to manufacture new product lines and utilize new packaging materials, (iii) upgrade our storage facilities, and (iv) help us better manage our logistics costs due to its central geographic location in Northern China.
- approximately 25%, or HK\$187.5 million, will be used for potential strategic acquisition opportunities in the future. We will seek to acquire: (i) businesses with well-established e-commerce and overseas channels that can enhance our distribution capabilities and (ii) businesses that can complement our product portfolios and business growth. As of the Latest Practicable Date, we had not proposed to invest in any specific acquisition target or identified any such targets for the use of proceeds from the Global Offering.
- approximately 25%, or HK\$187.5 million, will be used to promote our products and brand, of which approximately (i) 40% will be used for promotion efforts in relation to new product launch; (ii) 30% will be used for promoting our brand through different channels, (iii) 25% will be used for expanding our sales teams and (iv) 5% will be used for optimizing our management information system.
- Approximately 10%, or HK\$75.0 million, will be used to enhance our research and development capabilities.
- approximately 10%, or HK\$75.0 million, will be used for working capital and general corporate purposes.

FUTURE PLANS AND USE OF PROCEEDS

If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds will be approximately HK\$120.1 million, after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering, assuming an Offer Price of HK\$3.20 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$2.98 and HK\$3.42 per Offer Share). We intend to apply all the additional net proceeds for the same purposes proportionately as set out above.

The allocation of the proceeds used for the above will be adjusted in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated range of the Offer Price. If the Offer Price is fixed at HK\$3.42 per Offer Share (being the high-end of the stated range of the Offer Price), the net proceeds will be (i) increased by approximately HK\$55.1 million (assuming that the Over-allotment Option is not exercised); and (ii) increased by approximately HK\$63.3 million (assuming that the Over-allotment Option is fully exercised). In such circumstances, we intend to use all the additional net proceeds proportionately as set out above. If the Offer Price is fixed at HK\$2.98 per Offer Share (being the low-end of the stated range of the Offer Price), the net proceeds will be (i) decreased by approximately HK\$55.1 million (assuming that the Over-allotment Option is not exercised); and (ii) decreased by approximately HK\$63.3 million (assuming that the Over-allotment Option is fully exercised). In such circumstances, we intend to reduce the net proceeds applied for the same purposes proportionately as set out above.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, and to the extent permitted by applicable laws and regulations, we intend to apply our net proceeds to short-term investments including short-term bank deposit and money market instruments.

UNDERWRITING

HONG KONG UNDERWRITERS

China International Capital Corporation Hong Kong Securities Limited
Macquarie Capital Limited
DBS Asia Capital Limited
China Merchants Securities (HK) Co., Limited

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and our Company, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 26,000,000 Hong Kong Offer Shares and the International Offering of initially 234,000,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed “Structure of the Global Offering” as well as to the Over-allotment Option in the case of the International Offering.

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong in accordance with the terms and conditions of this prospectus and the Application Forms relating thereto.

Subject to the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, and certain other conditions set forth in the Hong Kong Underwriting Agreement (including the Joint Global Coordinators (on behalf of the Underwriters) and our Company agreeing upon the Offer Price) being satisfied (or, as the case may be, waived), the Hong Kong Underwriters have agreed to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares in aggregate, now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms relating thereto and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

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Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

- (1) there shall develop, occur, exist or come into force:
 - (i) any new law or any change or development involving a prospective change in any existing law or regulation, or any change or any event or circumstance likely to result in a change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the Cayman Islands, the British Virgin Islands, the United States, the United Kingdom, the European Union (or any member thereof), Japan or Singapore (collectively, the “**Relevant Jurisdictions**”); or
 - (ii) any change or development involving a prospective change (whether or not permanent) in, or any event or series of events resulting or likely to result in or representing a change or development, or a prospective change or development, in local, national, regional or international financial, political, military, industrial, fiscal, economic, regulatory, credit, market or currency matters or conditions or exchange control or any monetary or trading settlement system (including but not limited to a change in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets or a change in the system under which the value of the HK dollar is linked to the U.S. dollar or revaluation of HK dollar or Renminbi against any foreign currencies) in any of the Relevant Jurisdictions; or
 - (iii) the imposition of any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in, securities generally on the Stock Exchange, the London Stock Exchange, the Singapore Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the New York Stock Exchange (including NYSE MKT) or in the NASDAQ; or
 - (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent government authority), New York (imposed at Federal or New York State level or other competent government authority), London, Singapore, the PRC, the European Union (or any member thereof), Japan or any other Relevant Jurisdictions, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any of the Relevant Jurisdictions; or
 - (v) a change or development or event involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment regulations (including, without limitation, a devaluation of the United States dollar, Euro, Hong Kong dollar or the Renminbi against any foreign currencies) in any of the Relevant Jurisdictions; or

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- (vi) any imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
- (vii) any event or series of events of force majeure in or affecting directly or indirectly any of the Relevant Jurisdictions including, without limiting the generality thereof, any act of God, act of government, declaration of a national or international emergency or war, calamity, crisis, riot, public disorder, civil commotion, fire, flood, explosion, epidemic (including SARS, swine or avian flu, H5N1, H1N1, H7N9 or such related/mutated forms), pandemic, outbreak of infectious disease, economic sanctions, earthquake, terrorism, strike, labor dispute or lock-out, any outbreak or escalation of hostilities (whether or not war is or has been declared) involving or affecting any of the Relevant Jurisdictions; or
- (viii) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company or the commencement by any government, political, regulatory body of any action against any Director in his or her capacity as such or an announcement by any governmental, political regulatory body that it intends to take any such action; or
- (ix) the chairman or chief executive officer of the Company or any Director vacating his office; or
- (x) an governmental authority or a political or regulatory body or organization in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any member of the Group, or any director of any member of the Company, or the Controlling Shareholders; or
- (xi) any litigation or claim being threatened or instigated against any member of the Group or the Controlling Shareholders; or
- (xii) a prohibition on the Company or any of the Controlling Shareholders for whatever reason from offering, allotting, issuing or selling the Offer Shares (including the Shares allotted or sold under the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xiii) except with the prior written consent of the Joint Global Coordinators, the issue or requirement to issue by the Company of any supplement or amendment to this prospectus, Application Forms, post hearing information pack, preliminary offering circular or offering circular or other documents in connection with the offer and sale of the Shares pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC in circumstances where the matter to be disclosed is, in the sole opinion of the Joint Global Coordinators, adversely affect the marketing for or implementation of the Global Offering; or
- (xiv) any change, development or event involving a prospective change in, or a materialization of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or

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(xv) an order or a petition is presented for the winding up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of the any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or

(xvi) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which the any member of the Group is liable prior to its stated maturity, or any loss or damage sustained by any member of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person),

and which, individually or in the aggregate, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the Hong Kong Underwriters),

(A) is or will or is likely to be materially adverse to the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profit, losses, results of operations, financial or trading position, or performance of the Group; or

(B) has or will have or is likely to have a material adverse change on the success or marketability of the Hong Kong Public Offering or the International Offering or the level of Offer Shares being applied for, or the distribution of Offer Shares; or

(C) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering or the delivery of the Offer Shares to be performed or implemented or proceed as envisaged or contemplated by this prospectus; or

(D) has or will or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting, the Hong Kong Public Offering and/or the Global Offering) incapable of performance in accordance with the terms therein or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(2) there has come to the notice of the Underwriters' Representative, the Joint Global Coordinators, Joint Bookrunners or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:

(i) that any statement contained in any of the Hong Kong Public Offering Documents, the Application Forms, and/or in any notices, announcements, post hearing information pack, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become,

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untrue, incorrect or inaccurate in any material respect or misleading, or that any forecasts, estimate, expressions of opinion, intention or expectation expressed or contained in any of this prospectus, the Application Forms and/or in any notices, announcements, post hearing information pack, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto), are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions with reference to the facts and circumstances then subsisting; or

- (ii) non-compliance of this prospectus (or any other documents approved and used by the Company in connection with the subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws and regulations; or
- (iii) any material contravention by any member of the Group or any Director of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Listing Rules or other applicable laws; or
- (iv) any matter or event arising or has been discovered rendering or there coming to the notice of any of the Underwriters' Representative, the Joint Global Coordinators, Joint Bookrunners or the Hong Kong Underwriters any matter or event showing any of the representations, warranties and undertakings given by the Company or the covenantors in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect, incomplete or having been breached in any material respect (to the extent not qualified by materiality under the Hong Kong Underwriting Agreement or International Underwriting Agreement (as the case may be)) or misleading in any respect; or
- (v) any matter or event, act or omission which gives or is likely to give rise to any liability of the Company or the covenantors pursuant to the indemnities given by the Company, the covenantors or any of them under the Hong Kong Underwriting Agreement; or
- (vi) any breach on the part of the Company and/or the covenantors of any material provisions of or obligations under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (vii) any material adverse change or development involving a prospective adverse change or development in any member of the Group's assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, properties, results of operations, position, reputation or condition, financial or otherwise, including any litigation or claim of any third party being threatened or instigated against any member of the Group; or

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- (viii) any of the experts (other than the Sole Sponsor) specified in this prospectus (including but not limited to the Reporting Accountants, any counsel of the Company) has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (ix) approval by the Listing Committee of the listing of, and permission to deal in, the Offer Shares and any Shares to be issued (including any additional Shares that may be issued pursuant to the exercise of the Over Allotment Option) under the Global Offering, is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or
- (x) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute a material omission from any of this prospectus, the Application Forms and/or in any notices, announcements, post hearing information pack, advertisements, communications or other documents (including any supplement or amendment thereto) issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering; or
- (xi) the Company withdraws this prospectus and the Application Forms (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (xii) the Stock Borrowing Agreement is not duly authorized, executed and delivered or it is terminated by any party other than the Stabilisation Manager; or
- (xiii) a material portion of the orders in the bookbuilding process has been withdrawn, terminated or cancelled.

then the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the Hong Kong Underwriters) may, in their sole and absolute discretion and upon giving notice in writing to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

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Undertakings to the Hong Kong Stock Exchange Pursuant to the Listing Rules

(A) Undertakings by Our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that, no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except in certain circumstances provided under Rule 10.08 of the Listing Rules.

(B) Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Hong Kong Stock Exchange and to our Company that, except pursuant to the lending of any Shares pursuant to the Stock Borrowing Agreement (if applicable), it/he shall not and shall procure that the relevant registered holder(s) shall not, unless in compliance with the requirements of the Listing Rules:

- (i) in the period commencing on the date by reference to which disclosure of its/his shareholding is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owner; and
- (ii) in the period of six months commencing on the date on which the period referred to in paragraph (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests, or encumbrances in respect of, any of the Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be a controlling shareholder of our Company.

Note (2) to Rule 10.07(2) of the Listing Rules provides that Rule 10.07 does not prevent a Controlling Shareholder from using the Shares beneficially owned by it/him as security (including a charge or pledge) in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, our Controlling Shareholders have further undertaken to the Hong Kong Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of its/his shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, it/he shall and shall procure the relevant registered holders:

- (i) when it/he or the relevant registered holders pledge or charge any Shares beneficially owned by it/him in favor of an authorized institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of Shares so pledged or charged; and

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- (ii) when it/he or the relevant registered holders receive indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform our Company in writing of such indications.

We will inform the Hong Kong Stock Exchange as soon as we have been informed of the matters referred to in paragraph (i) and (ii) above (if any) by any of our Controlling Shareholders and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

(A) Undertakings by Our Company

Our Company has undertaken to each of the Sole Sponsor, the Underwriters' Representative, Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters, that except pursuant to the Capitalization Issue, the Global Offering (including pursuant to the exercise of the Over-allotment Option), at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months from the Listing Date (the "**First Six-month Period**") and unless permitted by the Hong Kong Stock Exchange, our Company will not, without the prior written consent of the Sole Sponsor, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) (subject to the requirements set out in the Listing Rules):

- (i) offer, accept subscription for, pledge, lend, assign, mortgage, charge, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of its share capital or any securities of the Company or any interest in any of the foregoing, (including, without limitation, any securities convertible into or exercisable or exchangeable for or that represent the right to receive, or interests in, such share capital or any derivatives with the shares of the Company as underlying securities(the "Held Interests"); or
- (ii) enter into any swap, derivative, lending, repurchase, mortgage or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Held Interests; or
- (iii) enter into any transaction with the same economic effect as any transaction described in paragraphs (i) or (ii) above; or
- (iv) offer or agree or contract to do any of the foregoing or announce any intention to do so,

whether any of the foregoing transactions is to be settled by delivery of such Held Interests or such other securities, in cash or otherwise or publicly disclose that the Company will or may enter into any transaction described above. In the event that, at any time during the period of six months immediately following the expiry of the First Six-month Period (the "**Second Six-Month Period**"), the Company

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enters into any of the transactions specified in paragraphs (i), (ii) and (iii) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares or any other securities of the Company. Each of the Warrantors (other than the Company) hereby undertakes to each of the Underwriters' Representative, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters to procure the Company to comply with the undertakings in this paragraph.

(B) Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders has undertaken to each of the Sole Sponsor, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except as pursuant to the Capitalization Issue, the Global Offering (including pursuant to the exercise of the Over-allotment Option), the Stock Borrowing Agreement and the exercise of the Over-allotment Option, none of our Controlling Shareholders will, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) it will not, at any time during the First Six-Month Period and the Second Six-Month Period:
 - (A) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), or deposit any Shares or any other securities of the Company with a depositary in connection with the issue of depositary receipts; or
 - (B) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of the Company or any interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or
 - (C) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i)(A) or (i)(B) above; or
 - (D) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (i)(A), (i)(B) or (i)(C) above.

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in each case, whether any of the transactions specified in Clause (i)(A), (i)(B) or (i)(C) above is to be settled by delivery of Shares or such other securities of the Company or shares or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or other securities will be completed within the First Six-Month Period and the Second Six-Month Period); and

- (ii) it will not, during the Second Six-Month Period, enter into any of the transactions specified in paragraphs (i)(A), (i)(B) or (i)(C) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of the Company; and
- (iii) until the expiry of the Second Six-Month period, in the event that it enters into any of the transactions specified in paragraphs (i)(A), (i)(B) or (i)(C) above or offer to or agrees to or announce any intention to effect any such transaction, it will notify the Sole Sponsor and the Joint Global Coordinators and take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

Indemnity

We and our Controlling Shareholders have agreed to indemnify, amongst others, the Joint Global Coordinators, the Sole Sponsor and the Hong Kong Underwriters for certain losses which they may suffer, including, amongst others, losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach or alleged breach by our Company and our Controlling Shareholders of the Hong Kong Underwriting Agreement, as the case may be.

Hong Kong Underwriters’ Interests in Our Company

Except for their respective obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interest in our Company or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company or any member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

The International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we and our Controlling Shareholders will enter into the International Underwriting Agreement with the Joint Global Coordinators and the International Underwriters. Under the International Underwriting Agreement,

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subject to the conditions set forth therein, the International Underwriters would severally and not jointly agree to purchase, or procure purchasers to purchase, the Offer Shares being offered pursuant to the International Offering (subject to, amongst others, any reallocation between the International Offering and the Hong Kong Public Offering). It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Over-allotment Option

We expect to grant to the International Underwriters, exercisable in whole or in part by the Underwriters' Representative at its sole and absolute discretion (on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 39,000,000 Shares, representing no more than 15% of the initial Offer Shares, at the Offer Price under the International Offering, to cover, amongst others, over-allocations in the International Offering, if any.

Commissions and Expenses

The Hong Kong Underwriters will receive an underwriting commission equal to 3% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. The Joint Global Coordinators may, at our Company's discretion, receive an additional incentive fee of up to an aggregate of no more than 0.75% of the Offer Price for each Offer Share, including the proceeds from the exercise of the Over-allotment Option, which shall be determined before the Price Determination Date.

For unsubscribed Hong Kong Offer Shares reallocated to the International Offering (in such proportion as the Joint Global Coordinators in their sole discretion consider appropriate), the underwriting commission regarding such Hong Kong Offer Shares shall be reallocated to the International Underwriters (in such proportion as the Joint Global Coordinators in their sole discretion consider appropriate).

Assuming the Over-allotment Option is not exercised, the aggregate commissions and fees, together with Hong Kong Stock Exchange listing fees, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, legal and other professional fees and printing and all other expenses relating to the Global Offering, which are currently estimated to amount in aggregate to approximately HK\$81.8 million (assuming an Offer Price of HK\$3.20 per Offer Share, being the mid-point of the indicative Offering Price range stated in this prospectus), are payable and borne by our Company.

INDEPENDENCE OF SOLE SPONSOR

The Sole Sponsor satisfies the independence criteria applicable to sponsors set forth in Rule 3A.07 of the Listing Rules.

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ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering” in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises (subject the Over-allotment Option):

- (a) the Hong Kong Public Offering of 26,000,000 Shares (subject to reallocation as mentioned below) for subscription by the public in Hong Kong as described in the paragraph headed “The Hong Kong Public Offering” below; and
- (b) the International Offering of an aggregate of 234,000,000 Shares (subject to reallocation and the Over-allotment Option as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S and in the United States only to QIBs in reliance on Rule 144A or any other available exemption from registration under the U.S. Securities Act as described in the paragraph headed “— The International Offering” below.

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent 25% of the enlarged issued share capital of our Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.71% of the enlarged issued share capital of our Company immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the paragraph headed “The International Offering — Over-allotment Option” in this section.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, respectively, may be subject to reallocation as described in the paragraph headed “— The Hong Kong Public Offering — Reallocation”.

THE HONG KONG PUBLIC OFFERING

Number of Hong Kong Offer Shares Initially Offered

We are initially offering 26,000,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Shares initially available under the Global Offering subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering and assuming that the Over-allotment Option is not exercised. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

STRUCTURE OF THE GLOBAL OFFERING

Completion of the Hong Kong Public Offering is subject to the conditions as set forth in the paragraph headed “— Conditions of the Global Offering” below.

Allocation

The allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking into account of any reallocation) is to be divided into two pools for allocation purposes: Pool A and Pool B with any odd board lots being allocated to Pool A. Accordingly, the maximum number of Hong Kong Offer Shares initially in Pool A and Pool B will be 13,000,000 and 13,000,000, respectively. The Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK\$5.00 million (excluding the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. The Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK\$5.00 million (excluding the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable). Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either Pool A or Pool B but not from both pools. Multiple applications or suspected multiple applications and any application for more than 13,000,000 Hong Kong Offer Shares (being 50% of the 26,000,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering) are liable to be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription

STRUCTURE OF THE GLOBAL OFFERING

under the Hong Kong Public Offering, then no Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 26,000,000 Offer Shares, representing 10% of the Offer Shares initially available under the Global Offering;

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 78,000,000 Offer Shares, representing 30.00% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 104,000,000 Offer Shares, representing 40.00% of the Offer Shares initially available under the Global Offering; and
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 130,000,000 Offer Shares, representing 50.00% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators in their sole discretion consider appropriate. In addition, the Joint Global Coordinators may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such proportions as the Joint Global Coordinators in their sole discretions consider appropriate.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application have not applied for or taken up, or indicated an interest for,

STRUCTURE OF THE GLOBAL OFFERING

and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$3.42 per Offer Share in addition to the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed “— Pricing and Allocation” below, is less than the maximum price of HK\$3.42 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For details, please refer to the section headed “How to Apply for Hong Kong Offer Shares”.

THE INTERNATIONAL OFFERING

Number of International Offer Shares Offered

Subject to reallocation as described in this section and the exercise of the Over-allotment Option, the International Offering will consist of an initial offering of 234,000,000 Offer Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering and assuming that the Over-allotment Option is not exercised.

Allocation

The International Offering will include selective marketing of Offer Shares to QIBs in the United States as well as institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and its shareholders as a whole.

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The Joint Global Coordinators (for themselves and on behalf of the International Underwriters) may require any investor who has been offered International Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in “— The Hong Kong Public Offering — Reallocation” in this section, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering to the International Offering.

Over-allotment Option

We expect to grant to the International Underwriters, exercisable in whole or in part by the Underwriters' Representative at its sole and absolute discretion (on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 39,000,000 Shares, representing no more than 15% of the Offer Shares initially available under the Global Offering, at the Offer Price, to cover, amongst others, over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the Offer Shares will represent 27.71% of our Company's issued share capital immediately following completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, we will make an announcement in due course.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and a number of other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for it, as stabilizing manager, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager, or any persons acting for it, to conduct any such stabilizing action. Such stabilization action, if commenced,

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may be discontinued at any time, and is required to be brought to an end within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering. Should stabilizing transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Stabilizing Manager or any person acting for it.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong), as amended, includes (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares, (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in paragraph (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, or any person acting for it may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time or period for which the Stabilizing Manager, or any person acting for it, will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager, or any person acting for it, may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date, and is expected to expire on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

The Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

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Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the Underwriters' Representative, or any person acting for it may cover such over-allocation by, amongst others, using Shares purchased by the Stabilizing Manager or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, or through the stock borrowing arrangement mentioned below or by a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong on stabilization. The number of Shares which can be over-allocated will not exceed the number of Shares which may be allotted and issued pursuant to the exercise in full of the Over-allotment Option, being 39,000,000 Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager may choose to borrow up to 39,000,000 Shares from ZYSP YIHAI pursuant to the Stock Borrowing Agreement, which is expected to be entered into between the Stabilizing Manager and ZYSP YIHAI on or about the Price Determination Date. The stock borrowing arrangements under the Stock Borrowing Agreement will comply with the requirements set forth in Listing Rule 10.07(3), including:

- (a) the stock borrowing arrangements are fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering;
- (b) the maximum number of Shares to be borrowed from ZYSP YIHAI by the Stabilizing Manager is the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option;
- (c) the same number of Shares borrowed under the Stock Borrowing Agreement is returned to ZYSP YIHAI within three business days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full;
- (d) borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with applicable Listing Rules, laws and other regulatory requirements; and
- (e) no payments will be made to ZYSP YIHAI by the Stabilizing Manager in relation to the Stock Borrowing Agreement.

The stock borrowing arrangements under the Stock Borrowing Agreement comply with the requirements set forth in Rule 10.07(3) of the Listing Rules and thus not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules.

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PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different price or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Offer Price is expected to be fixed by agreement between our Company (for ourselves) and the Joint Global Coordinators (on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or around Wednesday, 6 July 2016 and in any event no later than Tuesday, 12 July 2016.

The Offer Price will not be more than HK\$3.42 per Offer Share and is expected to be not less than HK\$2.98 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Joint Global Coordinators (on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause them to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Company (www.yihchina.com) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) notices of the reduction. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by our Company (for ourselves) and the Joint Global Coordinators (on behalf of the Underwriters), will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set forth in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between our Company (for ourselves) and the Joint Global Coordinators (on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range stated in this prospectus.

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong

STRUCTURE OF THE GLOBAL OFFERING

Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings solely in the discretion of the Joint Global Coordinators.

If applications for the Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, such applications can be subsequently withdrawn if the number of Offer Shares and/or the indicative Offer Price range is so reduced.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of Offer Shares under the Hong Kong Public Offering are expected to be announced in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Company (www.yihchina.com) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company (for ourselves) and the Joint Global Coordinators (on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

The underwriting arrangements under the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed “Underwriting.”

CONDITIONS OF THE GLOBAL OFFERING

Acceptances of all applications for Offer Shares will be conditional on:

- (a) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as described in this prospectus (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option);
- (b) the Offer Price having been agreed between our Company (for ourselves) and the Joint Global Coordinators (on behalf of the Underwriters) on the Price Determination Date;
- (c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- (d) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective Underwriting Agreements,

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in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed between our Company (for ourselves) and the Joint Global Coordinators (on behalf of the Underwriters) on or before Tuesday, 12 July 2016, the Global Offering will not proceed and lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, amongst others, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. We will as soon as possible publish or cause to be published a notice of the lapse of the Hong Kong Public Offering in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and on the website of our Company (www.yihchina.com) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk). In such eventuality, all application monies will be returned, without interest, on the terms set forth in the paragraph headed “How to Apply for Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies”. In the meantime, all application monies will be held in a separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended.

Share certificates issued in respect of the Hong Kong Offer Shares will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional in all respects (including the Underwriting Agreements not having been terminated in accordance with their terms) at any time prior to 8:00 a.m. on the Listing Date.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including pursuant to the exercise of the Over-Allotment Option).

No part of our Company’s share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made to enable the Shares to be admitted into CCASS. If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day. All activities

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under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisors for details of the settlement arrangements as such arrangements may affect their rights and interests.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 13 July 2016, it is expected that dealings in the Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Wednesday, 13 July 2016. The Shares will be traded on the main board of the Hong Kong Stock Exchange in board lots of 1,000 Shares each.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **White Form eIPO** service provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO service** for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m on Thursday, 30 June 2016 until 12:00 noon on Wednesday, 6 July 2016 from:

(i) any of the following offices of the Joint Global Coordinators:

China International Capital Corporation Hong Kong Securities Limited	29th Floor, One International Finance Centre 1 Harbour View Street Central Hong Kong
Macquarie Capital Limited	Level 18 One International Finance Centre 1 Harbour View Street Central Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) any of the following branches of the receiving bank:

	Branch	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Connaught Road Central Branch	13-14 Connaught Road Central
	Causeway Bay Branch	505 Hennessy Road, Causeway Bay
	North Point (King's Centre) Branch	193-209 King's Road, North Point
Kowloon	Tsim Sha Tsui Branch	24-28 Carnarvon Road, Tsim Sha Tsui
	Mei Foo Mount Sterling Mall Branch	Shop N47-49 Mount Sterling Mall, Mei Foo Sun Chuen
	Waterloo Road Branch	Shop A2, Man Kee Mansion, 86 Waterloo Road
	Wong Tai Sin Branch	Shop G13, Wong Tai Sin Plaza, Wong Tai Sin
	Lam Tin Branch	Shop 12, 49 Kai Tin Road, Lam Tin
New Territories	Ma On Shan Plaza Branch	Shop 2103, Level 2, Ma On Shan Plaza, Sai Sha Road, Ma On Shan
	Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun
	Kau Yuk Road Branch	18-24 Kau Yuk Road, Yuen Long

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 30 June 2016 until 12:00 noon on Wednesday, 6 July 2016 from the Depository Counter of HKSCC at 1/F One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to Bank of China (Hong Kong) Nominees Limited — Yihai International Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Thursday, 30 June 2016 — 9:00 a.m. to 5:00 p.m.
- Saturday, 2 July 2016 — 9:00 a.m. to 1:00 p.m.
- Monday, 4 July 2016 — 9:00 a.m. to 5:00 p.m.
- Tuesday, 5 July 2016 — 9:00 a.m. to 5:00 p.m.
- Wednesday, 6 July 2016 — 9:00 a.m. to 12:00 noon

HOW TO APPLY FOR HONG KONG OFFER SHARES

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 6 July 2016, the last application day or such later time as described in “10. Effect of Bad Weather on the Opening of the Applications Lists” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to the Company, the Hong Kong Share Registrar, receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

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- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in "Personal Collection" section in the prospectus to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** service provider by you or by any one as your agent or by any other person; and

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- (xix) (if you are making the application as an agent for the benefit of another person) warrant that
- (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and
 - (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “2. Who can apply” section, may apply through the **White Form eIPO** service for the Hong Kong Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** service provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO service

You may submit your application to the **White Form eIPO** service provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, 30 June 2016 until 11:30 a.m. on Wednesday, 6 July 2016 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 6 July 2016 or such later time under the “10. Effect of Bad Weather on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** service, to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** service, more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

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Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** service provider, will contribute HK\$2 per each “Yihai International Holding Ltd.” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of Dong Jiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center
1/F One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

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If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and the Hong Kong Branch Share Registrar.

GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and are not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering;
 - (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
 - confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, the Hong Kong Share Registrar, receiving bank, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

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- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Thursday, 30 June 2016 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Saturday, 2 July 2016 — 8:00 a.m. to 1:00 p.m.⁽¹⁾
- Monday, 4 July 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Tuesday, 5 July 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Wednesday, 6 July 2016 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to changes as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 30 June 2016 until 12:00 noon on Wednesday, 6 July 2016 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 6 July 2016, the last application day or such later time as described in “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

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Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bank, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** service provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 6 July 2016.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and

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- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the paragraph headed “Structure of the Global Offering — Pricing and Allocation”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or

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- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 6 July 2016. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, 6 July 2016 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, 12 July 2016 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company’s website at www.yihchina.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.yihchina.com and the Hong Kong Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Tuesday, 12 July 2016;
- from the designated results of allocations website at www.iporeresults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Tuesday, 12 July 2016 to 12:00 midnight on Monday 18 July 2016;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, 12 July 2016 to Friday, 15 July 2016;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 12 July 2016 to Thursday, 14 July 2016 at all the receiving bank designated branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

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12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** service provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) **If the Company or its agents exercise their discretion to reject your application:**

The Company, the Joint Global Coordinators, the **White Form eIPO** service provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) **If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

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(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50.00% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$3.42 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, 12 July 2016.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

HOW TO APPLY FOR HONG KONG OFFER SHARES

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by a **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Tuesday, 12 June 2016. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 13 July 2016 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) *If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 12 July 2016 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, 12 July 2016, by ordinary post and at your own risk.

(ii) *If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Tuesday, 12 July 2016, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 12 July 2016, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 12 July 2016 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) *If you apply through the White Form eIPO service*

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 12 July 2016 or such other date as notified by the Company in the newspapers as the date of dispatch/collection of share certificates/e-Refund payment instructions/refund cheques.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, 12 July 2016 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) *If you apply via Electronic Application Instructions to HKSCC*

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 12 July 2016, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "11. Publication of Results" above on Wednesday, 29 June 2016. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 12 July 2016 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 12 July 2016. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 12 July 2016.

15. ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to China International Capital Corporation Hong Kong Securities Limited pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

30 June 2016

The Directors
YIHAI INTERNATIONAL HOLDING LTD.
China International Capital Corporation Hong Kong Securities Limited

Dear Sirs,

We report on the financial information of YIHAI INTERNATIONAL HOLDING LTD. (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated statements of financial position as at 31 December 2013, 2014 and 2015, the statements of financial position of the Company as at 31 December 2013, 2014 and 2015, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2013, 2014 and 2015 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 30 June 2016 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 18 October 2013 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation as described in Note 1(b) of Section II headed "Reorganisation" below, which was completed on 31 December 2015, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1(b) of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

No statutory audited financial statements have been prepared by the Company as it has not involved in any significant business transactions since its date of incorporation. The statutory audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1(b) of Section II.

The directors of the Company have prepared the consolidated financial statements of the Company for the Relevant Periods, in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs. We have audited the Underlying Financial Statements in accordance with International Standards on Auditing (the “ISAs”) issued by the International Auditing and Assurance Standards Board (“IAASB”) pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors’ Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with the basis of presentation set out in Note 1(c) of Section II below and in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant’s Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the financial position of the Company as at 31 December 2013, 2014 and 2015 and of the financial position of the Group as at 31 December 2013, 2014 and 2015 and of the Group’s financial performance and cash flows for the Relevant Periods.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company, as at 31 December 2013, 2014 and 2015 and for each of the years ended 31 December 2013, 2014 and 2015 (the "Financial Information"):

(a) Consolidated Statements of Financial Position

	Note	As at 31 December		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
Assets				
Non-current assets				
Land use rights	6	9,399	9,179	7,330
Property, plant and equipment.....	7	107,989	123,463	120,491
Intangible assets		—	26	823
Deferred income tax assets.....	9	2,351	5,378	5,697
Prepayments for property, plant and equipment.....	12	14,784	15,338	1,748
Total non-current assets		<u>134,523</u>	<u>153,384</u>	<u>136,089</u>
Current assets				
Inventories	10	59,431	83,336	102,754
Trade receivables	11, 29	1,517	10,909	63,838
Prepayments and other receivables.....	12, 29	27,023	28,786	51,467
Derivative financial instruments.....	13	—	—	—
Cash and cash equivalents.....	14	2,247	9,222	235,216
Total current assets		<u>90,218</u>	<u>132,253</u>	<u>453,275</u>
Total assets		<u>224,741</u>	<u>285,637</u>	<u>589,364</u>
Equity				
Equity attributable to owners of the Company				
Share capital	15	12	12	31
Reserves	16	37,674	45,726	141,893
Total equity		<u>37,686</u>	<u>45,738</u>	<u>141,924</u>
Liabilities				
Non-current liabilities				
Redeemable convertible preferred shares..	19	—	—	186,667
Current liabilities				
Trade payables	17	18,872	37,071	43,324
Other payables and accruals	18, 29	168,183	188,800	196,915
Current income tax liabilities.....		—	14,028	20,534
Total current liabilities		<u>187,055</u>	<u>239,899</u>	<u>260,773</u>
Total liabilities		<u>187,055</u>	<u>239,899</u>	<u>447,440</u>
Total equity and liabilities		<u>224,741</u>	<u>285,637</u>	<u>589,364</u>

(b) Statements of Financial Position - the Company

	Note	As at 31 December		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
Assets				
Non-current assets				
Investments in subsidiaries.....		—	1,130,000	1,130,000
Current assets				
Other receivables	30	12	8,579	9,104
Cash and cash equivalents.....	30	—	552	196,647
Total current assets		<u>12</u>	<u>9,131</u>	<u>205,751</u>
Total assets		<u>12</u>	<u>1,139,131</u>	<u>1,335,751</u>
Equity				
Equity attributable to owners of the Company				
Share capital.....	15	12	12	31
Reserves	30	—	1,129,940	1,149,053
Total equity		<u>12</u>	<u>1,129,952</u>	<u>1,149,084</u>
Liabilities				
Non-current liabilities				
Redeemable convertible preferred shares..	19	—	—	186,667
Current liabilities				
Other payables	30	—	9,179	—
Total current liabilities		<u>—</u>	<u>9,179</u>	<u>—</u>
Total liabilities		<u>—</u>	<u>9,179</u>	<u>186,667</u>
Total equity and liabilities		<u>12</u>	<u>1,139,131</u>	<u>1,335,751</u>

(c) Consolidated Statements of Comprehensive Income

	Note	Year ended 31 December		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
Revenue.....	5	315,863	498,231	847,339
Cost of sales.....	20	(246,447)	(378,753)	(553,106)
Gross profit		69,416	119,478	294,233
Distribution expenses.....	20	(29,709)	(44,311)	(93,898)
Administrative expenses.....	20	(10,255)	(17,309)	(38,255)
Other incomes and gains/(losses) - net.....	22	32	(691)	3,479
Operating profit		29,484	57,167	165,559
Finance income/(expense) - net.....	23	35	(11)	1,361
Profit before income tax		29,519	57,156	166,920
Income tax expense.....	24	(7,455)	(14,646)	(42,373)
Profit for the year		<u>22,064</u>	<u>42,510</u>	<u>124,547</u>
Other comprehensive income				
<i>Items that may be reclassified to profit or loss</i>				
Cash flow hedges.....	16	—	—	514
Other comprehensive income for the year, net of tax		—	—	514
Total comprehensive income		<u>22,064</u>	<u>42,510</u>	<u>125,061</u>
Profit attributable to:				
- Owners of the Company.....		<u>22,064</u>	<u>42,510</u>	<u>124,547</u>
Total comprehensive income attributable to:				
- Owners of the Company.....		<u>22,064</u>	<u>42,510</u>	<u>125,061</u>
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)				
- Basic.....	25	0.110	0.213	0.319
- Diluted.....	25	<u>0.110</u>	<u>0.213</u>	<u>0.317</u>

(d) Consolidated Statements of Changes in Equity

	Note	Share capital (Note 15) RMB'000	Reserves (Note 16) RMB'000	Total equity RMB'000
Balance at 1 January 2013		—	7,322	7,322
Comprehensive income				
Profit for the year		—	22,064	22,064
Total comprehensive income		—	22,064	22,064
Transactions with owners				
Issuance of new ordinary shares	15	12	—	12
Shareholders' contributions	16	—	36,914	36,914
Deemed distribution to shareholders	16	—	(28,626)	(28,626)
Total transactions with owners		12	8,288	8,300
Balance at 31 December 2013		12	37,674	37,686
Balance at 1 January 2014		12	37,674	37,686
Comprehensive income				
Profit for the year		—	42,510	42,510
Total comprehensive income		—	42,510	42,510
Transactions with owners				
Deemed distribution to shareholders	16	—	(34,458)	(34,458)
Total transactions with owners		—	(34,458)	(34,458)
Balance at 31 December 2014		12	45,726	45,738
Balance at 1 January 2015		12	45,726	45,738
Comprehensive income				
Profit for the year		—	124,547	124,547
Other comprehensive income	16	—	514	514
Total comprehensive income		—	125,061	125,061
Transactions with owners				
Shareholders' contributions	16	—	520	520
Issuance of new ordinary shares	15, 16	19	17,649	17,668
Deemed distribution to shareholders	16	—	(47,063)	(47,063)
Total transactions with owners		19	(28,894)	(28,875)
Balance at 31 December 2015		31	141,893	141,924

(e) Consolidated Statements of Cash Flow

	Note	Year ended 31 December		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Cash generated from operations	27(a)	3,495	76,963	125,938
Interest received		35	4	57
Income tax paid		(9,352)	(3,645)	(36,357)
Net cash (used in)/generated from operating activities		<u>(5,822)</u>	<u>73,322</u>	<u>89,638</u>
Cash flows from investing activities				
Purchases of property, plant and equipment		(17,163)	(37,784)	(21,998)
Purchases of intangible assets		—	(27)	(859)
Proceeds from disposal of property, plant and equipment	27(b)	<u>4,764</u>	<u>414</u>	<u>306</u>
Net cash used in investing activities		<u>(12,399)</u>	<u>(37,397)</u>	<u>(22,551)</u>
Cash flows from financing activities				
(Decrease)/increase in other payables due to related parties		(2,332)	5,523	319
Proceeds from issuance of ordinary shares	15,16	—	—	17,680
Proceeds from issuance of convertible and redeemable preferred shares	19	—	—	186,667
Deemed distribution to equity holder		<u>(28,626)</u>	<u>(34,458)</u>	<u>(47,063)</u>
Net cash (used in)/generated from financing activities		<u>(30,958)</u>	<u>(28,935)</u>	<u>157,603</u>
Net (decrease)/increase in cash and cash equivalents		(49,179)	6,990	224,690
Cash and cash equivalents at beginning of year	14	51,426	2,247	9,222
Exchange (losses)/gains on cash and cash equivalents		—	(15)	1,304
Cash and cash equivalents at end of year	14	<u>2,247</u>	<u>9,222</u>	<u>235,216</u>

II. NOTES TO THE FINANCIAL INFORMATION**1. General information, Reorganisation and Basis of Presentation****(a) General Information**

YIHAI INTERNATIONAL HOLDING LTD. (the "Company") was incorporated in the Cayman Islands on 18 October 2013 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The address of the Company's registered office is 4th floor, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, the Cayman Islands.

The Company is an holding company and its subsidiaries are principally engaged in the production and sale of hot pot soup flavoring products, hot pot dipping sauce products and Chinese style compound condiment products, collectively referred to as the "Listing Business" in the People's Republic of China (the "PRC"). Hot pot soup flavoring and hot pot dipping sauce are collectively referred to as "hot pot condiment". As at the date of this report, the ultimate holding company of the Company is ZYSP Yihai Ltd. which is wholly owned by Mr. Zhang Yong and Ms. Shu Ping collectively. Ms. Shu Ping is the wife of Mr. Zhang Yong and they are collectively referred to as "the Ultimate Shareholders".

(b) Reorganisation

As at 1 January 2013, the beginning the Relevant Periods, the Listing Business was carried out by Zhengzhou Shuhai Enterprise Co., Ltd. 鄭州蜀海實業有限公司 ("Zhengzhou Shuhai") and six branches of Sichuan Haidilao Catering Corporation Ltd. 四川海底撈餐飲股份有限公司 ("Sichuan Haidilao"), namely, i) Beijing Food Branch, ii) Shanghai Jiading Branch, iii) Xianyang Branch, iv) Zhengzhou High-tech Zone Branch, v) Chengdu Branch and vi) Beijing Sales Branch (together, the "Six Branches of Sichuan Haidilao"). Apart from the Listing Business, the Six Branches of Sichuan Haidilao were also engaged in the production and sale of fresh food products (the "Non-Listing Business"). Both Zhengzhou Shuhai and Six Branches of Sichuan Haidilao were effectively majority owned by the Ultimate Shareholders.

During the Relevant Periods, the following reorganisation ("Reorganisation") was carried out:

- 1) On 28 April 2014, Zhengzhou Shuhai established Chengdu Yueyihai Co., Ltd 成都悅頤海商貿有限公司 ("Chengdu Yueyihai"). On 1 September 2014, the sales function of Beijing Food Branch, Shanghai Jiading Branch, Xianyang Branch and Zhengzhou High-tech Zone Branch of Sichuan Haidilao which mainly constituted salesmen and customer relationships relating to the Listing Business were transferred to Chengdu Yueyihai at nil consideration. Since then, Chengdu Yueyihai assumed the Listing Business carried out by Beijing Food Branch, Shanghai Jiading Branch, Xianyang Branch and Zhengzhou High-tech Zone Branch of Sichuan Haidilao. Thereafter, these four branches continued to carry out the Non-Listing Business.

- 2) From 1 September 2014, Beijing Sales Branch of Sichuan Haidilao ceased its Non-Listing Business as such business was taken up by other branches of Sichuan Haidilao. On 24 November 2014, Sichuan Haidilao applied to change the status of its Beijing Sales Branch into a limited liability company, Yihai (Beijing) Trading Co., Ltd. 頤海 (北京) 商貿有限公司 (“Yihai Beijing”). On 30 November 2014, the entire interest of Yihai Beijing was transferred to Zhengzhou Shuhai at nil consideration. On 3 February 2015, Zhengzhou Shuhai paid up the registered capital of RMB1 million in Yihai Beijing.
- 3) On 1 December 2014, Yihai (Shanghai) Food Co., Ltd. (“Yihai Shanghai”), an indirect wholly owned subsidiary of the Company acquired the entire capital of Zhengzhou Shuhai from Sichuan Haidilao at a consideration of RMB2 million. Thereafter, Zhengzhou Shuhai, together with its wholly owned subsidiaries, Chengdu Yueyihai and Yihai Beijing became 100% owned indirect subsidiaries of the Company.
- 4) On 30 November 2015, Zhengzhou Shuhai acquired certain land and buildings from Sichuan Haidilao which were used for the production of Listing Business during the Relevant Periods at consideration of RMB42.82 million.
- 5) On 31 December 2015, Chengdu Yueyihai acquired from Chengdu Branch of Sichuan Haidilao certain production facilities and inventories that were in relation to the production of the Listing Business at an aggregate consideration of RMB12 million (including property, plant and equipment for RMB8.95 million and inventories for RMB3.05 million). Upon the completion of this acquisition, Chengdu Branch of Sichuan Haidilao continued to carry out the Non-Listing Business.

The land, and buildings thereon, as well as certain equipment that are also in relation to the production of the Listing Business as owned by Chengdu Branch of Sichuan Haidilao, however, are not acquired by the Group as the related land use rights and building certificates are yet to be obtained on 31 December 2015. As a result, such land use right, buildings and certain attached equipment were considered as deemed disposal pursuant to the Reorganisation. Effective from 1 January 2016, Chengdu Yueyihai leases such land, buildings and equipment from Chengdu Branch of Sichuan Haidilao at RMB3.01 million per year.

Upon completion of the above Reorganisation and as at the date of this report, the Company had direct and indirect interests in the following subsidiaries:

Company name	Place and date of establishment/ incorporation	Issued and paid-up capital	Attributable equity interest of the Group			Principal activities	Statutory auditor
			As at 31 December				
			2013	2014	2015		
Yihai Ltd.	British Virgin Islands 29 October 2013	US\$1	100%	100%	100%	Investment holding and consulting	(i)
Yihai (China) Co., Ltd.	Hong Kong 6 December 2013	HK\$10,000,000	100%	100%	100%	Investment holding and consulting	(ii)
Yihai (Shanghai) Food Co., Ltd.	The PRC 1 December 2014	HK\$10,000,000	—	100%	100%	Sales of hot pot condiment	(iii)
Zhengzhou Shuhai Enterprise Co., Ltd.	The PRC 13 January 2012	RMB1,000,000	—	100%	100%	Manufacture and sales of hot pot condiment	(iv)
Chengdu Yueyihai Co., Ltd.	The PRC 28 April 2014	RMB1,000,000	—	100%	100%	Sales of hot pot condiment	(v)
Yihai Beijing Trading Co., Ltd.	The PRC 24 November 2014	RMB1,000,000	—	100%	100%	Sales of hot pot condiment	(vi)
Yihai (Bazhou) Food Co., Ltd.	The PRC 11 June 2015	RMB10,000,000	—	—	100%	Inactive	(vii)

The English names of certain companies represent the best efforts by management of the Group in translating their Chinese names as they do not have official English names.

Statutory auditor for each of the years ended 31 December 2013, 2014 and 2015 is as follows:

- (i) There is no statutory audit requirement under the applicable law in the place of incorporation of this entity.
- (ii) The statutory financial statements of Yihai (China) Co., Ltd. for the period from 6 December 2013 (date of incorporation) to 31 December 2014 were audited by Baililai Certified Public Accounts.
- (iii) The statutory financial statements of Yihai (Shanghai) Food Co., Ltd. for the period ended 31 December 2014 and the year ended 31 December 2015 were audited by KPMG Huazhen LLP and PricewaterhouseCoopers Zhong Tian LLP, Beijing Branch, respectively.

- (iv) The statutory financial statements of Zhengzhou Shuhai Enterprise Co., Ltd. for the period from 12 January 2012 (date of incorporation) to 31 December 2013, year ended 31 December 2014 and 2015 were audited by 北京興華會計師事務所 (Beijing Xinghua Certified Public Accountants), KPMG Huazhen LLP and PricewaterhouseCoopers Zhong Tian LLP, Beijing Branch, respectively.
- (v) The statutory financial statements of Chengdu Yueyihai Co., Ltd. for the period from 28 April 2014 (date of incorporation) to 31 December 2014 and the year ended 31 December 2015 were audited by KPMG Huazhen LLP and PricewaterhouseCoopers Zhong Tian LLP, Beijing Branch, respectively.
- (vi) The statutory financial statements of Yihai Beijing Trading Co., Ltd. for the period from 24 November 2014 (date of incorporation) to 31 December 2014 and the year ended 31 December 2015 were audited by KPMG Huazhen LLP and PricewaterhouseCoopers Zhong Tian LLP, Beijing Branch, respectively.
- (vii) This company was newly incorporated in 2015, the statutory financial statements for the period from 11 June 2015 (date of incorporation) to 31 December 2015 were audited by PricewaterhouseCoopers Zhong Tian LLP, Beijing Branch.

(c) ***Basis of Presentation***

Prior to and following the Reorganisation, all companies comprising the Group are directly or indirectly controlled by Mr. Zhang Yong and his wife. Accordingly, the Reorganisation has been accounted for as a reorganisation of business under common control in a manner similar to merger accounting.

Before the completion of the Reorganisation, the Listing Business was carried out by Zhengzhou Shuhai and the Six Branches of Sichuan Haidilao. Due to the different nature of the products and businesses, each of the Listing Business and Non-Listing Business has been operated as stand-alone business and has separate operation teams. Also, separable accounting records and management accounts were maintained and available to capture the results and performance of each business.

The Financial Information presents the consolidated results and financial position of the Group as if the current group structure had been in existence throughout the Relevant Periods and as if the Listing Business was transferred to the Group at the beginning of the earliest period presented or when such businesses were established, whichever is the shorter period, but exclude the Non-listing Business which is not a part of the Group pursuant to the Reorganisation and have historically been managed separately from the Listing Business.

The Group has also considered the key principles as set out in UK SIR 2000 relating to carve-out when preparing the Financial Information. Historically, except for the depreciation of building and the amortisation of land use right of the Chengdu Branch amounting to RMB235,000, RMB235,000 and RMB1,668,000 for each of the years ended 31 December 2013, 2014 and 2015 were allocated between the Listing and Non-Listing Business based on the actual usage area of each business, there was no other significant allocation made. The related amounts charged to the profit and loss of the Listing Business during the years ended 31 December 2013, 2014 and 2015 were RMB164,000, RMB164,000 and RMB1,170,000 respectively.

All significant intra-group transactions and balances have been eliminated on consolidation.

2. Summary of significant accounting policies and accounting estimates

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied throughout the Relevant Periods. Unless otherwise stated.

2.1 *Basis of preparation*

The Financial Information of the Group has been prepared in accordance with IFRS. The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of the redeemable convertible preferred shares (as defined in Note 2.20 below).

The preparation of Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4 below.

2.1.1 *New/revised standards, amendments to standards and interpretations*

All new standards, amendments to standards and interpretations, which are mandatory for the financial year beginning on 1 January 2015 are consistently applied to the Group for the Relevant Periods.

The following new standards, amendments and interpretations to existing standards have been issued but are not effective for the financial year beginning on 1 January 2015 and have not been early adopted by the Group.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss ("P&L"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at

fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. IFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS15.

IAS 27, 'Equity method in separate financial statements', allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment to IAS 27 is effective for an entity's annual IFRS financial statements for a period beginning on or after 1 January 2016, with earlier application permitted. The Group is assessing the impact of this amendment to the Group's financial statements.

IFRS 5, 'Non-current assets held for sale and discontinued operations', clarifies that when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'held for sale' or 'held for distribution' simply because the manner of disposal has changed. It also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not classified as 'held for sale'. An entity shall apply the amendment to IFRS 5 prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The Group is assessing the impact of this amendment to the Group's financial statements.

IFRS 7, 'Financial instruments: Disclosures', includes two amendments:

i) Service contracts

If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. It provides guidance about what is meant by continuing involvement. There is a consequential amendment to IFRS 1 to give the same relief to first time adopters. An entity shall apply this amendment to IFRS 7 prospectively with an option to apply retrospectively, for annual periods beginning on or after 1 January 2016. However, the disclosures required would not be needed to be provided for any

period before the annual period in which the entity first applies the amendment.

ii) Interim financial statements

It clarifies the additional disclosure required by the amendments to IFRS 7, 'Disclosure — offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by IAS 34. An entity shall apply this amendment to IFRS 7 retrospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Annual improvements 2014, include changes from the 2012-2014 cycle of the annual improvements project that affect the following standards:

IAS 34, 'Interim financial reporting', clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. It also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. An entity shall apply the amendment to IAS 34 retrospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The Group is assessing the impact of this amendments to the Group's financial statements.

IAS1, 'Disclosure initiative', clarifies guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. Although the amendments do not require specific changes, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users. The key areas addressed by the changes are as follows:

- Materiality: an entity should not aggregate or disaggregate information in a manner that obscures useful information. An entity need not provide disclosures if the information is not material;
- Disaggregation and subtotals: the amendments clarify what additional subtotals are acceptable and how they should be presented;
- Notes: an entity is not required to present the notes to the financial statements in a particular order, and management should tailor the structure of their notes to their circumstances and the needs of their users;

An entity shall apply those amendments to IAS 1 for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The Group is assessing the impact of these amendments to the Group's financial statements.

IAS 7 'Statement of cash flows' , the IASB has issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

IFRS16, 'Leases', provides updated guidance on the definition of leases, and the guidance on the combination and separation of contracts. Under IFRS16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires lessees to recognise lease liability reflecting future lease payments and a 'right-of-use-asset' for almost all lease contracts, with an exemption for certain short-term leases and leases of low-value assets. The lessors accounting stays almost the same as under IAS 17. However, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. An entity shall apply IFRS 16 for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted if IFRS 15 is also applied. The Group is assessing the impact of this amendments to the Group's financial statements.

The Group is in the process of making an assessment of the impact of these new standards and amendments to standards upon initial application but is not yet in a position to state whether these new standards and amendments to standards would have any significant impact on its results of operations and financial position.

There are no other IFRS or IFRIC interpretation that are not yet effective that would be expected to have a material impact on the Group.

2.2 *Subsidiaries*

2.2.1 *Consolidation*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are removed from the date that control ceases.

(a) Business combinations under common control

Business combinations under common control refers to combinations where the combining entities are controlled by the same parties before and after the combination and that control is not transitory.

The acquirer measures both the consideration paid and net assets obtained at their carrying amounts. The difference between the carrying amounts of the net assets obtained and the carrying amount of the consideration paid is recorded in reserve. All direct transaction cost attributable to the business combination is recorded in the consolidated statements of comprehensive income in the current period. However, the handling fees, commissions and other expenses incurred for the issuance of equity instruments or bonds for the business combination are recorded in the initial measurement of the equity instruments and bonds respectively.

(b) Business combinations not under common control

The Group applies the acquisition method to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in this type of business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combinations is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated unless the transaction provides evidence of an impairment of the transferred assets. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policy.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivables.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Financial Information of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer, vice presidents and directors of the Company.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the Financial Information of each of the Group's entities are measured using the currency of primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statements of comprehensive income within 'finance income/(expense)-net'. All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within 'Other incomes and gains/(losses)-net'.

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each consolidated statements of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

2.5 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Machinery	5-10 years
Equipment	3-5 years
Vehicles and furniture	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other incomes and gains/(losses)-net' in the consolidated statements of comprehensive income.

2.6 *Land use rights*

Land use rights represent upfront prepayments made for the land use rights and are expensed in the consolidated statements of comprehensive income of on a straight-line basis over the periods of the leases or when there is impairment, the impairment is expensed in the consolidated statements of comprehensive income.

2.7 *Intangible assets*

Intangible assets mainly represent computer software. Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

2.8 *Impairment of non-financial assets*

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 *Financial assets*

2.9.1 *Classification*

The Group classifies its financial assets into the following categories: loans and receivables, held to maturity investment, at fair value through profit or loss and available-for-sale financial assets. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. As at each of the balance sheet date, the Group has only loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included within trade receivables, other receivables and cash and cash equivalents in the balance sheets (Notes 2.14 and 2.15).

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statements of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.11 Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statements of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

2.12 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. All of the Group's hedging instruments are designated as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 13. Movements on the hedging reserve in shareholder's equity are shown in the consolidated statements of changes in equity. The full fair value of a hedging derivative is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statements of comprehensive income within 'Other incomes and gains/(losses)-net'.

Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss (for example, when the forecast purchase that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative unrecognised gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated statements of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statements of comprehensive income within 'Other incomes and gains/(losses)-net'.

2.13 *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 *Trade and other receivables*

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.15 *Cash and cash equivalents*

In the consolidated statements of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 *Share capital*

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 *Trade payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 *Current and deferred income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilise

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 *Employee benefits*

In accordance with the rules and regulations in the PRC, the Group has arranged for its PRC employees to join defined contribution plans, including pension, medical, housing and other welfare benefits, organised by the PRC government. According to the relevant regulations, the monthly contributions that should be borne by the PRC subsidiaries of the Company are calculated based on percentages of the total salary of employees, subject to a certain ceiling. The assets of these plans are held separately from those of the Group in independent funds managed by the PRC government.

The Group has no further payment obligations once the above contributions have been paid. The Group's contributions to these plans are charged in the consolidated statements of comprehensive income as incurred.

2.20 *Redeemable convertible preferred shares*

Redeemable convertible preferred shares entitle the holder to convert into a variable number of equity instruments, or to convert into a fixed number of equity instrument in exchange of variable amount of cash. The Group designates the redeemable convertible preferred shares as financial liabilities at fair value through profit or loss. The entire redeemable convertible preferred shares are initially and subsequently measured at fair value, with changes in fair value recognised in the consolidated statements of comprehensive income in the year in which they arise.

2.21 *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivables, and represents amounts receivables for goods supplied, stated net of discounts and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

The Group manufactures and sells a range of hot pot condiment products and Chinese-style compound condiment products to customers including hot pot restaurants and wholesalers. Sales of goods are recognised when a group entity has delivered products to the customers and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Revenue is adjusted for the value of sales discount and rebates. Delivery does not occur until the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the customers, and either the customers have accepted the products in accordance with the sales contracts, or the Group has objective evidence that all criteria for acceptance have been satisfied.

2.22 *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

2.23 *Dividend income*

Dividend income is recognised when the right to receive payment is established.

2.24 *Lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

2.25 *Customer loyalty programme*

The Group operates a loyalty programme where customers accumulate points for purchases made which entitle them to redeem the Group's products. The reward points are recognised as a separately identifiable component of the initial sale transaction by allocating the fair value of the consideration received between the reward points and the other components of the sale such that the reward points are initially recognised as deferred income at their fair value. Revenue from the reward points is recognised when the points are redeemed.

3. **Financial risk management**

3.1 *Financial risk factors*

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) *Market risk*

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transaction denominated and settled in RMB. However, the Group has certain cash and deposits denominated in HKD and USD, which is exposed to foreign currency translation risk. Details of the Group's cash and cash equivalents are disclosed in Note 14 of this section.

During the Relevant Periods, the Group has not hedged its foreign exchange risk because the exposure is not significant.

If USD had weakened/strengthened by 5% against RMB with all other variables held constant, the post-tax profit would have been nil, approximately RMB60,000 and RMB9,975,000 lower/higher, for the years ended 31 December 2013, 2014, 2015, respectively, mainly as a result of net foreign exchange gains/losses on translation of net monetary assets denominated in USD.

(ii) Price risk

The Group is exposed to commodity price risk. To manage its price risk arising from future commercial transactions on one of the major raw materials - soybean oil, the Group purchased futures contracts in Dalian Commodity Exchange.

The table below summarises the impact of increases/decreases of the fair value of the unsettled futures contracts on the Group's post-tax profit for the year and on equity. The analysis is based on the assumption that the fair value of the futures contracts had increased/decreased by 10% with all other variables held constant:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Impact on other comprehensive income.....	—	—	770

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and deposits, trade and other receivables.

The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets. To manage this risk arising from cash and deposits, the Group only transacts with state-owned financial institutions and reputable commercial banks which are all high-credit-quality financial institutions in the PRC and Hong Kong. There has been no recent history of default in relation to these financial institutions.

Trade receivables at the end of each reporting period were mainly due from Haidilao Group (as defined under Note 29) and the distributors in cooperation with the Group. As at 31 December 2013, 2014 and 2015, the amounts due from Haidilao Group represented 77%, 74% and 90% of total trade receivables of the Group. The management of the Group believes the credit risk on amounts due from related parties is limited because they continuously monitor the credit quality and financial conditions of the related parties. Ageing analysis of the Group's trade receivables is disclosed in Note 11. The directors of the Company believe that the credit risk inherent in the Group's outstanding trade receivables balances due from the distributors is low.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

(c) *Liquidity risk*

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

Cash flow forecasting is performed by the finance department of the Group. The Group's finance department monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs as well as the liabilities to other parties.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 3 years	Total
	RMB'000	RMB'000	RMB'000
As at 31 December 2013			
Trade payables	18,872	—	18,872
Other payables and accruals	166,260	—	166,260
Total	<u>185,132</u>	<u>—</u>	<u>185,132</u>
As at 31 December 2014			
Trade payables	37,071	—	37,071
Other payables and accruals	181,970	—	181,970
Total	<u>219,041</u>	<u>—</u>	<u>219,041</u>
As at 31 December 2015			
Redeemable convertible preferred shares....	—	186,667	186,667
Trade payables	43,324	—	43,324
Other payables and accruals	184,995	—	184,995
Total	<u>228,319</u>	<u>186,667</u>	<u>414,986</u>

3.2 *Capital risk management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group monitors capital (including share capital, reserves and preferred shares on an as-if converted basis) by regularly reviewing the capital structure. As a part of this review, the directors of the Company consider the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group's capital risk is low.

3.3 Fair value estimation

The Group analyses the financial instruments carried at fair value, by valuation method. The different level have been defined as follow:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (level 3).

As at 31 December 2013 and 2014, the Group did not hold any financial assets or liabilities that carried at fair value. As at 31 December 2015, the Group held redeemable convertible preferred shares (Note 19). Due to one or more of the significant inputs used in the valuation of the redeemable convertible preferred shares is not based on observable market data, the instrument is included in level 3. The valuation technique used to value the redeemable convertible preferred shares is discounted cash flow analysis.

3.4 Offsetting financial assets and financial liabilities

(a) Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet
	RMB'000	RMB'000	RMB'000
As at 31 December 2013			
Trade receivables	<u>33,786</u>	<u>(32,269)</u>	<u>1,517</u>
As at 31 December 2014			
Trade receivables	<u>52,889</u>	<u>(41,980)</u>	<u>10,909</u>

(b) *Financial liabilities*

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

As at 31 December 2013	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet
	RMB'000	RMB'000	RMB'000
Other payables	198,529	(32,269)	166,260

As at 31 December 2014	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet
	RMB'000	RMB'000	RMB'000
Other payables	223,950	(41,980)	181,970

There was no offsetting of financial assets and financial liabilities as at 31 December 2015.

4. **Critical accounting estimates and judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Impairment of trade and other receivables*

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the provision at each balance sheet date. Management reassesses the adequacy of impairment provision on a regular basis by reviewing the individual account based on past credit history and any prior knowledge of debtor insolvency or other credit risk which might not be public information or easily accessible public information and market volatility that might bear a significant impact but might not be easily ascertained.

(b) *Income taxes and deferred tax*

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will be reflected in the income tax expense and deferred tax provisions in the period in which such determination is made. In addition, the realisation of future income tax assets is dependent on the Group's ability to generate sufficient taxable income in future years to utilise income tax benefits and tax loss carry-forwards. Deviations of future profitability from estimates or in the income tax rate would result in adjustments to the value of future income tax assets and liabilities that could have a significant effect on the income tax expenses.

(c) *Redeemable convertible preferred shares*

As disclosed in Note 19, the fair value of the redeemable convertible preferred shares at the dates of issue and balance sheet dates were determined based on the valuation performed by an independent valuer, using valuation techniques. The Group uses its judgements to select a variety of methods and make assumptions that are mainly based on market conditions existing at the respective valuation dates. The Group has used discounted cash flow to determine the business value of the Group, followed by option pricing models to determine the fair value of redeemable convertible preferred shares.

The estimated fair value of the redeemable convertible preferred shares as a whole at the issuance date would have been approximately RMB9 million lower or higher, should the weighted average cost of capital used in the discount cash flow analysis higher/lower by 100 basis point from management's estimate.

5. **Revenue and segment information**

Management determines the operating segments based on the reports reviewed by the CODM that are used to make strategic decisions. The Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the manufacture and sales of hot pot soup flavoring products, hot pot dipping sauce products and China-style compound condiment products to external customers, which are considered as one segment. The Group's principal market is the PRC and its sales to overseas customers contributed to less than 10% of the total revenues. Accordingly, no geographical information is presented.

Breakdown of revenue by product line is as follows:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Revenue			
Hot pot soup flavoring products			
- Related parties	169,690	266,328	446,743
- Third parties	87,527	145,146	251,909
Subtotal	257,217	411,474	698,652
Hot pot dipping sauce products			
- Related Parties	—	153	53
- Third Parties	9,084	12,584	41,157
Subtotal	9,084	12,737	41,210
China style compound condiment products			
- Related parties	2,566	3,715	7,511
- Third parties	38,429	62,064	87,720
Subtotal	40,995	65,779	95,231
Others			
- Related parties	8,442	8,220	10,796
- Third parties	125	21	1,450
Subtotal	8,567	8,241	12,246
Total	315,863	498,231	847,339

6. Land use rights

	RMB'000
As at 1 January 2013	
Cost	10,202
Accumulated amortisation	(680)
Net book amount	<u>9,522</u>
Year ended 31 December 2013	
Opening net book amount	9,522
Additions	96
Amortisation charge	(219)
Closing net book amount	<u>9,399</u>
As at 31 December 2013	
Cost	10,298
Accumulated amortisation	(899)
Net book amount	<u>9,399</u>
Year ended 31 December 2014	
Opening net book amount	9,399
Amortisation charge	(220)
Closing net book amount	<u>9,179</u>
As at 31 December 2014	
Cost	10,298
Accumulated amortisation	(1,119)
Net book amount	<u>9,179</u>
Year ended 31 December 2015	
Opening net book amount	9,179
Deemed disposal arising from the Reorganisation (Note a)	(1,626)
Amortisation charge	(223)
Closing net book amount	<u>7,330</u>
As at 31 December 2015	
Cost	8,331
Accumulated amortisation	(1,001)
Net book amount	<u>7,330</u>

Land use rights represent the net book amount of prepaid operating lease payment. All the land use rights of the Group are located in the PRC and are held on leases from 46-50 years.

As at 31 December 2015, the Group was in the process of changing the title of the land use right certificates to Zhengzhou Shuhai from Sichuan Haidilao.

Note:

- (a) Upon the completion of the Reorganisation on 31 December 2015 (as mentioned in Note 1 (b) (5)), certain land use right, buildings and equipment of Chengdu Branch of Sichuan Haidilao that had been used for the production of the Listing Business were not acquired by the Group. As a result, such land use right, buildings and equipment were considered as deemed disposal arising from the Reorganisation. Effective from 1 January 2016, the Group leases such land use right, buildings and equipment at a rental fee of RMB 3.01 million per year from Sichuan Haidilao for three years.

7. Property, plant and equipment

	Buildings	Machinery	Equipment	Vehicles and furniture	Construction in process	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2013						
Cost.....	2,619	6,945	3,387	1,294	7,573	21,818
Accumulated depreciation	(715)	(2,358)	(1,640)	(652)	—	(5,365)
Net book amount.....	1,904	4,587	1,747	642	7,573	16,453
Year ended 31 December 2013						
Opening net book amount	1,904	4,587	1,747	642	7,573	16,453
Additions.....	36,818	36,127	8,644	1,066	20,550	103,205
Disposal.....	—	(4,271)	(317)	(520)	—	(5,108)
Transfers.....	22,703	4,009	—	—	(26,712)	—
Depreciation charge	(2,221)	(3,072)	(1,158)	(110)	—	(6,561)
Closing net book amount ...	59,204	37,380	8,916	1,078	1,411	107,989
As at 31 December 2013						
Cost.....	62,140	41,524	11,431	1,214	1,411	117,720
Accumulated depreciation	(2,936)	(4,144)	(2,515)	(136)	—	(9,731)
Net book amount.....	59,204	37,380	8,916	1,078	1,411	107,989
Year ended 31 December 2014						
Opening net book amount	59,204	37,380	8,916	1,078	1,411	107,989
Additions.....	1,671	23,078	8,588	956	2,937	37,230
Disposal	—	(991)	(614)	(3)	—	(1,608)
Transfers.....	4,348	—	—	—	(4,348)	—
Depreciation charge	(6,868)	(9,715)	(3,343)	(222)	—	(20,148)
Closing net book amount ...	58,355	49,752	13,547	1,809	—	123,463
As at 31 December 2014						
Cost.....	68,159	62,135	18,453	2,166	—	150,913
Accumulated depreciation	(9,804)	(12,383)	(4,906)	(357)	—	(27,450)
Net book amount.....	58,355	49,752	13,547	1,809	—	123,463
Year ended 31 December 2015						
Opening net book amount	58,355	49,752	13,547	1,809	—	123,463
Additions.....	9,606	18,366	7,070	—	1,065	36,107
Disposals	—	—	(308)	—	—	(308)
Deemed disposal arising from the Reorganisation (Note 6(a))	(5,941)	(7,042)	(6,555)	—	—	(19,538)
Transfers.....	1,065	—	—	—	(1,065)	—
Depreciation charge	(5,769)	(7,687)	(5,284)	(493)	—	(19,233)
Closing net book amount ...	57,316	53,389	8,470	1,316	—	120,491
As at 31 December 2015						
Cost.....	70,797	73,661	15,630	2,054	—	162,142
Accumulated depreciation	(13,481)	(20,272)	(7,160)	(738)	—	(41,651)
Net book amount.....	57,316	53,389	8,470	1,316	—	120,491

Depreciation expense has been charged to the consolidated statements of comprehensive income as follows:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Cost of sales	4,498	16,099	16,203
Administrative expense	545	236	560
Distribution costs	1,518	3,813	2,470
	<u>6,561</u>	<u>20,148</u>	<u>19,233</u>

As at 31 December 2015, the Group was in the process of changing the title of the building ownership certificates to Zhengzhou Shuhai from Sichuan Haidilao.

8. Financial instruments by category

Assets as per balance sheet

	Loans and receivables
	RMB'000
At 31 December 2013	
Trade and other receivables.....	1,907
Cash and cash equivalents.....	<u>2,247</u>
Total	<u>4,154</u>
At 31 December 2014	
Trade and other receivables.....	12,277
Cash and cash equivalents.....	<u>9,222</u>
Total	<u>21,499</u>
At 31 December 2015	
Trade and other receivables.....	67,759
Cash and cash equivalents.....	<u>235,216</u>
Total	<u>302,975</u>

Liabilities as per balance sheet

	Liabilities at fair value through the profit or loss	Other financial liabilities at amortised cost	Total
	RMB'000	RMB'000	RMB'000
At 31 December 2013			
Trade and other payables	—	185,132	185,132
At 31 December 2014			
Trade and other payables	—	219,041	219,041
At 31 December 2015			
Redeemable convertible preferred shares....	186,667	—	186,667
Trade and other payables	—	228,319	228,319
Total	<u>186,667</u>	<u>228,319</u>	<u>414,986</u>

9. Deferred income tax assets and liabilities

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Deferred income tax assets:			
— Deferred tax asset to be recovered after more than 12 months	307	1,324	1,324
— Deferred tax asset to be recovered within 12 months	2,044	4,054	4,544
Total	<u>2,351</u>	<u>5,378</u>	<u>5,868</u>

The gross movement of the deferred income tax account is as follows:

	2013	2014	2015
	RMB'000	RMB'000	RMB'000
As at 1 January	454	2,351	5,378
Consolidated statements of comprehensive income credit (Note 24).....	1,897	3,027	490
As at 31 December	<u>2,351</u>	<u>5,378</u>	<u>5,868</u>

The movement in deferred income tax assets and liabilities during the Relevant Periods, without taking into consideration of the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets	Payroll and welfare payables	Sales rebates and deferred revenue	Depreciation differences	Provision of trade and other receivables	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2013	408	—	—	46	454
Credited/(Charged) to the consolidated statements of comprehensive	279	1,338	307	(27)	1,897
As at 31 December 2013	687	1,338	307	19	2,351
Credited to the consolidated statements of comprehensive	991	945	1,017	74	3,027
As at 31 December 2014	1,678	2,283	1,324	93	5,378
(Charged)/Credited to the consolidated statements of comprehensive income	(1,040)	1,583	—	(53)	490
As at 31 December 2015	638	3,866	1,324	40	5,868
Deferred income tax liabilities	Cash flow hedging				
	RMB'000				
As at 1 January 2013, 31 December 2013 and 2014	—				
Charged to the comprehensive income	(171)				
As at 31 December 2015	(171)				

Net amount of deferred income tax assets after offsetting:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Deferred income tax assets:	2,351	5,378	5,697

10. Inventories

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Raw materials	15,655	34,979	32,464
Work in progress.....	2,955	2,158	3,621
Finished goods	40,821	46,199	66,669
Total inventories	<u>59,431</u>	<u>83,336</u>	<u>102,754</u>

The cost of inventory recognised as 'cost of sales' is amounting to approximately RMB 216,758,000, RMB 318,910,000 and RMB 480,098,000 for the years ended 31 December 2013, 2014 and 2015 respectively.

11. Trade receivables

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Third parties	344	3,038	5,331
Related parties (Notes 29(d))	<u>1,175</u>	<u>8,097</u>	<u>58,507</u>
Subtotal	1,519	11,135	63,838
Less: provision for impairment	<u>(2)</u>	<u>(226)</u>	<u>—</u>
Trade receivables — net	<u>1,517</u>	<u>10,909</u>	<u>63,838</u>

- (a) The majority of the Group's third party sales are conducted through receiving advances from customers before delivering the goods to customers, with only few customers are granted with credit periods ranged from 30 to 60 days. The related party customers of the Group are granted with 30 days credit period. Ageing analysis based on recognition date of the gross trade receivables at the respective balance sheet dates is as follows:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Within 3 months	<u>1,519</u>	<u>11,135</u>	<u>63,838</u>

The carrying amounts of trade receivables above approximate their fair values.

- (b) No trade receivables were past due but not impaired as at 31 December 2013, 2014 and 2015 respectively.

Movements in the provision for impairment of trade receivables are as follows:

	2013	2014	2015
	RMB'000	RMB'000	RMB'000
As at 1 January.....	5	2	226
Provision for/(Reversal of) impairment	(3)	224	(226)
As at 31 December	<u>2</u>	<u>226</u>	<u>—</u>

The creation and release of provision for impaired receivables have been included in 'Administrative expenses' in the consolidated statements of comprehensive income.

12. Prepayments and other receivables

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Prepayments			
Prepayments for purchase of raw materials.....	15,227	23,920	37,993
Prepayments for property, plant and equipment.....	14,784	15,338	1,748
Value added tax recoverable.....	9,770	1,840	3,072
Prepayments for utilities	497	497	809
Prepayments for legal and professional fees	471	395	3,273
Prepayments for rental	187	314	2,308
Others.....	481	452	91
Subtotal	41,417	42,756	49,294
Less: Non-current portion	(14,784)	(15,338)	(1,748)
Current portion	<u>26,633</u>	<u>27,418</u>	<u>47,546</u>
Other receivables			
Deposit for utilities.....	371	319	590
Advance to employees	37	1,071	1,306
Deposit for futures contracts.....	32	—	924
Related parties (Notes 29(d))	12	12	450
Others.....	15	110	810
Less: provision for impairment (a).....	(77)	(144)	(159)
Subtotal	<u>390</u>	<u>1,368</u>	<u>3,921</u>
Total	<u>27,023</u>	<u>28,786</u>	<u>51,467</u>

(a) Movements in the provision for impairment of other receivables are as follows:

	2013	2014	2015
	RMB'000	RMB'000	RMB'000
As at 1 January	45	77	144
Provision for impairment	<u>32</u>	<u>67</u>	<u>15</u>
As at 31 December	<u><u>77</u></u>	<u><u>144</u></u>	<u><u>159</u></u>

13. Derivative financial instruments

The derivative financial instruments of the Group represent soybean oil futures contracts.

The Group settles its gains or losses on soybean oil position on a daily basis.

The contractual value and change of fair value of unmaturing futures contracts as at 31 December 2015 were as follows:

	<u>For the year ended 31 December 2015</u>	
	<u>Contractual value</u>	<u>Change of fair value</u>
	RMB'000	RMB'000
Soybean oil futures contracts	<u>10,271</u>	685
Less: Cash received as settlement		<u>(685)</u>
Net position of futures contracts at 31 December 2015		<u>—</u>

14. Cash and cash equivalents

	<u>As at 31 December</u>		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	<u>2,247</u>	<u>9,222</u>	<u>235,216</u>

	<u>As at 31 December</u>		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
RMB	2,247	8,017	35,647
US\$	<u>—</u>	<u>1,205</u>	<u>199,569</u>
Total	<u><u>2,247</u></u>	<u><u>9,222</u></u>	<u><u>235,216</u></u>

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

15. Share capital

	<u>Number of ordinary shares</u>	<u>Nominal value of ordinary shares</u>	
		US\$	
<i>Authorised:</i>			
Ordinary shares of US\$0.01 each upon incorporation and as at 31 December 2013 and 2014 (i).....	200,000	2,000	
Increase in authorised share capital on 12 March 2015 (i)....	214,800	2,148	
Increase in authorised share capital on 5 October 2015 (i)...	585,200	5,852	
Balance in October 2015 prior to Share Split (ii).....	1,000,000	10,000	
Share Split on 5 October 2015 (ii).....	1,000,000,000	10,000	
Ordinary shares of US\$0.00001 each at 31 December 2015..	<u>1,000,000,000</u>	<u>10,000</u>	
	<u>Number of ordinary shares</u>	<u>Nominal value of ordinary shares</u>	<u>Equivalent nominal value of ordinary shares</u>
		US\$	RMB'000
<i>Issued and paid</i>			
Issue of ordinary shares of US\$0.01 each upon incorporation as at 31 December 2013 and 2014.....	200,000	2,000	12
Issue of ordinary shares of US\$0.01 each on 12 March 2015 (i)	214,800	2,148	14
Issue of ordinary shares of US\$0.01 each on 5 October 2015 (i).....	73,200	732	5
Balance on 5 October 2015 before the Share Split.....	488,000	4,880	31
Share Split on 5 October 2015 (ii).....	488,000,000	4,880	31
Balance at 31 December 2015.....	<u>488,000,000</u>	<u>4,880</u>	<u>31</u>

- (i) The Company was incorporated in the Cayman Islands on 18 October 2013 with an authorised capital of US\$2,000 divided into 200,000 ordinary shares with a par value of US\$0.01 each. On the same date, 200,000 ordinary shares of US\$0.01 each were issued at par, totaling US\$2,000 (equivalent to approximately RMB12,000) were credited to the share capital.

On 12 March 2015, the authorised capital was increased to US\$4,148 divided into 414,800 ordinary shares with a par value of US\$0.01 each. On the same date, 214,800 ordinary shares with par value of US\$0.01 each were issued at US\$8.86 per share, totaling US\$1,903,000 (equivalent to approximately RMB12,067,000), of which US\$2,000 (equivalent to approximately RMB14,000) were credited to share capital and US\$1,901,000 (equivalent to approximately RMB12,053,000) were credited to share premium.

On 5 October 2015, the authorised capital was increased to US\$10,000 divided into 1,000,000 ordinary shares with a par value of US\$0.01 each. On the same date, 73,200 ordinary shares with par value of US\$0.01 each were issued at US\$11.85 per share, totaling US\$867,000 (equivalent to approximately RMB5,601,000), of which US\$732 (equivalent to approximately RMB5,000) were credited to share capital and US\$866,268 (equivalent to approximately RMB5,596,000) were credited to share premium.

- (ii) On 5 October 2015, the board of directors of the Company approved a share split of the Company's share capital at a ratio of 1 to 1,000 (the "Share Split"). As a result, the authorised share capital after the Share Split remained at US\$10,000 but was divided into 1,000,000,000 ordinary shares at a par value of US\$0.00001 each and the issued share capital became US\$4,880, divided into 488,000,000 ordinary shares of US\$0.00001 each.

All the per share information in "Earnings per share" (Note 25) has been adjusted retrospectively as if the aggregate effects of the Share Split had taken place at the beginning of the Relevant Periods.

16. Reserves

	Share premium	Merger reserve (note a)	Statutory reserve	Hedging reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2013	—	9,234	—	—	(1,912)	7,322
Profit for the year	—	—	—	—	22,064	22,064
Shareholders' contributions (note b)	—	36,914	—	—	—	36,914
Deemed distribution to shareholders (note c)	—	—	—	—	(28,626)	(28,626)
As at 31 December 2013	—	46,148	—	—	(8,474)	37,674
As at 1 January 2014	—	46,148	—	—	(8,474)	37,674
Profit for the year	—	—	—	—	42,510	42,510
Appropriation to statutory reserves (g)	—	—	1,039	—	(1,039)	—
Deemed distribution to shareholders (note d)	—	(2,000)	—	—	(32,458)	(34,458)
As at 31 December 2014	—	44,148	1,039	—	539	45,726
As at 1 January 2015	—	44,148	1,039	—	539	45,726
Profit for the year	—	—	—	—	124,547	124,547
Cash flow hedging (note e) ..	—	—	—	514	—	514
Appropriation to statutory reserves (g)	—	—	7,804	—	(7,804)	—
Issuance of ordinary shares ..	17,649	—	—	—	—	17,649
Shareholders' contributions (note b)	—	520	—	—	—	520
Deemed distribution to shareholders (note f)	—	(45,113)	—	—	(1,950)	(47,063)
As at 31 December 2015	17,649	(445)	8,843	514	115,332	141,893

(a) Merger reserve

The Company was incorporated on 13 October 2013 and the Reorganisation was completed on 31 December 2015. For the purpose of the Financial Information, the merger reserve as at 1 January 2013 represented (a) the amount of the capital of Zhengzhou Shuhai; and (b) the carrying amount of land and buildings that owned by Sichuan Haidilao but were used by Zhengzhou Shuhai for the conduction of the Listing Business.

(b) *Shareholders' contributions*

Shareholders' contributions in the Relevant Periods represented the additions of land and buildings contributed by Sichuan Haidilao to Zhengzhou Shuhai. All of these assets contributed by Sichuan Haidilao were related to the operation of the Listing Business during the Relevant Periods.

- (c) Deemed distribution to shareholders in 2013 represented drawings made by Sichuan Haidilao from the Six Branches of Sichuan Haidilao as these branches were not legal entities and had been operated as extensions of Sichuan Haidilao and all profits earned by these branches had been withdrawn by Sichuan Haidilao for central management.
- (d) Deemed distribution to shareholders in 2014 represented (i) drawings made by Sichuan Haidilao from the Six Branches of Sichuan Haidilao (refer to note (c) above); and (ii) the RMB 2 million consideration paid by the Group to Sichuan Haidilao in acquiring the entire net assets of Zhengzhou Shuhai as Zhengzhou Shuhai has been consolidated into the Group from the beginning of the Relevant Periods (refer to Note 1 (b)(3) for the Reorganisation steps underwent in the Relevant Periods by the Group).
- (e) The hedging reserve represented the effective portion of the accumulative change in the fair value of hedging instruments, net of tax, pending subsequent recognition in profit or loss (Note 13).
- (f) Deemed distribution to shareholders in 2015 represented (i) drawings made by Sichuan Haidilao from Chengdu branch of Sichuan Haidilao (refer to note (c) above); and (ii) the consideration of RMB 42.82 million paid by the Group in acquiring certain land and buildings from Sichuan Haidilao (refer to Note 1 (b) (4)).
- (g) The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to equity holders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

17. Trade payables

Trade payables were mainly arising from the purchase of materials. The credit terms of trade payables granted by the vendors are usually 30 to 90 days. At 31 December 2013, 2014 and 2015, the ageing analysis of the trade payables based on invoice date were are follows:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Within 3 months	18,223	36,859	42,937
3 to 6 months	283	101	352
6 months to 1 year.....	366	111	35
Total	<u>18,872</u>	<u>37,071</u>	<u>43,324</u>

18. Other payables and accruals

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Related parties (Notes 29(d))	156,955	162,478	141,633
Sales rebates and deferred revenue.....	5,350	9,134	15,466
Wages, salaries and other employee benefits	3,278	6,710	10,590
Transportation.....	—	2,546	7,044
Advances from customers	1,772	1,261	6,147
Other tax payables	151	5,569	5,773
Listing related expenses	—	—	5,521
Suppliers' deposits	648	422	1,886
Marketing expenses payables	—	—	1,540
Payables for legal and professional fees.....	—	472	601
Others.....	29	208	714
Total	<u>168,183</u>	<u>188,800</u>	<u>196,915</u>

19. Redeemable convertible preferred shares

On 14 December 2015, the Company issued 54,222,222 shares of Series A preferred shares with redemption and conversion features (“RCPS” or “Series A Preferred Shares”) at an issue price of RMB 3.44 per share to two independent third parties, namely Glorious Future Holding Limited and Charlin Holding Limited (collectively referred to as the “Preferred Shareholders”), for an aggregate consideration of RMB 186,667,000.

Certain key features of the RCPS are as follows:

Liquidation

In a liquidation event, all assets and funds of the Company legally available for distribution to the shareholders shall be distributed as follows:

- (i) Prior to and in preference to any distribution of any of the assets of the Company to the common shareholders, the Preferred Shareholders shall be entitled to receive for each outstanding RCPS held, an amount equal to 100% of the RCPS' purchase price, plus an annual simple return of 10% accrued thereon, and plus all declared but unpaid dividend (the "Preference Amount");
- (ii) After the full Preference Amount has been paid, the remaining assets and funds of the Company legally available for distribution to the shareholders (both ordinary shareholders and Preferred Shareholders) shall be distributed ratably among the shareholders (both ordinary shareholders and Preferred Shareholders) in proportion to the number of shares (both ordinary shares and RCPS) held by them (calculated on an as converted to common shares basis).

Conversion

The RCPS may, at the option of the holder, be converted at any time into ordinary shares. The RCPS shall automatically be converted into ordinary shares upon the closing of a qualified IPO (as defined by the Company's memorandum of association).

The initial conversion ratio/price for the RCPS to ordinary shares are 1:1. This 1:1 ratio does not take consideration of the fact that the ordinary shares is at par value of US\$ 0.00001 and issue price of RCPS is at RMB 3.44 per share. The initial conversion ratio/price is subject to adjustments for certain factors, including share split, share division, share combination, share dividend, reorganisation, merger, combination, reclassification, exchange, substitution, recapitalisation or similar events (other than certain excepted issuances, such as new securities issuance under a qualified IPO).

Redemption

Upon the earlier of the occurrence of the following trigger events: (1) the Company fails to complete the qualified IPO by 31 December 2018, (2) the Company's consolidated after-tax net profit, after deducting non-recurring profit and loss (including but not limited to, the issuance of the RCPS and IPO related expenses) for the fiscal year of 2015 equals to or is less than RMB 87.9 million, within ninety (90) days after the Company receive the written request from the majority of the holders of the RCPS, the Company shall redeem all of the outstanding RCPS.

The redemption price for each preferred share shall equal to 100% of the Preferred Share purchase price, plus an annual simple return of 10% accrued thereon.

The Group designates the redeemable convertible preferred shares as financial liabilities at fair value through profit or loss. The entire redeemable convertible preferred shares are initially and subsequently measured at fair value, with charges in fair value recognised in the consolidated statements of comprehensive income in the year in which they arise.

The initial recognition of proceeds to the RCPS are as follows:

	<u>As at the issuance date and 31 December 2015</u>
	RMB'000
Fair value of the RCPS as at the issuance date and 31 December 2015.....	<u>186,667</u>

Valuation process of the Group

The fair value of the RCPS were determined based on valuation performed by an independent professionally qualified valuer.

Valuation techniques

Key valuation assumptions used to determine the fair value of the RCPS are as follows:

The fair value has been determined using a discounted cash flow model. The valuation requires management to make certain assumptions about unobservable inputs to the model, of which the significant unobservable inputs are disclosed in the table below. An increase in the discount rate used to discount the forecast cash flows or decrease in the average revenue growth rate/terminal growth rate would lead to a decrease in the fair value.

	<u>As at 31 December 2015</u>
Risk free rate.....	2.86%
Market risk premium.....	7.90%
Weighted average cost of capital.....	18.39%
Terminal growth rate.....	3%

20. Expenses by nature

Expenses included in cost of sales, distribution expenses and administrative expenses are analysed as follows:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Raw materials used	239,977	323,491	502,031
Changes in inventories of finished goods and work in progress	(23,219)	(4,581)	(21,933)
Employee benefit expenses (Note 21)	30,663	51,643	84,869
Advertising and other marketing expenses	7,160	12,727	31,677
Depreciation of property, plant and equipment (Note 7).....	6,561	20,148	19,233
Utilities	4,670	7,539	9,248
Transportation and related charges	7,288	9,633	14,628
Listing related expenses	—	—	9,760
Legal and professional fees	1,388	2,792	3,113
Management service fee.....	—	—	2,171
Travel and entertainment expenses	2,001	2,004	3,912
Warehouse expenses	—	674	3,150
Rental expenses	1,520	1,576	5,478
Taxes and surcharges	3,242	4,203	7,268
Amortisation of land use rights (Note 6)....	219	220	223
Amortisation of intangible assets	—	1	62
Auditors' remuneration.....	16	75	170
Provision for/(reversal of) impairment of receivables (Note 11 and 12)	29	291	(211)
Other expenses.....	4,896	7,937	10,410
Total	<u>286,411</u>	<u>440,373</u>	<u>685,259</u>

21. Employee benefit expense

(a) Directors' and chief executive's emoluments

During the Relevant Periods, there were no director fees paid/payable to the directors. The remuneration of the directors for the years ended 31 December 2013, 2014 and 2015 is set out below:

Name	Note	Salaries, bonus, allowance and benefits		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
Executive directors				
Ms. Dang Chunxiang (党春香)	(a)	356	747	799
Mr. Sun Shengfeng (孫勝峰)	(b)	—	—	527
Non-executive directors				
Mr. Gou Yiqun (苟軼群)	(c)	—	—	—
Mr. Zhang Yong (張勇)	(d)	—	—	—
Mr. Shi Yonghong (施永宏)	(d)	—	—	—
Mr. Pan Di (潘迪)	(d)	—	—	—
Independent non-executive Directors				
Mr. Yau Ka Chi (邱家賜)	(e)	—	—	—
Mr. Qian Mingxing (錢明星)	(e)	—	—	—
Ms. Ye Shujun (葉蜀君)	(e)	—	—	—
		356	747	1,326

- (a) Ms. Dang Chunxiang was appointed as a director in December 2015 and was redesignated as an executive director in March 2016. These amounts represent the salaries, bonus, allowance and benefits received by Ms. Dang in the Relevant Periods.
- (b) Mr. Sun Shengfeng was appointed as an executive director in March 2016. These amounts represent the salaries, bonus, allowance and benefits received by Mr. Sun in the Relevant Periods.
- (c) Mr. Gou Yiqun was appointed as a director in October 2013 and was redesignated as a non-executive director in March 2016. The Group did not pay any remuneration to Mr. Gou during the Relevant Periods.
- (d) Mr. Zhang Yong, Mr. Shi Yonghong and Mr. Pan Di were appointed as directors in December 2015 and were redesignated as non-executive directors in March 2016. The Group did not pay any remuneration to them during the Relevant Periods.
- (e) Mr. Yau Ka Chi, Mr. Qian Mingxing and Ms. Ye Shujun were appointed as independent non-executive directors in June 2016. The Group did not pay any remuneration to them during the Relevant Periods.

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2013, 2014, and 2015 include 1, 1, and 2 directors respectively whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4, 4, and 3 individuals during the Relevant Periods are as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>
	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses.....	<u>729</u>	<u>1,308</u>	<u>2,177</u>

The emoluments fell within the following bands:

	<u>Number of individuals</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Emolument bands (in HK\$)			
Nil - HK\$1,000,000	<u>4</u>	<u>4</u>	<u>3</u>

- (c) No directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as a compensation for loss of office as director.
- (d) No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking.
- (e) No payment was made to directors as compensation for the early termination of the appointment during the Relevant Periods.
- (f) No payment was made to the former employer of directors for making available the services of them as a director of the Company.
- (g) There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the Relevant Periods.
- (h) No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the Relevant Periods.

22. Other incomes/(losses) and gains-net

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Sales of scrap materials	325	331	594
Government grant	—	—	2,864
Losses on disposal of property, plant and equipment.....	(344)	(1,194)	(2)
Others.....	51	172	23
Total other incomes/(losses) and gains-net .	<u>32</u>	<u>(691)</u>	<u>3,479</u>

23. Finance income /(expense)-net

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Interest income	35	4	57
Exchange gains/(losses)	—	(15)	1,304
Net finance income/(expense)	<u>35</u>	<u>(11)</u>	<u>1,361</u>

24. Income tax expense

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Current income tax	9,352	17,673	42,863
Deferred tax credit (Note 9).....	(1,897)	(3,027)	(490)
Income tax expense	<u>7,455</u>	<u>14,646</u>	<u>42,373</u>

(a) Cayman Islands income tax

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and, accordingly, is exempted from payment of local income tax.

(b) PRC Corporate Income Tax ("CIT")

The income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for each of the years during the Relevant Periods, based on the existing legislation, interpretations and practices in respect thereof.

(c) *PRC withholding tax ("WHT")*

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profit derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be 5%.

According to the shareholding's resolution dated on 31 December 2015, the consolidated retained earnings of the Group's subsidiaries incorporated in the PRC as at 31 December 2015 will not be distributed in the foreseeable future. As a result, no deferred tax liability was recognised.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Profit before income tax	<u>29,519</u>	<u>57,156</u>	<u>166,920</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries	7,380	14,289	41,364
Expenses not deductible for tax purposes...	<u>75</u>	<u>357</u>	<u>1,009</u>
Taxation charge.....	<u>7,455</u>	<u>14,646</u>	<u>42,373</u>

25. **Earnings per share**

For the purpose of computing basic and diluted earnings per share, ordinary shares were assumed to have issued and allocated on 1 January 2013 as if the Company has been established by then. In addition, the number of ordinary shares outstanding during each year of the Relevant Periods have also been adjusted retroactively for the proportional changes in the number of ordinary shares outstanding as a result of the Share Split described in Note 15 in the computation of both basic and diluted earnings per share for the Relevant Periods.

(a) *Basic*

Basic earnings per share for each of the years ended 31 December 2013, 2014 and 2015 are calculated by dividing the profit of the Group attributable to the owners of the Company by the weighted average number of ordinary shares in issue during each respective year.

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Profit attributable to owners of the Company	22,064	42,510	124,547
Weighted average number of ordinary shares in issue (thousands)	200,000	200,000	390,465

(b) *Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The RCPS are the only dilutive potential ordinary shares.

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Earnings			
Profit used to determine diluted earnings per share	22,064	42,510	124,547
Weighted average number of ordinary shares in issue for basic earnings per share (thousands).....	200,000	200,000	390,465
Adjustments for:			
- Assumed conversion of RCPS (thousands).....	—	—	2,525
Weighted average number of ordinary shares for diluted earnings per share (thousands).....	200,000	200,000	392,990

26. **Dividends**

For deemed distribution, please refer to Note 16. No other dividends were declared by the Company in 2013, 2014 and 2015.

27. Notes to the consolidated statements of cash flows

(a) Reconciliation of profit before income tax to net cash flows used in operations:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Profit before income tax	29,519	57,156	166,920
Adjustments for:			
Depreciation of property, plant and equipment (Note 7).....	6,561	20,148	19,233
Amortisation of land use rights (Note 6)....	219	220	223
Amortisation of intangible assets	—	1	62
Losses on disposal of property, plant and equipment (Note 22)	344	1,194	2
Provision for/(Reversal of) impairment of receivables (Note 11 and 12)	29	291	(211)
Finance (income)/expense (Note 23)	(35)	11	(1,361)
Changes in working capital:			
Inventories	(29,512)	(23,905)	(19,418)
Trade and other receivables and prepayments	(10,953)	(11,446)	(75,411)
Trade and other payables and accruals	7,323	33,293	35,899
Cash generated from operations	<u>3,495</u>	<u>76,963</u>	<u>125,938</u>

(b) Proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Net book amount (Note 7)	5,108	1,608	308
Loss on disposal of property, plant and equipment (Note 22).....	<u>(344)</u>	<u>(1,194)</u>	<u>(2)</u>
Proceeds from disposal of property, plant and equipment	<u>4,764</u>	<u>414</u>	<u>306</u>

(c) Major non-cash transaction

During the Relevant Periods, certain of the Group's buildings and land use right amounting to RMB36,914,000, Nil and RMB520,000 were contributed by Sichuan Haidilao, respectively.

28. Commitments

(a) Capital commitments

The Group did not have any material capital commitments as at 31 December 2013, 2014 and 2015.

(b) Operating lease commitments

The Group leases various offices and warehouses under non-cancellable operating lease agreements. The future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet dates but not recognised as liabilities, are as follows:

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Within 1 year.....	—	—	3,013
Between 1 to 5 years	—	—	6,026
	—	—	9,039
	<u>—</u>	<u>—</u>	<u>9,039</u>

29. Significant related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of the Group are also considered as related parties.

The following transactions were carried out in the ordinary course of the Group's business and were determined based on mutually agreed terms for each of the years ended 31 December 2013, 2014 and 2015.

Name and relationship with related parties:

<u>Names of the related parties</u>	<u>Nature of relationship</u>
Sichuan Haidilao and its subsidiaries (“Sichuan Haidilao Group”).....	Companies beneficially owned by the Ultimate Shareholders
HAI DI LAO HOLDINGS PTE. LTD. and its subsidiaries (“Singapore Haidilao Group”).....	Companies beneficially owned by the Ultimate Shareholders
Shuhai (Beijing) Supply Chain Management Co., Ltd. (“Shuhai Supply Chain”)	Company beneficially owned by the Ultimate Shareholders
Youdingyou (Beijing) Food Ltd. (“Youdingyou”)	Company beneficially owned by the Ultimate Shareholders
New High Lao International Holding Ltd. (“New High Lao”)	Company beneficially owned by the Ultimate Shareholders

Sichuan Haidilao Group and Singapore Haidilao Group are collectively referred to as Haidilao Group.

(a) *Sales of goods*

	<u>Year ended 31 December</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Haidilao Group	180,552	276,982	457,753
Shuhai Supply Chain	—	1,041	4,538
Youdingyou	146	393	2,812
Total	<u>180,698</u>	<u>278,416</u>	<u>465,103</u>

(b) *Management service fee and warehouse expenses*

	<u>Year ended 31 December</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Management service fee			
Haidilao Group	—	—	2,171
Warehouse expenses			
Haidilao Group and affiliates	<u>—</u>	<u>674</u>	<u>2,948</u>

All the transactions with related parties were conducted in accordance with the terms of contracts entered into between the Group and the related parties.

(c) *Key management compensation*

	Year ended 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Salaries, allowance and other benefits.....	<u>1,085</u>	<u>2,055</u>	<u>3,423</u>

(d) *Year-end balances with related parties were as follows:*

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Assets			
Trade receivables			
— Haidilao Group	1,175	8,097	57,566
— Shuhai Supply Chain	—	—	506
— Yondingyou	—	—	435
Subtotal	<u>1,175</u>	<u>8,097</u>	<u>58,507</u>
Other receivables			
— the Company's shareholders	12	12	—
— An officer of the Group.....	—	—	450
Subtotal	<u>12</u>	<u>12</u>	<u>450</u>
Total	<u>1,187</u>	<u>8,109</u>	<u>58,957</u>

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Liabilities			
Other payables			
— Haidilao Group	156,955	153,299	141,633
— New High Lao.....	—	9,179	—
Total	<u>156,955</u>	<u>162,478</u>	<u>141,633</u>

All the balances with related parties are unsecured, bear no interest and short-term in nature.

(e) *Free trademark license agreement*

On 1 December 2015, the Group entered into two trademark license agreements with Sichuan Haidilao in respect of certain trademarks which had been registered by the name of Sichuan Haidilao in the PRC and certain trademarks which are in the process of registration by Sichuan Haidilao in the PRC (collectively, the “Trademark License Agreements”), pursuant to which Sichuan Haidilao agreed to license such trademarks for the Group to use in connection with the Group’s operations on an exclusive and royalty-free basis for a term of 30 years. The Trademark License Agreements shall be automatically renewed for another 30 years upon expiry to the extent permitted under the Listing Rules and applicable laws and regulations.

(f) *Free usage of the IT system*

During the Relevant Periods, the Group had utilised the IT system of Sichuan Haidilao at no charge.

30. **Notes to the statements of financial position of the Company**(a) *Amount due with related companies*

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Assets			
Other receivables			
— Yihai Ltd. (wholly owned subsidiary of the Company).....	—	8,567	9,104
— the Company’s shareholders	12	12	—
Total	<u>12</u>	<u>8,579</u>	<u>9,104</u>
Liabilities			
Other payables			
— New High Lao.....	—	9,179	—

(b) *Cash and cash equivalents*

	As at 31 December		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
US\$	—	552	196,647
Total	<u>—</u>	<u>552</u>	<u>196,647</u>

(c) *Reserves*

	<u>Share premium</u>	<u>Capital reserve</u>	<u>Retained earnings</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Upon incorporation on 21 October 2013 and as at 31 December 2013	—	—	—	—
As at 1 January 2014	—	—	—	—
Shareholders' contributions arising from the Reorganisation.....	—	1,130,000	—	1,130,000
Loss for the year.....	—	—	(60)	(60)
As at 31 December 2014.....	—	1,130,000	(60)	1,129,940
As at 1 January 2015	—	1,130,000	(60)	1,129,940
Profit for the year.....	—	—	1,464	1,464
Issuance of new ordinary shares (Note 16).....	17,649	—	—	17,649
As at 31 December 2015.....	17,649	1,130,000	1,404	1,149,053

31. **Subsequent event**

In February 2016, the Company adopted the restricted share unit (“RSU”) scheme that permits the granting of RSUs to (i) the directors, officers, senior management and certain employees of the Group; and (ii) any person who, in the sole opinion of the board of directors of the Company (“Board”), has contributed or will contribute to any member of the Group. An award of RSU gives the grantee a conditional right upon vesting of the award obtain either ordinary shares or an equivalent value in cash with reference to the market value of the ordinary shares on or about the date of vesting, as determined by the Board in its absolute discretion, less any tax, fees, levies, stamp duty and other charges applicable. The Company has reserved 53,680,000 ordinary shares and such are held by Vistra Fiduciary (HK) Limited (“RSU Trustee”) on trust for the benefit of the participants to the scheme and will be released to participants upon vesting of each RSU. As of the date of this report, no RSU had been granted or agreed to be granted by the Company.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2015 up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2015.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountant's Report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of Global Offering (without taking into account the impact upon the conversion of Series A Preferred Shares) as if it had taken place on 31 December 2015 and based on the consolidated net tangible assets attributable to shareholders of the Company as at 31 December 2015 as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 31 December 2015 or at any future date.

	Consolidated net tangible assets attributable to owners of the Company as at 31 December 2015 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets		
			attributable to owners of the Company ⁽⁴⁾	Unaudited pro forma adjusted consolidated net tangible assets per share ⁽⁴⁾	
				(RMB) ⁽³⁾	(HK\$)
	(in Thousands of				
	RMB)				
Based on the Offer Price of HK\$2.98 per share	141,101	588,364	729,465	0.74	0.87
Based on the Offer Price of HK\$3.42 per share	141,101	681,553	822,654	0.83	0.99

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Note:

- (1) The consolidated net tangible assets attributable to owners of the Company as at 31 December 2015 is extracted from the Accountant's Report set forth in Appendix I to this prospectus, which is based on the consolidated net assets attributable to owners of the Company as at 31 December 2015 of RMB141,924,000 with an adjustment for the intangible assets as at 31 December 2015 of RMB823,000.
- (2) The estimated net proceeds from the Global Offering are based on the individual Offer Price of HK\$2.98 and HK\$3.42 per share, being the lower end to higher end of the stated offer price range, respectively, after deduction of the underwriting fees and other related expenses payable by the Company, and based on the assumption that a total of 260,000,000 Ordinary Shares will be issued and no over-allotment option will be granted.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per share are determined after the adjustment as described in note 2 above and on the basis that 985,777,778 shares are in issue, assuming the Global Offering and Capitalization Issue had been completed on 31 December 2015, no over-allotment option will be granted and the Series A Preferred Shares were not converted.
- (4) On 14 December 2015, Glorious Future Holding Limited and Charlin Holdings Limited subscribed 54,222,222 Series A Preferred Shares of the Company for an aggregate consideration of RMB186,667,000. Upon completion of the Listing and Global Offering, the entire Series A Preferred Shares will be automatically converted to Ordinary Shares on a one-for-one basis. If the Series A Preferred Shares were assumed to be converted on 31 December 2015, the unaudited pro forma adjusted consolidated net tangible assets of our Company will increase by RMB186,667,000, being the carrying amounts of the Series A Preferred Shares as at 31 December 2015. Accordingly, the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company would be RMB916,132,000 (based on the Offer Price of HK\$2.98 per share) and RMB1,009,321,000 (based on the Offer Price of HK\$3.42 per share) respectively. On the basis that 1,040,000,000 Shares are in issue after the conversion of Series A Preferred Shares, the unaudited pro forma adjusted consolidated net tangible assets per share would be RMB0.88 (equivalent to HK\$1.04) (based on the Offer Price of HK\$2.98 per share) and RMB0.97 (equivalent to HK\$1.15) (based on the Offer Price of HK\$3.42 per share) respectively.
- (5) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2015.
- (6) For the purpose of the unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at rate of RMB0.8464 to HK\$1.00, the PBOC rate prevailing on 23 June 2016. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the Directors of YIHAI INTERNATIONAL HOLDING LTD.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of YIHAI INTERNATIONAL HOLDING LTD. (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 December 2015, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 30 June 2016, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 31 December 2015 as if the proposed initial public offering had taken place at 31 December 2015. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the year ended 31 December 2015, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 31 December 2015 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standard or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 30 June 2016

SUMMARY OF THE CONSTITUTION OF THE COMPANY**1 Memorandum of Association**

The Memorandum of Association of the Company was conditionally adopted on 20 June 2016 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Cayman Islands Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed “Documents available for inspection”.

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on 20 June 2016 and include provisions to the following effect:

2.1 *Classes of Shares*

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is US\$50,000 divided into 5,000,000,000 shares of US\$0.00001 each.

2.2 *Directors***(a) *Power to allot and issue Shares***

Subject to the provisions of the Cayman Islands Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Cayman Islands Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Cayman Islands Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Cayman Islands Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided

that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by

ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 *Variation of rights of existing shares or classes of shares*

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Islands Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Cayman Islands Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Cayman Islands Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Cayman Islands Companies Law.

2.6 Special resolution — majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Islands Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally 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 personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may 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.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 *Annual general meetings*

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

2.9 *Accounts and audit*

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Islands Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Cayman Islands Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

2.11 *Transfer of shares*

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company

closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own shares

The Company is empowered by the Cayman Islands Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.13 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distribution

Subject to the Cayman Islands Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the

newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole

of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Cayman Islands Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Cayman Islands Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 *Untraceable members*

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Cayman Islands Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Islands Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Islands Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 18 October 2013 under the Cayman Islands Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Cayman Islands Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Islands Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Islands Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Islands Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Islands Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Islands Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Cayman Islands Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Islands Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Cayman Islands Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Cayman Islands Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Cayman Islands Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Cayman Islands Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Cayman Islands Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Cayman Islands Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Cayman Islands Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation,

if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company may obtain an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Islands Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under Cayman Islands law on 18 October 2013. Our registered office address is at Floor 4, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112, Cayman Islands.

Our Company has established a place of business in Hong Kong at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 5 April 2016. Mr. Wong Yat Tung, the joint company secretary of our Company, has been appointed as our authorized representative for the acceptance of service of process in Hong Kong, with a correspondence address at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

As our Company was established in the Cayman Islands, our corporate structure as well as Memorandum and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of relevant parts of our Memorandum and Articles of Association is set out in Appendix III. A summary of certain relevant aspects of the laws and regulations of the Cayman Islands is also set out in Appendix III.

2. Changes in Share Capital

- (a) At the time of the incorporation of our Company, our Company had an authorized share capital of US\$2,000, divided into 200,000 shares of a nominal value of US\$0.01 each. Upon our incorporation, one Share was issued and allotted to the initial subscriber, and was later transferred to ZYSP YIHAI. On the same day, our Company further issued and allotted 199,999 shares to ZYSP YIHAI, SYH YIHAI, LHY YIHAI, YLJ YIHAI, GYQ YIHAI, YHQ YIHAI, CY YIHAI and YB YIHAI. Upon the completion of the share issuance and allotment, the issued share capital of our Company was US\$2,000, divided into 200,000 shares of a nominal value of US\$0.01 each.
- (b) On 12 March 2015, the authorized share capital of our Company increased from US\$2,000 to US\$4,148, divided into 414,800 shares of a nominal value of US\$0.01 each. On the same day, our Company issued and allotted a total of 214,800 Shares to all the then existing shareholders as set out above. Upon the completion of the share issuance and allotment, the issued share capital of our Company was US\$4,148, divided into 414,800 shares of a nominal value of US\$0.01 each.
- (c) On 5 October 2015, the authorized share capital of our Company further increased from US\$4,148 to US\$10,000, divided into 1,000,000 shares of a nominal value of US\$0.01 each. On the same day, our Company issued and allotted an aggregate of 73,200 Shares to ZYSP YIHAI, GYQ YIHAI and JLJH YIHAI. Upon the completion of the share issuance and allotment, the issued share capital of our Company was US\$4,880, divided into 488,000 shares of a nominal value of US\$0.01 each.

- (d) On 5 October 2015, the authorized share capital of our Company was subdivided from US\$10,000 divided into 1,000,000 shares of a nominal value of US\$0.01 each to US\$10,000 divided into 1,000,000,000 shares of a nominal value of US\$0.00001 each. The issued share capital of our Company was adjusted accordingly to US\$4,880 comprising 488,000,000 shares of a nominal value of US\$0.00001 each.
- (e) On 14 December 2015, the authorized share capital of our Company was changed from US\$10,000 divided into 1,000,000,000 shares of a nominal value of US\$0.00001 each to US\$10,000 divided into 945,777,778 common shares of a nominal value of US\$0.00001 each and 54,222,222 Series A Preferred Shares of a nominal value of US\$0.00001 each, by the redesignation of 945,777,778 shares (including all the then issued shares) as common shares, and the redesignation of 54,222,222 authorized but unissued shares as Series A Preferred Shares.
- (f) On 14 December 2015, ZYSP YIHAI agreed to sell, and Sky Ocean agreed to purchase, a total of 10,844,444 common shares of our Company. Such share transfer was completed on 18 December 2015.
- (g) On 14 December 2015, our Company agreed to issue and allot, and Glorious Future agreed to subscribe for, 32,533,333 Series A Preferred Shares. Such issuance and allotment was completed on 17 December 2015.
- (h) On 14 December 2015, our Company agreed to issue and allot, and Charlin Holdings agreed to subscribe for, 21,688,889 Series A Preferred Shares. Such issuance and allotment was completed on 22 December 2015.
- (i) On 20 June 2016, the authorized share capital of our Company was increased from US\$10,000 divided into 945,777,778 common shares of a nominal value of US\$0.00001 each and 54,222,222 Series A Preferred Shares of a nominal value of US\$0.00001 each, to US\$50,000 divided into 4,945,777,778 common shares of a nominal value of US\$0.00001 each and 54,222,222 Series A Preferred Shares of a nominal value of US\$0.00001 each, by the creation of 4,000,000,000 common shares of a nominal value of US\$0.00001 each.

Immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised), the authorized share capital of our Company will be increased to US\$50,000 divided into 5,000,000,000 shares by the re-designation of (i) all authorized common shares and (ii) all authorized but unissued Series A Preferred Shares as Ordinary Shares. 1,040,000,000 Shares will be issued fully paid or credited as fully paid, and 2,960,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed “Shareholders’ Resolutions passed on 20 June 2016” in this Appendix and the conversion of the Series A Preferred Shares upon completion of the Global Offering, we do not have any present intention to issue any part of the authorized but unissued share capital of our Company, and without prior approval of our Shareholders at general meeting, no issuance of shares which would effectively alter the control of our Company will be made.

Save as aforesaid, as of the Latest Practicable Date, there has been no other alteration in the share capital of our Company since its establishment.

3. Shareholders' Resolutions passed on 20 June 2016

Pursuant to the general meeting of our Company held on 20 June 2016, the following resolutions, among other things, were passed and approved by our Shareholders:

- (a) The authorized share capital of our Company was increased to US\$50,000 divided into 4,945,777,778 common shares of a nominal value of US\$0.00001 each and 54,222,222 Series A Preferred Shares of a nominal value of US\$0.00001 each, by the creation of 4,000,000,000 common shares of a nominal value of US\$0.00001 each.
- (b) Our Company approved and adopted the Memorandum and Articles of Association, which will come into effect upon the Listing.
- (c) Conditional upon (i) the Listing Committee of the Hong Kong Stock Exchange granting the approval for the listing of, and permission to deal in, the Shares to be issued pursuant to the Capitalization Issue, the Global Offering, the exercise of the Over-allotment Option and upon conversion of the Series A Preferred Shares upon completion of the Global Offering; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and the Underwriting Agreements not being terminated in accordance with their terms or otherwise:
 - (i) immediately after the conversion of the Series A Preferred Shares, the authorized share capital of our Company will be changed to US\$50,000 divided into 5,000,000,000 Shares of a nominal value of US\$0.00001 each, by the re-designation of all authorized common shares and all authorized but unissued Series A Preferred Shares as Ordinary Shares;
 - (ii) the Global Offering was approved and our Directors were authorized to effect the same and to allot and issue new Shares pursuant to the Global Offering;
 - (iii) the proposed listing of the Shares on the Hong Kong Stock Exchange as mentioned in this prospectus was approved and our Directors were authorized to implement such listing; and
 - (iv) the Over-allotment Option was approved and the Directors were authorized to effect the same and to allot and issue up to 39,000,000 Shares upon the exercise of the Over-allotment Option.
- (d) A general unconditional mandate was granted to our Directors to, inter alia, issue, allot and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors shall not exceed the aggregate of:

- (i) 20% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Capitalization Issue, the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and conversion of the Series A Preferred Shares upon completion of the Global Offering; and
- (ii) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

The total nominal value of the Shares which our Directors are authorized to allot and issue under this mandate will not be reduced by the allotment and issue of Shares pursuant to:

- (i) a rights issue;
- (ii) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles as amended from time to time; or
- (iii) any specific authority granted by the Shareholders in general meeting.

This general mandate to issue Shares will expire at the earlier of:

- (i) the conclusion of our next annual general meeting; or
 - (ii) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting.
- (e) A general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Capitalization Issue, the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and conversion of the Series A Preferred Shares upon completion of the Global Offering.

This general mandate relates only to repurchases made on the Hong Kong Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose), and made in accordance with the Listing Rules and all applicable laws. Such mandate will expire at the earlier of:

- (i) the conclusion of our next annual general meeting; or
- (ii) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting; and

- (f) The general unconditional mandate as mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to purchase Shares referred to in paragraph (e) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the Capitalization Issue, the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and conversion of the Series A Preferred Shares upon completion of the Global Offering).

4. Reorganization

The companies comprising our Group underwent Reorganization in preparation for the listing of the Shares on the Hong Kong Stock Exchange. For further details, see “Our History, Reorganization and Corporate Structure”.

5. Our Subsidiaries

Our principal subsidiaries as of the Latest Practicable Date are set out in the section headed “Our History, Reorganization and Corporate Structure” in this prospectus. The following sets out the changes in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus:

- (a) On 6 December 2013, Yihai (China) was incorporated in Hong Kong with an initial authorized share capital of HK\$10,000,000, divided into 10,000,000 ordinary shares of HK\$1.00 each. The initial issued share capital was HK\$1.00 divided into 1 ordinary share of HK\$1.00 each.

On 30 December 2013, Yihai (China) issued and allotted 9,999,999 ordinary shares of HK\$1.00 each to YIHAI LTD for a total consideration of HK\$9,999,999, pursuant to which, the issued share capital was increased to HK\$10,000,000 divided into 10,000,000 ordinary shares of HK\$1.00 each.

- (b) On 28 April 2014, Chengdu Yueyihai was incorporated in the PRC with a registered capital of RMB1,000,000 and the capital in the amount of RMB1,000,000 was contributed by Zhengzhou Shuhai.
- (c) On 24 November 2014, Haidilao Beijing Sales Branch was converted into a limited liability company with a registered capital of RMB1,000,000 and was renamed as Yihai Beijing. The capital in the amount of RMB1,000,000 was contributed by Zhengzhou Shuhai.
- (d) On 1 December 2014, Yihai Shanghai was incorporated in the PRC with a registered capital of HK\$10,000,000 and the capital in the amount of HK\$10,000,000 was contributed by Yihai (China).

On 18 January 2016, the registered capital of Yihai Shanghai changed from HK\$10,000,000 to US\$50,000,000.

- (e) On 11 June 2015, Yihai Bazhou was incorporated in the PRC with a registered capital of RMB10,000,000 and the capital in the amount of RMB10,000,000 was contributed by Yihai Shanghai.

Save as disclosed above, there has been no other alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Share Repurchase Mandate

This section includes information relating to the repurchase of our Shares, including information required by the Hong Kong Stock Exchange to be included in this prospectus concerning such repurchase.

(a) *Relevant Legal and Regulatory Requirements*

The Listing Rules permit our Shareholders to grant to our Directors a general mandate to repurchase our Shares that are listed on the Hong Kong Stock Exchange. Such mandate is required to be given by way of an ordinary resolution passed by our Shareholders in a general meeting.

(b) *Shareholder Approval*

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolutions of our Shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

On 20 June 2016, our Directors were granted a general unconditional mandate to repurchase up to 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the Capitalization Issue, the Global Offering (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and conversion of the Series A Preferred Shares upon completion of the Global Offering, on the Hong Kong Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose). This mandate will expire at the earlier of (i) the conclusion of our next annual general meeting, or (ii) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting (the “**Relevant Period**”).

(c) *Source of Funds*

Our repurchase of the Shares listed on the Hong Kong Stock Exchange must be funded out of funds legally available for the purpose in accordance with our Memorandum and Articles of Association and the applicable laws of the Cayman Islands. We may not repurchase our Shares on the Hong Kong Stock Exchange for consideration other than cash or for settlement other than in accordance with the trading rules of the Hong Kong Stock Exchange. Subject to the foregoing, we may make repurchases with profits of our Company or out of a new issuance of shares made for the purpose of the repurchase or, if authorized by our Articles of Association and subject to the Cayman Islands Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or from sums standing to the credit of the share premium account of our Company.

(d) *Suspension of Repurchase*

Pursuant to the Listing Rules, our Company may not make any repurchases of Shares after inside information has come to its knowledge until the information is made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement,

our Company may not repurchase Shares on the Hong Kong Stock Exchange unless the circumstances are exceptional.

(e) *Procedural and Reporting Requirements*

As required by the Listing Rules, repurchases of Shares on the Hong Kong Stock Exchange or otherwise must be reported to the Hong Kong Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Hong Kong Stock Exchange business day following any day on which our Company may make a purchase of Shares. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company's annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(f) *Connected Parties*

A company is prohibited from knowingly repurchasing securities on the Hong Kong Stock Exchange from a connected person (as defined in the Listing Rules) and a connected person shall not knowingly sell its securities to the company on the Hong Kong Stock Exchange.

(g) *Reasons for Repurchase*

Our Directors believe that it is in our and our Shareholders' best interests for our Directors to have general authority to execute repurchases of our Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit us and our Shareholders.

(h) *Funding of Repurchase*

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with our Memorandum and Articles of Association, Cayman Islands Companies Law or any other applicable laws of Cayman Islands and the Listing Rules.

On the basis of the current financial position of our Company as disclosed in this prospectus and taking into account the current working capital position of our Company, our Directors believe that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which, in the opinion of our Directors, are from time to time appropriate for us.

(i) *Share Capital*

The exercise in full of the current repurchase mandate, on the basis of 1,040,000,000 Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering, on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis, and assuming that the Over-allotment Option is not exercised, could accordingly result in up to 104,000,000 Shares being repurchased by us during the Relevant Period.

(j) *General*

None of our Directors or, to the best of their knowledge, having made all reasonable inquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any of our Shares to us or our subsidiaries.

Our Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules, the Memorandum and Articles of Association, the Cayman Islands Companies Law and any other applicable laws of the Cayman Islands.

If, as a result of any repurchase of our Shares pursuant to the repurchase mandate, a shareholder's proportionate interest in our voting rights is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders interest, could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Our Directors are not aware of any consequences of repurchases which could arise under the Takeovers Code if the repurchase mandate is exercised.

No connected person, as defined in the Listing Rules, has notified us that he/she or it has a present intention to sell his/her or its Shares to us, or has undertaken not to do so, if the repurchase mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

We have entered into the following contracts (not being contracts in the ordinary course of business) within the two years immediately preceding the date of this prospectus that are or may be material:

- (a) the Hong Kong Underwriting Agreement;
- (b) the share purchase agreement dated 14 December 2015 entered into among our Company, Glorious Future and Charlin Holdings and others, pursuant to which our Company agreed to issue and sell to Glorious Future and Charlin Holdings an aggregate number of 54,222,222 Series A Preferred Shares for an aggregate purchase price of RMB186,666,667;
- (c) the shareholders' agreement dated 14 December 2015 entered into among our Company, Mr. Zhang, Ms. Shu, ZYSP YIHAI, Glorious Future, Charlin Holdings and Sky Ocean and others governing the respective rights and obligation of our Shareholders;
- (d) the trust deed constituting restricted share unit scheme dated 24 February 2016 entered into between our Company and the RSU Trustee pursuant to which the RSU Trustee agreed to act as the trustee in relation to the RSU Scheme;
- (e) the deed of gift dated 24 February 2016 by our Company in favor of the RSU Trustee pursuant to which our Company transferred US\$636,108 to the RSU Trustee by way of gift for the purpose of subscribing for 49,999 shares of JLJH YIHAI;

- (f) the deed of gift dated 24 February 2016 by our Company in favor of the RSU Trustee pursuant to which our Company transferred US\$2,000 to the RSU Trustee by way of gift with the intent that the US\$2,000 and all interest accrued thereon shall be part of the assets of the RSU Trustee.






2. Intellectual Property Rights

(i) Trademarks




As of the Latest Practicable Date, we have registered the following trademarks which are material to our business:

No.	Trademark	Place of Registration
1.		Hong Kong

As of the Latest Practicable Date, we have been licensed by Sichuan Haidilao to use the following material registered trademarks:

No.	Trademark	Class	Registration No.	Registration Date — Expiry Date	Place of Registration
1.		30	6556610	28 March 2010 — 27 March 2020	PRC
2.		30	7172172	21 July 2010 — 20 July 2020	PRC
3.		30	7272116	21 August 2010 — 20 August 2020	PRC
4.		30	9479216	21 June 2012 — 20 June 2022	PRC
5.		30	12031448	28 June 2014 — 27 June 2024	PRC

As of the Latest Practicable Date, we have been licensed by Sichuan Haidilao the following material trademarks which are being registered:

No.	Trademark	Class	Application Date	Intended Place of Registration
1.		30	2 June 2015	PRC
2.		30	2 June 2015	PRC
3.	捞派小厨	30	2 June 2015	PRC
4.	捞派小厨	30	2 June 2015	PRC
5.	捞派小厨	30	2 June 2015	PRC
6.	捞派小厨	30	2 June 2015	PRC
7.		30	1 September 2015	PRC

(ii) *Domain names*

As of the Latest Practicable Date, we have registered the following major domain names:

www.yihchina.com

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

Save as disclosed below, immediately following completion of the Capitalization Issue, the Global Offering (excluding any Shares which may be issued upon the exercise of the Over-allotment Option) and conversion of the Series A Preferred Shares upon completion of the Global Offering, so far as our Directors are aware, the interests or short positions of our Directors and the chief executives in any shares, underlying shares and debentures of our company or any associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:

(i) *The Company*

Name of Director	Title	Nature of interest	Number of Shares	Approximate percentage of Interest in relevant class of shares of our Company immediately after completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming no exercise of Over-allotment Option)
Mr. Zhang ⁽¹⁾	non-executive Director	Founder of a discretionary trust Interest of controlled corporation	372,547,021	35.82%
Gou Yiqun (苟軼群) ⁽²⁾	non-executive Director	Interest of controlled corporation	25,974,000	2.50%
Shi Yonghong (施永宏) ⁽³⁾	non-executive Director	Founder of a discretionary trust Interest of controlled corporation Interest of spouse	177,243,492	17.04%

Note:

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

- (2) Mr. Gou Yiqun directly holds 100% interest in GYQ YIHAI and is deemed to be interested in the Shares held by GYQ YIHAI for the purpose of the SFO.
- (3) 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 and LHY YIHAI, 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 and LHY YIHAI are interested. Mr. Shi Yong 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.

2. Substantial Shareholders

For information on the persons who will, immediately following the completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and excluding any Shares which may be issued upon the exercise of the Over-allotment Option), have interests or short positions in our shares or underlying shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, please refer to the section headed “Substantial Shareholders” of this prospectus.

Save as set out above, as of the Latest Practicable Date, our Directors are not aware of any person who will, immediately following the completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and excluding any Shares which may be issued upon the exercise of the Over-Allotment Option), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such capital.

3. Service Contracts

Our executive Directors and non-executive Directors have each entered into a service contract with our Company pursuant to which they agree to act as an executive Director or a non-executive Director (as the case may be) for an initial term of three years from 7 March 2016 (subject to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the service contract or by either party giving to the other not less than one month’s prior notice in writing. Each of our independent non-executive Directors has signed a letter of appointment with our Company and has been appointed for a term of three years from 20 June 2016. The appointment may be terminated by either party giving to the other not less than one month’s prior notice in writing.

4. Directors’ Remuneration

Save as disclosed in the section headed “Directors and Senior Management” of this prospectus and under Note 21 in the “Accountant’s Report” set out in Appendix I to this prospectus, no Director received any other remuneration or benefits in kind from our Company in respect of each of the three financial years ended 31 December 2013, 2014 and 2015.

5. Disclaimers

Save as disclosed herein:

- (a) none of our Directors or the chief executive of our Company has any interest or short position in the Shares, underlying shares or debentures of our Company or any of its associated corporations (within the meaning of the SFO) which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;
- (b) none of our Directors or any of the parties listed in “Qualification of Experts” of this Appendix is interested in our promotion, or in any assets which, within the two years immediately preceding the date of this prospectus, have been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Company;
- (c) none of our Directors or any of the parties listed in “Qualification of Experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business taken as a whole;
- (d) save in connection with the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the parties listed in “Qualification of Experts” of this Appendix is interested legally or beneficially in any shares in any member of our Group or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group;
- (e) none of our Directors or their close associates or our Shareholders who to the knowledge of our Directors owns more than 5% of our issued share capital has any interests in our top five largest business customers or suppliers; or
- (f) none of our Directors is a director or employee of a company who will, immediately following completion of the Capitalization Issue and the Global Offering (on the basis that all Series A Preferred Shares will be converted into our Shares on a one-for-one basis and assuming that the Over-allotment Option is not exercised), have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

D. RSU SCHEME**Summary of Terms**

The Company has adopted an RSU Scheme by a resolution of our Shareholders on 24 February 2016 and a resolution of our Board on 24 February 2016. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by our Company to subscribe for new Shares.

1. Purposes of the RSU Scheme

The purpose of the RSU Scheme is to recognize and reward RSU Participants (as defined below) for their contribution to the Group, to attract suitable personnel, and to provide incentives to them to remain with and further contribute to the Group.

2. Awards

An award of RSUs under the RSU Scheme (“**Award(s)**”) gives a Participant a conditional right upon vesting of the Award to obtain either Shares or an equivalent value in cash with reference to the value of the Shares on or about the date of vesting, as determined by the Board in its absolute discretion, less any tax, fees, levies, stamp duty and other applicable charges. An award may include, if so specified by the Board in its entire discretion, cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares from the date that the Award is granted to the date that it vests.

3. RSU Scheme Limit

Unless otherwise duly approved by the Shareholders, the total number of Shares underlying the RSU Scheme shall not exceed 53,680,000 Shares (excluding Shares underlying RSUs that have lapsed or been cancelled in accordance with the RSU Scheme). The Company will not further issue new Shares for the purpose of the RSU Scheme.

4. RSU Participants in the RSU Scheme

Participants of the RSU Scheme (“**RSU Participants**”) include the following:

- (i) full-time employees (including directors, officers and members of senior management) of the Group; and
- (ii) any person who, in the sole opinion of the Board, has contributed or will contribute to any member of the Group (including business partners of any member of the Group, such as suppliers, customers or any persons who provide technical support, consultancy, advisory or other services to any member of the Group).

5. Term of the RSU Scheme

Subject to any early termination as may be determined by the Board pursuant to the termination clause of the RSU Scheme, the RSU Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which no Awards will be granted, but the provisions of the RSU Scheme shall in all other respects remain in full force and effect and the Awards granted during the term of the RSU Scheme may continue to be valid and exercisable in accordance with their terms of grant.

6. Administration of the RSU Scheme

The RSU Scheme shall be subject to the administration of the Board. The Board shall have the sole and absolute right to (i) interpret and construe the provisions of the RSU Scheme, (ii) determine the persons who will be granted Awards under the RSU Scheme, the terms and conditions on which Awards are granted and when the RSUs granted pursuant to the RSU Scheme may vest, (iii) make such appropriate and equitable adjustments to the terms of the Awards granted under the RSU Scheme as it deems necessary and (iv) make such other decisions or determinations as it shall deem appropriate in the administration of the RSU Scheme. The Board may by resolution delegate any or all of its powers in the administration of the RSU Scheme to an administration committee or any other committee as authorized by the Board for such purpose. All decisions, determinations and interpretations made by the Board shall be final, conclusive and binding on all parties.

7. Appointment of RSU Trustee

The Company has appointed Vistra Fiduciary (HK) Limited, a trustee service provider and an Independent Third Party, to administer the granting and vesting of RSUs granted to the grantees pursuant to the RSU Scheme.

8. Grant of RSU

On and subject to the terms of the RSU Scheme and the terms and conditions that the Board imposes, the Board shall be entitled at any time during the term of the RSU Scheme to make an offer of the grant of an Award in accordance with the RSU Scheme (a “**Grant**”) to any Participant, as the Board may in its absolute discretion determine.

The amount of an Award may be determined at the sole and absolute discretion of the Board and may differ among selected RSU Participants.

Awards may be granted on such terms and conditions (e.g. by linking the vesting of RSUs to the attainment or performance of milestones by any member of the Group, any Participant who accepts a Grant in accordance with the RSU Scheme (a “**Grantee**”) or any group of Grantees) as the Board may determine, provided that such terms and conditions shall be consistent with any other terms and conditions of the RSU Scheme.

The consideration payable by a selected Participant to JLJH YIHAI for acceptance of an Award under the RSU Scheme shall be determined at the sole and absolute discretion of the Board after taking the following factors into consideration:

- (i) the initial issue price of the Shares underlying the RSU Scheme held by the RSU Trustee;
- (ii) the net asset value per Share as at the end of the financial year immediately before the date of the Notice of Grant;
- (iii) the closing price of the Shares of the Company on the date of the Notice of Grant; and
- (iv) the average closing price of the Shares of the Company for the five business days prior to the date of the Notice of Grant.

The Board may direct the RSU Trustee to procure JLJH YIHAI to remit the consideration received by it to the Company from time to time.

After the Board has selected the RSU Participants, it will inform the RSU Trustee of the name(s) of the person(s) selected, the number of Shares underlying the RSUs to be granted to each of them, the vesting schedule, the lock-up arrangements upon vesting (as applicable where the RSUs shall vest immediately upon acceptance of the Grant as determined by the Board) and other terms and conditions (if any) that the Award is subject to as determined by the Board.

Subject to limitations and conditions of the RSU Scheme, the Board may authorize the RSU Trustee by written notification to grant to each of the selected RSU Participants an offer of grant of Award by way of a letter or any such notice or document in such form as the Board may from time to time determine (“**Notice of Grant**”), which shall attach an acceptance notice, subject to conditions as the Board thinks fit.

9. **Acceptance of Award**

If the selected Participant intends to accept the Grant as specified in the Notice of Grant, he is required to sign an acceptance notice, and return it to the RSU Trustee through the Company within the time period and in a manner prescribed in the Notice of Grant. Upon the RSU Trustee’s receipt from the selected Participant of a duly executed acceptance notice and full payment of consideration, RSUs shall be granted to such Participant in respect of a Board Lot or an integral multiple thereof, and such Participant shall become a Grantee pursuant to the RSU Scheme. To the extent that the Grant is not accepted by any selected Participant within the time period or in a manner prescribed in the Notice of Grant, the Grant shall be deemed to have been irrevocably declined and the RSUs immediately lapsed.

10. Restrictions on Grants

No Grant shall be made to, nor shall any Grant be capable of acceptance by, any selected Participant at a time when the selected Participant would or might be prohibited from dealing in the Shares by the Listing Rules (where applicable) or by any other applicable rules, regulations or law.

Upon completion of the Global Offering, a Grant must not be made after inside information has come to the knowledge of the Company until such inside information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:

- (i) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement,

no Award may be granted. Such period will cover any period of delay in the publication of a results announcement.

The Board may not grant any Awards to any RSU Participants in any of the following circumstances:

- (i) requisite approvals from any applicable regulatory authorities for the Grant have not been obtained; or
- (ii) applicable securities laws, rules or regulations require that a prospectus or other offering document(s) be issued in respect of the Grant or the RSU Scheme, unless the Board determines otherwise;
- (iii) the Grant would result in a breach of any applicable securities laws, rules or regulations by any member of the Group or any of its directors; or
- (iv) the Grant would result in breach of the RSU Limit or other rules of the RSU Scheme.

11. Grant to Directors

Upon completion of the Global Offering, where any Award is proposed to be granted to a Director, it shall not be granted on any day on which the financial results of the Company are published or during the periods of:

- (a) the shorter of: (i) 60 days immediately preceding the publication date of the annual results, or (ii) the period from the end of the relevant financial year up to the publication date of the results; and
- (b) the shorter of: (i) 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results, or (ii) the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

12. Grant to Connected Persons

Upon completion of the Global Offering, any Grant to any Director, chief executive or substantial shareholder of the Company, or any of their respective associates (as defined under the Listing Rules), shall be subject to the prior approval of the independent non-executive Directors (excluding any independent non-executive Director who is a proposed Grantee of the Awards in question) and shall be subject to compliance with the requirements of the Listing Rules. Notwithstanding the foregoing, any grant of an Award to a Director pursuant to Rule 14A.95 of the Listing Rules will be exempted from reporting, announcement and independent Shareholders' approval requirements if the Award forms part of the relevant Director's remuneration under his service contract.

13. Rights attached to Awards

The RSUs do not carry any right to vote at general meetings of the Company. No Grantee shall enjoy any of the rights of a Shareholder by virtue of the grant of an Award pursuant to the RSU Scheme, unless and until such Shares underlying the Award are actually transferred to the Grantee upon the vesting of the RSU. Unless otherwise specified by the Board in its entire discretion in the Notice of Grant, Grantees do not have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying an Award.

14. Rights attached to Shares

Any Shares to be transferred to a Grantee or his wholly owned entity upon the vesting of RSUs granted pursuant to the RSU Scheme shall be subject to all the provisions of the Memorandum and Articles of Association of the Company and shall rank *pari passu* in all respects with the existing fully paid Shares in issue on the date of transfer, or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members, and accordingly shall entitle the holder of such Shares to participate in all dividends or other distributions paid or made on or after the date of transfer.

15. Awards to be Personal to the Grantee

Any Award granted pursuant to the RSU Scheme shall be personal to the Grantee and shall not be assignable or transferable, except as pursuant to an assignment or transfer from a Grantee to a company wholly owned by him or between two companies both of which are wholly owned by him, provided that, following the Grantee's death, the RSUs may be transferred by will or by the laws of testacy and distribution. The terms of the RSU Scheme and the Notice of Grant shall be binding upon the Grantee's executors, administrators, heirs, successors and assigns.

Notwithstanding the above, no Grantee shall in any way sell, transfer, assign, charge, mortgage, encumber, hedge or create any interest in favor of any other person over or in relation to any RSU or any property held by the RSU Trustee on trust for the Grantees, Awards, Shares underlying any Awards or any interest or benefits therein.

16. Vesting

Subject to the terms of the RSU Scheme and the specific terms and conditions applicable to each Award, the RSUs granted in an Award shall be subject to a vesting period (if any) and the satisfaction of performance and/or other conditions (if any) to be determined by the Board in its absolute discretion. If such conditions are not satisfied, the RSU shall automatically lapse on the date on which such conditions are not satisfied, as determined by the Board in its absolute discretion.

Upon fulfillment or waiver of the vesting period and vesting criteria (if any) applicable to a Grantee, a vesting notice shall be sent to the Grantee by the Board, or by the RSU Trustee under the authorization and instruction by the Board confirming (a) the extent to which the vesting period and conditions have been fulfilled or waived, (b) the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of these Shares) or the amount of cash the Grantee will receive, and (c) where the Grantee will receive Shares, the lock-up arrangements for such Shares (if applicable). The Grantee is required to execute, after receiving the vesting notice, certain documents set out in the vesting notice that the Board considers necessary (which may include, without limitation, a certification to the Group that he or she has complied with all the terms and conditions set out in the RSU Scheme and the Notice of Grant). In the event that the Grantee fails to execute the required documents within 30 business days after receiving the vesting notice, the vested RSUs will lapse.

Subject to the execution of documents by the Grantee set out above, the RSUs which have been vested shall be satisfied at the Board's absolute discretion within a reasonable period from the vesting date of such RSU, either by:

- (a) the Board directing and procuring the RSU Trustee to transfer the Shares underlying the Award (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the Grantee or his wholly owned entity from the Trust Fund; and/or

- (b) the Board directing and procuring the RSU Trustee to pay to the Grantee in cash an amount which is equivalent to the value of the Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) set out in paragraph (a) above by making on-market sales of such Shares and after deduction or withholding of any tax, fees, levies, stamp duty and other charges applicable to the entitlement of the Grantee and the sales of any Shares to fund such payment and in relation thereto.

Notwithstanding the foregoing, if the Company, the RSU Trustee or any Grantee would or might be prohibited from dealing in the Shares by the Listing Rules (where applicable) or by any other applicable laws, regulations or rules within the period specified above, the date on which the relevant Shares shall be issued and allotted or transferred (as the case may be) to the Grantee shall occur as soon as possible after the date when such dealing is permitted by the Listing Rules or by any other applicable laws, regulations or rules.

The Board shall have the sole and absolute discretion to determine whether or not a Grantee shall have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying an Award prior to vesting of the Award.

17. Rights on a Takeover

In the event a general offer by way of voluntary offer, takeover or otherwise (other than by way of scheme of arrangement) is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the vesting date of any RSU, the Board shall, prior to the offer becoming or being declared unconditional, determine at its absolute discretion whether such RSU shall vest and the period within which such RSU shall vest. If the Board determines that such RSU shall vest, it shall notify the Grantee that the RSU shall vest and the period within which such RSU shall vest.

18. Rights on a Scheme of Arrangement

In the event a general offer for Shares by way of scheme of arrangement is made to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings prior to the vesting of any RSU, the Board shall, prior to such meetings, determine at its absolute discretion whether such RSU shall vest and the period within which such RSU shall vest. If the Board determines that such RSU shall vest, it shall notify the Grantee that the RSU shall vest and the period within which such RSU shall vest.

19. Rights on a Voluntary Winding-up

In the event a notice is given by the Company to its Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company prior to the vesting date of any RSU, the Board shall determine at its discretion whether such RSU shall vest and the period when such RSU shall vest. If the Board determines that such RSU shall vest, it shall notify the Grantee that the RSU shall vest and the period within which such RSU shall vest.

20. Rights on a Compromise or Arrangement

In the event a compromise or arrangement, other than a scheme of arrangement contemplated above, between the Company and its Shareholders and/or creditors is proposed in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Board shall determine at its discretion whether such RSU shall vest and the period when such RSU shall vest. If the Board determines that such RSU shall vest, it shall notify the Grantee that the RSU shall vest and the period within which such RSU shall vest.

21. Lapse of RSU

Unvested RSUs shall automatically lapse upon the earliest of:

- (i) the date of termination of the Grantee's employment or service by any member of the Group;
- (ii) the date on which the offer (or, as the case may be, revised offer) referred to in paragraph 17 closes;
- (iii) the record date for determining entitlements under the scheme of arrangement referred to in paragraph 18;
- (iv) the date of commencement of a winding-up of the Company;
- (v) the date on which the Grantee commits a breach of paragraph 15;
- (vi) the date on which it is no longer possible to satisfy any outstanding conditions to vestings;
- (vii) the time when the Board has decided that the unvested RSUs shall not be vested in the Grantee in accordance with the rules of the RSU Scheme and the terms and conditions as set out in the Notice of Grant.

The Board shall have the right to determine what constitutes cause, whether the Grantee's employment has been terminated for cause and the effective date of such termination, and such determination by the Board shall be final and conclusive.

If the Grantee's employment or service with the Company or any of the Company's subsidiaries is terminated for any reason other than for cause (including by reason of resignation, retirement, death, disability or non-renewal of the employment or service agreement upon its expiration for any reason other than for cause), the Board shall determine at its absolute discretion and shall notify the Grantee whether any unvested RSU granted to such Grantee shall vest and the period within which such RSU shall vest. If the Board determines that such RSU shall not vest, such RSU shall automatically lapse with effect from the date on which the Grantee's employment or service is terminated.

Where any unvested RSUs of a Grantee lapse in accordance with the rules of the RSU Scheme, the Board shall direct the RSU Trustee to refund to the Grantee the consideration in correspondence to such unvested RSUs paid by the Grantee pursuant to paragraph 8 and the terms and conditions as set out in the Notice of Grant. To the extent that the trust fund does not have sufficient cash to pay and settle such refund, the RSU Trustee shall notify the Company of such shortfall and the Company shall pay to the RSU Trustee the shortfall amount within 30 business days upon its receipt of such notice from the RSU Trustee.

Notwithstanding the aforesaid, in each case, the Board may in its absolute discretion decide that any RSU shall not lapse or shall be subject to such conditions or limitations as the Board may decide.

22. Reorganization of Capital Structure

In the event of any alteration in the capital structure of the Company, such as capitalization issue, rights issue, consolidation, sub-division and reduction of the share capital of the Company, the Board may make equitable adjustments that it considers appropriate, at its sole discretion, including:

- (i) make arrangements for the grant of substitute RSUs of equivalent fair value to an Award in the purchasing or surviving company;
- (ii) reach such accommodation with the Grantee as it considers appropriate, including the payment of cash compensation to the Grantee equivalent to the fair value of any RSU to the extent not vested;
- (iii) waive any conditions to the vesting of any RSU not already vested; or
- (iv) permit the continuation of an Award in accordance with its original terms.

23. Amendment of the RSU Scheme

The terms of the RSU Scheme may be altered, amended or waived in any respect by the Board provided that such alteration, amendment or waiver shall not affect any subsisting rights of any Grantee thereunder. Any alteration, amendment or waiver to the RSU Scheme of a material nature shall be approved by the Shareholders. The Board shall have the right to determine whether any proposed alteration, amendment or waiver is material and such determination shall be conclusive.

24. Termination of the RSU Scheme

The RSU Scheme may be terminated at any time prior to the expiry of its term by the Board provided that such termination shall not affect any subsisting rights of any Grantee hereunder. For the avoidance of doubt, no further Awards shall be granted after the RSU Scheme is terminated but in all other respects the provisions of the RSU Scheme shall remain in full force and effect. All RSUs granted prior to such termination and not vested on the date of termination shall remain valid. In such event, the Board shall notify the RSU Trustee and all Grantees of such termination and how the Shares held by the RSU Trustee and other interests or benefits in relation to the outstanding RSUs shall be dealt with, provided that Shares held by the RSU Trustee shall not be transferred to the Company and the Company shall not otherwise hold any Shares or any interest in Shares whatsoever (other than interest in the proceeds of sale of such Shares).

25. General

An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares underlying any Awards which may be granted pursuant to the RSU Scheme. As of the Latest Practicable Date, no RSU has been granted or agreed to be granted by our Company pursuant to the RSU Scheme.

The Company will issue announcements according to applicable Listing Rules, disclosing particulars of any RSUs granted under the RSU Scheme, including the date of grant, number of Shares involved, the vesting period and comply with Chapter 14A of the Listing Rules. Details of the RSU Scheme, including particulars and movements of the RSUs granted during each financial year of our Company, and our employee costs arising from the grant of the RSUs will be disclosed in our annual report.

E. OTHER INFORMATION**1. Estate Duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries.

2. Litigation

As of the Latest Practicable Date, our Company was not involved in any litigation, arbitration, administrative proceedings or claims of material importance which could have a material adverse effect on our financial condition or results of operations, and, so far as we are aware, no litigation, arbitration, administrative proceedings or claims of material importance is pending or threatened against us.

3. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue, the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and conversion of the Series A Preferred Shares upon completion of the Global Offering. All necessary arrangements have been made to enable the securities to be admitted to CCASS.

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

The Sole Sponsor will be paid by our Company a fee of US\$500,000 to act as the sponsor to our Company in connection with the Global Offering.

4. Preliminary Expenses

We have not incurred any material preliminary expenses.

5. Taxation of holders of Shares**(a) Hong Kong**

The sale, purchase and transfer of shares registered with our Hong Kong register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, of the value of the shares being sold or transferred. Profits from dealings in the shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

Under present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of shares in the Company.

(c) People's Republic of China

We may be treated as a PRC resident enterprise for PRC enterprise income tax purposes. In that case, distributions to our Shareholders may be subject to PRC withholding tax and gains from dispositions of our Shares may be subject to PRC tax. See “Risk Factors — Risks Relating to China — We or any of our non-PRC subsidiaries may be deemed to be a PRC tax resident under the EIT Law and our non-PRC shareholders may be subject to PRC withholding tax on dividends and PRC taxes on gains from transfers of our Shares” of this prospectus.

(d) Consultation with professional advisors

Potential investors in the Global Offering are urged to consult their professional tax advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached to them). None of our Company, our Directors or the other parties involved in the Global Offering accept responsibility for any tax effects on, or liabilities of, any person, resulting from the subscription, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to our Shares.

6. Qualifications of Experts

The qualifications of the experts who have given opinions or advice in this prospectus are as follows:

Name	Qualifications
China International Capital Corporation Hong Kong Securities Limited	Licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities), Type 5 (advising on future contracts) and Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Jingtian & Gongcheng	Company's PRC legal advisors
Maples and Calder	Cayman Islands attorneys-at-law
Frost & Sullivan	Independent industry consultant

7. Consents of Experts

Each of the experts referred to in the paragraph headed “Qualifications of Experts” in this Appendix has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of certificates, letters, opinions or reports and the reference to its names included herein in the form and context in which it is respectively included.

8. Compliance Adviser

We have appointed Somerley Capital Limited as our compliance adviser upon the Listing in compliance with Rule 3A.19 of the Listing Rules.

9. No Material Adverse Change

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since 31 December 2015.

10. Binding Effect

This prospectus shall have the effect, if any application is made pursuant hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

11. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
 - (iii) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring or agreeing to procure subscription, of any shares in our Company or any of our subsidiaries;
- (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) our Company or any of our subsidiaries has not issued or agreed to issue founders, management or deferred shares;
- (d) there are no arrangements under which future dividends are waived or agreed to be waived;
- (e) there are no procedures for the exercise of any right of pre-emption or transferability of subscription rights;
- (f) there are no contracts for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business;

- (g) there have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months;
- (h) there are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong;
- (i) no part of the equity of our Company or debt securities of our Company, if any, is currently listed on or dealt in on any stock exchange or trading system, and no such listing or permission to list on any stock exchange other than the Hong Kong Stock Exchange is currently being or agreed to be sought;
- (j) our Company has no outstanding convertible debt securities or debentures; and
- (k) the Hong Kong register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. All necessary arrangements have been made to enable the Shares to be admitted to CCASS.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

13. Promoters

We do not have any promoter.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in the paragraph headed “E. Other Information — Consents of Experts” in “Appendix IV — Statutory and General Information” to this prospectus; and
- (c) a copy of each of the material contracts referred to in the section headed “B. Further Information about Our Business — Summary of Material Contracts” in “Appendix IV — Statutory and General Information” to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Davis Polk & Wardwell at 18th Floor, The Hong Kong Club Building, 3A Chater Road, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association of our Company;
- (b) the accountant’s report from PricewaterhouseCoopers, the text of which is set forth in Appendix I to this prospectus;
- (c) the audited financial statements of the companies comprising the Group for the three years ended 31 December 2015;
- (d) the report in relation to unaudited pro forma financial information from PricewaterhouseCoopers, the text of which is set forth in Appendix II to this prospectus;
- (e) the material contracts referred to in the section entitled “B. Further Information about Our Business — Summary of Material Contracts” in Appendix IV to this prospectus;
- (f) the service contracts referred to in the section headed “C. Further Information about our Directors and Substantial Shareholders — Service Contracts” in Appendix IV to this prospectus;
- (g) the written consents referred to in the section entitled “E. Other Information — Consents of Experts” in Appendix IV to this prospectus;
- (h) the legal opinions issued by Jingtian & Gongcheng, our PRC legal adviser, in respect of certain aspects of our Group and the property interests of our Group in the PRC;

APPENDIX V**DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE FOR INSPECTION**

- (i) the letter of advice prepared by Maples and Calder, our legal adviser as to the law of the Cayman Islands, summarizing certain aspects of the Cayman Islands company law referred to in Appendix III to this prospectus;
- (j) the rules of the RSU Scheme; and
- (k) the Cayman Islands Companies Law.



頤海國際控股有限公司
YIHAI INTERNATIONAL HOLDING LTD.