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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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



YIHAI INTERNATIONAL HOLDING LTD.

頤海國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1579)

CONTINUING CONNECTED TRANSACTIONS

- (1) SALE OF HOTPOT SOUP FLAVOURING PRODUCTS TO THE JOINT VENTURE AND PURCHASE OF SMALL HOTPOT PRODUCTS FROM THE JOINT VENTURE**
 - (2) SALE OF SMALL HOTPOT PRODUCTS TO THE HAIDILAO GROUP**
 - (3) REVISION OF ANNUAL CAPS UNDER THE MASTER SALES AGREEMENT IN RESPECT OF 2017 AND 2018**
- AND**
- (4) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



A notice convening the Extraordinary General Meeting of the Company to be held at Conference Room 1, 2nd Floor, Building 6, Songlei Office Building, Heng Song Yuan, Middle Road of South 3rd Ring Road, Fengtai District, Beijing, PRC at 2:00 p.m. on Monday, 6 November 2017 is set out on pages 70 to 73 of this circular.

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

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

18 October 2017

CONTENTS

	<i>Page</i>
DEFINITIONS	1
 LETTER FROM THE BOARD	
INTRODUCTION	6
NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS	7
INTERNAL CONTROL MEASURES	29
CLOSURE OF REGISTER OF MEMBERS	31
EXTRAORDINARY GENERAL MEETING	31
RECOMMENDATION OF THE BOARD	32
RECOMMENDATION OF THE INDEPENDENT FINANCIAL ADVISER AND THE INDEPENDENT BOARD COMMITTEE	33
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	34
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	35
APPENDIX I — GENERAL INFORMATION	63
NOTICE OF EXTRAORDINARY GENERAL MEETING	70

DEFINITIONS

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

“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	YIHAI INTERNATIONAL HOLDING LTD. (頤海國際控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands on 18 October 2013, and the Shares of which have been listed on the Main Board of the Stock Exchange since 13 July 2016
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“continuing connected transactions(s)”	has the meaning ascribed thereto in the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	director(s) of the Company
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held on 6 November 2017 to consider and if thought fit, approve, among others, the Non-exempt Continuing Connected Transactions, the JV Transactions Annual Caps and the Revised Annual Caps, or any adjournment thereof
“Framework Sales and Purchase Agreements”	collectively, the Hotpot Soup Flavouring Products Sales Agreement and the Small Hotpot Products Sales Agreement
“Group”	the Company and its subsidiaries
“Haidilao Continuing Connected Transactions”	sale of Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products to the Haidilao Group pursuant to the Master Sales Agreement (as supplemented by the Supplemental Master Sales Agreement)
“Haidilao Customized Products”	hotpot soup flavouring and Chinese-style compound condiment products manufactured by the Group using formulas owned by Haidilao Group for use in its hotpot restaurants
“Haidilao Group”	Sichuan Haidilao, Singapore Haidilao and their respective subsidiaries, the principal business of which is to operate hot pot restaurant chain in the PRC and overseas countries

DEFINITIONS

“Haidilao Retail Products”	retail hotpot soup flavouring, hotpot dipping sauce and Chinese-style compound condiment products manufactured by the Group using formulas the Group owns for display and sale to consumers in Haidilao Group hot pot restaurants, which are the same products as those sold by the Group through independent third party distributors
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hotpot Soup Flavouring Products Sales Agreement”	the hotpot soup flavouring products sales agreement dated 18 September 2017 entered into between Yihai Shanghai and the Joint Venture in relation to the sales of hotpot soup flavouring products from Yihai Shanghai and its subsidiaries to the Joint Venture
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Yau Ka Chi, Mr. Qian Mingxing and Ms. Ye Shujun, established to advise the Independent Shareholders on the Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps)
“Independent Financial Adviser” or “First Shanghai”	First Shanghai Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and Independent Shareholders on in relation to the Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps)
“Independent Shareholders”	has the meaning ascribed to it under the Listing Rules; and in relation to approving (i) the Framework Sales and Purchase Agreements and the JV Transactions Annual Caps at the Extraordinary General Meeting, means the Shareholders other than Ms. Dang Chunxiang, Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong, Mr. Gou Yiqun and their respective associates; and in relation to approving (ii) the Supplemental Master Sales Agreement and the Revised Annual Caps at the Extraordinary General Meeting, means the Shareholders other than Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong, Mr. Gou Yiqun and their respective associates
“independent third party(ies)”	party(ies) not connected with any of the Directors, chief executive, substantial shareholders of the Company or any of its subsidiaries or any of their respective associates

DEFINITIONS

“Jingyuan Investment”	Jiayang City Jingyuan Investment Co., Ltd.* (簡陽市靜遠投資有限公司), a limited liability company established in the PRC on 13 March 2009, which is held as to 68% by Mr. Zhang Yong and Ms. Shu Ping (controlling shareholders), 16% by Mr. Shi Yonghong (a non-executive Director) and 10% by Mr. Gou Yiqun (a non-executive Director)
“Joint Venture”	Fuhai (Shanghai) Food Co., Ltd.* (馥海(上海)食品有限公司), a company established in the PRC and a 60% owned subsidiary of the Company
“JV Transactions”	the sale of hotpot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hotpot Products and the purchase of Small Hotpot Products from the Joint Venture pursuant to the Framework Sales and Purchase Agreements
“JV Transactions Annual Caps”	the proposed annual caps for the JV Transactions
“Latest Practicable Date”	12 October 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“Listing Date”	13 July 2016, the date on which the Shares of the Company are listed on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Master Sales Agreement”	the master sales agreement dated 24 June 2016 as supplemented by the Supplemental Master Sales Agreement entered into among Sichuan Haidilao, Singapore Haidilao and Yihai Shanghai, an indirectly wholly owned subsidiary of the Company, to regulate the sale of Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products by the Group to the Haidilao Group
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Non-exempt Continuing Connected Transactions”	collectively, the JV Transactions and Haidilao Continuing Connected Transactions
“PRC”	the People’s Republic of China, excluding for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the Company’s prospectus dated 30 June 2016

DEFINITIONS

“Revised Annual Caps”	the proposed revised annual caps for the Haidilao Continuing Connected Transactions
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemental or otherwise modified from time to time
“Shareholders”	holder(s) of the Shares
“Share(s)”	ordinary share(s) in the share capital of the Company with nominal value of US\$0.00001 each
“Sichuan Haidilao”	Sichuan Haidilao Catering Corporation Ltd.* (四川海底捞餐饮股份有限公司), a joint stock limited liability company established in the PRC and is directly or indirectly held as to approximately 33.5% by Mr. Zhang Yong and Ms. Shu Ping (controlling shareholders), 50% by Jingyuan Investment (which in turn is held as to approximately 68% by Mr. Zhang Yong and Ms. Shu Ping), 8% by Mr. Shi Yonghong (a non-executive Director) and 0.1% by Mr. Gou Yiqun (a non-executive Director)
“Singapore Haidilao”	HAI DI LAO HOLDINGS PTE. LTD., a limited liability company incorporated in Singapore and is indirectly held as to approximately 62.7% by Mr. Zhang Yong and Ms. Shu Ping (controlling shareholders), 29.7% by Mr. Shi Yonghong (a non-executive Director) and his wife, and 2% by Mr. Gou Yiqun (a non-executive Director)
“Small Hotpot Products”	the self-serving small hotpot products manufactured and sold by the Joint Venture
“Small Hotpot Products Sales Agreement”	the self-serving small hotpot products sales agreement dated 18 September 2017 entered into between the Joint Venture and Yihai Shanghai in relation to the sales of Small Hotpot Products by the Joint Venture to Yihai Shanghai and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules

DEFINITIONS

“Supplemental Master Sales Agreement”	the supplemental master sales agreement dated 18 September 2017 entered into between Sichuan Haidilao, Singapore Haidilao and Yihai Shanghai, an indirectly wholly owned subsidiary of the Company, to regulate the sale of Small Hotpot Products by the Group to the Haidilao Group
“Waiver”	the waiver granted by the Stock Exchange to the Company in respect of, among others, the non-exempt continuing connected transactions between the Group and the Haidilao Group, from strict compliance with the announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules, at the time of the listing of the Shares in July 2016, the details of which are set out in the Prospectus
“Xinpai Shanghai”	Xinpai (Shanghai) Catering Management Co., Ltd.* (新派(上海)餐飲管理有限公司), a company established in the PRC with limited liability and is controlled as to approximately 62.70% by the controlling shareholders of the Company, Mr. Zhang Yong and Ms. Shu Ping, 29.7% by Mr. Shi Yonghong (a non-executive Director) and his wife, and 2% by Mr. Gou Yiqun (a non-executive Director)
“Yihai Shanghai”	Yihai (Shanghai) Food Co., Ltd. (頤海(上海)食品有限公司), a foreign investment enterprise established in the PRC and an indirectly wholly owned subsidiary of the Company
“%”	per cent

* for identification purpose only

LETTER FROM THE BOARD



YIHAI INTERNATIONAL HOLDING LTD.

頤海國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1579)

Executive Directors:

Ms. Dang Chunxiang

Mr. Sun Shengfeng

Non-executive Directors:

Mr. Gou Yiqun (Chairman)

Mr. Zhang Yong

Mr. Shi Yonghong

Mr. Pan Di

Independent Non-executive Directors:

Mr. Yau Ka Chi

Mr. Qian Mingxing

Ms. Ye Shujun

Registered office:

P.O. Box 31119 Grand Pavilion

Hibiscus Way

802 West Bay Road

Grand Cayman

KY1-1205 Cayman Islands

Corporate Headquarters:

1st and 2nd Floors, Building 6

Songlei Office Building

Heng Song Yuan

Middle Road of South 3rd Ring Road

Fengtai District

Beijing, PRC

Principal place of business in Hong Kong:

18/F., Tesbury Centre

28 Queen's Road East

Wan Chai, Hong Kong

18 October 2017

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
(1) SALE OF HOTPOT SOUP FLAVOURING PRODUCTS
TO THE JOINT VENTURE AND PURCHASE OF
SMALL HOTPOT PRODUCTS FROM THE JOINT VENTURE
(2) SALE OF SMALL HOTPOT PRODUCTS TO THE HAIDILAO GROUP
AND
(3) REVISION OF ANNUAL CAPS UNDER THE MASTER SALES
AGREEMENT IN RESPECT OF 2017 AND 2018**

INTRODUCTION

The purpose of this circular is to provide you with information in connection with the proposals to be put forward at the Extraordinary General Meeting to consider: (i) the sale of hotpot soup flavouring

LETTER FROM THE BOARD

products to the Joint Venture and purchase of Small Hotpot Products from the Joint Venture under the Framework Sales and Purchase Agreements (including the JV Transactions Annual Caps), (ii) the sale of Small Hotpot Products to the Haidilao Group under the Supplemental Master Sales Agreement and (iii) the revision of annual caps under the Master Sales Agreement in respect of 2017 and 2018. This circular contains the explanatory statement in compliance with the Listing Rules and to give all the information reasonably necessary to enable Shareholders to make an informed decision on whether to vote for or against the resolutions. A notice convening the Extraordinary General Meeting is set out on pages 70 to 73 of this circular.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

A. THE JV TRANSACTIONS

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

Background

Reference is made to the announcement of the Company dated 18 September 2017 in relation to the JV Transactions and the JV Transactions Annual Caps.

Continuing Connected Transactions under the Framework Sales and Purchase Agreements

On 18 September 2017, Yihai Shanghai and the Joint Venture entered into the Framework Sales and Purchase Agreements, pursuant to which (i) Yihai Shanghai (for itself and on behalf of its subsidiaries, other than the Joint Venture) agreed to sell hotpot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hotpot Products; and (ii) the Joint Venture agreed to sell Small Hotpot Products to Yihai Shanghai and its subsidiaries (other than the Joint Venture) for a term of not more than three years from 18 September 2017 to 31 August 2020. The principal terms of the Framework Sales and Purchase Agreements are summarized below.

The Framework Sales and Purchase Agreements

Date

18 September 2017

Parties

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

LETTER FROM THE BOARD

Term

The Framework Sales and Purchase Agreements are for a term of not more than three years from 18 September 2017 to 31 August 2020, and shall take effect upon the approval of the agreement and the proposed annual caps under it having been obtained from the Independent Shareholders in accordance with the Listing Rules.

Subject to compliance with the applicable laws and regulations (including the Listing Rules) and requirements of securities regulatory authorities, and unless terminated by Yihai Shanghai by giving notice to the Joint Venture, upon the end of each term, the term will be automatically renewed for three years without limitation on the number of renewals.

Nature of transactions

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

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

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

Pricing basis

(i) Hotpot soup flavouring products

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

(ii) Small Hotpot Products

The purchase price of Small Hotpot Products shall be determined by the parties after arm's length negotiations with reference to (i) the price of the Small Hotpot Products sold by the Joint Venture to independent third party distributors, (ii) the estimated overall net profit margin through sales

LETTER FROM THE BOARD

to independent third party distributors, (iii) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Small Hotpot Products, and (iv) the market price of similar products sold by comparable companies to independent third party distributors.

Any adjustment to the aforementioned prices must be agreed by both parties after one party gives prior written notice one month in advance.

Payment terms

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

Proposed annual caps

The Company estimates that JV Transactions Annual Caps under the Framework Sales and Purchase Agreement are as follows:

	For the year ending 31 December			For the eight months ending
	2017	2018	2019	31 August
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
(i) Sale of hotpot soup flavouring products	2,400	9,500	14,500	12,800
(ii) Purchase of Small Hotpot Products	48,300	131,800	191,000	165,533
Aggregated amount	50,700	141,300	205,500	178,333

Basis of determination

(i) Sale of hotpot soup flavouring products

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

LETTER FROM THE BOARD

(ii) *Purchase of Small Hotpot Products*

The annual caps in relation to the purchase of Small Hotpot Products are determined based on the following factors:

- (i) the expected market demand, in particular, for the annual cap in 2017, the Company has taken into account the seasonal pattern of hot pot consumption;
- (ii) the prevailing market price of similar products sold by the Joint Venture to independent third party distributors;
- (iii) current production costs and expenses incurred in connection with the production of Small Hotpot Products by the Joint Venture; and
- (iv) the strong growth and extensive market potential of the PRC catering industry and the self-serving small hotpot market.

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

Since the Joint Venture was established recently and the self-serving small hotpot product is a new product, there are no historical comparable transaction figures available.

(II) REASONS FOR AND BENEFITS OF THE JV TRANSACTIONS

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

The Joint Venture is formed to engage in the manufacture and sales of Small Hotpot Products which will enrich the existing product range of the Group, and expand the existing business of the Group.

Instead of manufacturing self-serving small hotpot products by a wholly-owned subsidiary of the Company, Yihai Shanghai and Xinpai Shanghai formed the Joint Venture because Xinpai Shanghai has given the Joint Venture an undertaking and authorization for the Joint Venture to use the trademarks owned by Xinpai Shanghai on an exclusive and royalty-free basis during the terms of the trademarks. Such trademarks are essential for the successful launching of the Small Hotpot Products in the market. Xinpai Shanghai will also help the Group with the fostering, developing and marketing of the Small Hotpot Products, as Xinpai Shanghai has a comprehensive understanding of the “hotpot” concept, relating to aspects including but not limited to its established restaurant network covering near 200 restaurants domestically, its internal online and offline channels and resources, its branding promotion network which emerged from its rapid expansion in terms of areas, and the testing and verification of the taste and formula of new products by its large client base, etc. These would be of great help to the sales of the Small Hotpot Products.

LETTER FROM THE BOARD

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

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

(III) INFORMATION OF THE PARTIES

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

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

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

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

(IV) LISTING RULES IMPLICATIONS

The Joint Venture is currently a 60% held non wholly-owned subsidiary of the Company. As the Joint Venture is owned as to 40% by Xinpai Shanghai, which is controlled as to approximately 62.70% by the controlling shareholders of the Company, Mr. Zhang Yong and Ms. Shu Ping, 29.7% by Mr. Shi Yonghong (a non-executive Director) and his wife and 2% by Mr. Gou Yiqun (a non-executive Director), the Joint Venture is therefore a connected subsidiary of the Company. Accordingly, the transactions contemplated under the Framework Sales and Purchase Agreements constitute continuing connected transactions of the Company for the purpose of the Listing Rules.

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

Since the highest of all applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the JV Transactions Annual Caps under the Framework Sales and Purchase Agreements is more than 5%, the JV Transactions are subject to the announcement, circular, independent shareholders' approval, annual review and reporting requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

(V) DIRECTORS' CONFIRMATION IN RELATION TO THE JV TRANSACTIONS

The JV Transactions are and will be conducted in the ordinary and usual course of business of the Company. The Directors (including the independent non-executive Directors) consider that: (a) it is beneficial to the Company to enter into the Framework Sales and Purchase Agreements as the JV Transactions are expected to provide a new source of profit growth of the Group; and (b) all the JV Transactions are conducted on normal commercial terms, or on terms no less favourable than those available to the Group from independent third parties, under prevailing local market conditions, and are entered into in the ordinary and usual course of business of the Group, on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are of the view that the JV Transactions Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

(VI) APPROVAL BY INDEPENDENT SHAREHOLDERS

In accordance with the Listing Rules, Ms. Dang Chunxiang, Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong, Mr. Gou Yiqun and their respective associates will abstain from voting on the ordinary resolution to approve the JV Transactions (including the JV Transactions Annual Caps) at the Extraordinary General Meeting.

The Company will seek the Independent Shareholders' approval at the Extraordinary General Meeting for, among others, the JV Transactions and the JV Transactions Annual Caps on the condition that:

1. the annual amount of the JV Transactions shall not exceed the JV Transactions Annual Caps;
2. (i) the JV Transactions will be entered into in the ordinary and usual course of business of the Group and either (a) on normal commercial terms or better; or (b) if there is no available comparison, on terms no less favourable than terms available to the Group from Independent Third Parties; and

(ii) the JV Transactions will be entered into in accordance with the Framework Sales and Purchase Agreements and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company will comply with relevant provisions of the Listing Rules in relation to the JV Transactions.

LETTER FROM THE BOARD

B. THE HAIDILAO CONTINUING CONNECTED TRANSACTIONS

(I) SALE OF SMALL HOTPOT PRODUCTS TO THE HAIDILAO GROUP

Background

Reference is made to the announcement of the Company dated 18 September 2017 in relation to, among others, the Supplemental Master Sales Agreement and the Revised Annual Caps.

Continuing Connected Transactions under the Supplemental Master Sales Agreement

On 18 September 2017, Yihai Shanghai, Sichuan Haidilao and Singapore Haidilao entered into the Supplemental Master Sales Agreement, pursuant to which Yihai Shanghai (for itself and on behalf of its subsidiaries, including the Joint Venture) agreed to sell Small Hotpot Products to the Haidilao Group for a term of not more than three years and will expire on 31 December 2018. The principal terms of the Supplemental Master Sales Agreement are summarized below.

The Supplemental Master Sales Agreement

Date

18 September 2017

Parties

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

Term

The Supplemental Master Sales Agreement will be for a term of not more than three years and will expire on 31 December 2018. The Supplemental Master Sales Agreement shall take effect upon obtaining Independent Shareholders' approval at the Extraordinary General Meeting.

Nature of transactions

Pursuant to the Supplemental Master Sales Agreement, Yihai Shanghai (for itself and on behalf of its subsidiaries, including the Joint Venture) agreed to sell Small Hotpot Products to the Haidilao Group.

The quantity of the Small Hotpot Products to be sold to the Haidilao Group is not fixed under the Supplemental Master Sales Agreement but is to be determined and agreed between the relevant parties from time to time.

LETTER FROM THE BOARD

During the current term of the Supplemental Master Sales Agreement, the Joint Venture and the Haidilao Group may enter into separate agreements from time to time in respect of the sale and purchase of the Small Hotpot Products upon and subject to the terms and conditions in accordance with Supplemental Master Sales Agreement.

Pricing basis

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

Payment terms

Fees payable under the Supplemental Master Sales Agreement will be billed on a monthly basis, which will be settled in the following month.

Proposed annual caps

The Company estimates that annual caps for the sales of Small Hotpot Products under the Supplemental Master Sales Agreement are as follows:

	For the year ending	
	31 December	
	2017	2018
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Small Hotpot Products	2,800	13,700

Basis of determination

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

- (i) Haidilao Group's rapid expansion in recent years, as demonstrated by the number of stores of the Haidilao Group in the PRC as at 31 December 2014, 2015, 2016 and 30 June 2017, being 111, 142, 167 and 192 respectively; and

LETTER FROM THE BOARD

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

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

Since the Joint Venture was established recently and the self-serving hotpot product is a new product, there are no historical comparable transaction figures available.

(II) REVISION OF ANNUAL CAPS FOR THE SALES OF HAIDILAO CUSTOMIZED PRODUCTS UNDER THE MASTER SALES AGREEMENT IN RESPECT OF 2017 AND 2018

Background

Reference is made to the announcement of the Company dated 18 September 2017 in relation to, among others, the Supplemental Master Sales Agreement and the Revised Annual Caps.

As disclosed in the Prospectus, Yihai Shanghai, an indirectly wholly-owned subsidiary of the Company, entered into the Master Sales Agreement with Sichuan Haidilao and Singapore Haidilao, each for itself and on behalf of its subsidiaries, in relation to the supply of, among others, the Haidilao Customized Products by the Group to the Haidilao Group.

At the time of the listing of the Shares on the Stock Exchange in July 2016, the Stock Exchange granted a Waiver to the Company in respect of, inter alia, the non-exempt continuing connected transactions between the Group and the Haidilao Group from strict compliance with the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Pursuant to the Waiver, the transactions in relation to the sale of Haidilao Customized Products to the Haidilao Group are subject to the respective annual caps for the year ended 31 December 2016 and the two years ending 31 December 2017 and 2018.

The Company has closely monitored the progress of its continuing connected transactions with the Haidilao Group. With the continued development of the business of the Group and based on internal estimates of demand and the current prospects of the Group's operations, the Board considers that the existing annual caps in respect of 2017 and 2018 for the sale of Haidilao Customized Products by the Group to the Haidilao Group, will not be able to satisfy the business needs of the Group and the demands from the Haidilao Group for the two years ending 31 December 2017 and 2018.

The existing annual caps for the transactions contemplated under the Master Sales Agreement in relation to the sale of Haidilao Customized Products are RMB580,000,000, RMB740,000,000 and RMB950,000,000 for the year ended 31 December 2016 and the two years ending 31 December 2017 and 2018, respectively. The actual transaction amounts for the transactions in relation to the sale of Haidilao Customized Products contemplated under the Master Sales Agreement had not exceeded the annual cap for the year ended 31 December 2016. In addition, as at the date of this circular, the actual transaction amounts for these transactions also have not exceeded the annual cap above for the year ending 31 December 2017, but are currently anticipated to exceed the existing annual cap by the end of 2017.

LETTER FROM THE BOARD

Continuing Connected Transactions under the Master Sales Agreement

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

The Master Sales Agreement

Date

24 June 2016

Parties

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

Term

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.

Nature of transaction

During the term of the Master Sales Agreement, the Group is the sole supplier of hotpot soup flavouring products customized for the Haidilao Group for use in its hot pot restaurants in the PRC, save to the extent that the Haidilao Group may engage other suppliers in the event that the Group is unable to satisfy the quantity of products demanded, after discussion with the Group and upon obtaining the Group's written consent.

LETTER FROM THE BOARD

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 Haidilao Group owns the proprietary rights to the formulas of Haidilao Customized Products (the “**Haidilao Group Formulas**”) and licenses the Haidilao Group Formulas to the Group and the Group’s contract manufacturers to use for production on a royalty-free basis. The Group is required to, and shall use reasonable efforts to procure its contract manufacturers to: (i) keep confidential the Haidilao Group Formulas, and (ii) unless the Haidilao Group has given written consent, refrain from selling products that use these formulas to any of the Haidilao Group’s competitors that 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 the Haidilao Group and the Group, the Haidilao Group will own the proprietary rights, and the Group and its contract manufacturers will be entitled to use such upgraded formulas for production of Haidilao Customized Products. In relation to the sales of products which will be produced with such upgraded formulas, and in accordance with the Master Sales Agreement, a supplemental agreement will be entered into by the parties to confirm that the upgraded formulas are a result of joint efforts of the Haidilao Group and the Group.

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

If there is any change in pricing policy in the future, the Group shall fully comply with the relevant requirements under Chapter 14A of the Listing Rules (if applicable) unless the Group applies for and obtain a separate waiver from the Stock Exchange.

Pricing basis

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

LETTER FROM THE BOARD

Payment terms

Fees payable under the Master Sales Agreement will be billed in a timely and appropriate manner according to terms agreed by both parties. For sales to hot pot restaurants in the PRC, payment shall be made on a monthly basis following delivery of products and the issuance of delivery invoices; for sales to overseas hot pot restaurants, payment shall be made based on the purchase volume per individual order.

Historical amounts, existing annual caps and proposed revised annual caps

The Group has closely monitored the progress of its transactions in relation to the sale of Haidilao Customized Products to the Haidilao Group. As of the date of this circular, the actual transaction amounts for the sales transactions with the relevant entities have not exceeded the original annual caps for the year ended 31 December 2016 and the year ending 31 December 2017.

The table below sets out the historical transaction amounts received by the Group in relation to the sale of Haidilao Customized Products by the Group to the Haidilao Group pursuant to the Master Sales Agreement during the periods indicated below:

Goods	For the year ended 31 December			Six months
	(audited)			ended
	2014	2015	2016	30 June
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(unaudited)</i>
				2017
				<i>(RMB'000)</i>
Haidilao Customized Products	263,231	439,280	579,921	424,299

For the reasons detailed below, the Board proposes that the existing annual caps for the transactions in relation to the sale of Haidilao Customized Products to the Haidilao Group in respect of 2017 and 2018 be revised for the two years ending 31 December 2017 and 2018. The table below sets out the existing annual caps and the proposed revised annual caps for the relevant transactions for the two years ending 31 December 2017 and 2018.

Goods	For the year ending 31 December			
	2017		2018	
	Original	Proposed	Original	Proposed
	annual cap	annual cap	annual cap	annual cap
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Haidilao Customized Products	740,000	968,000	950,000	1,526,000

LETTER FROM THE BOARD

Reasons for revising the existing annual caps and basis of determination

With the rapid development of the Group's businesses and based on the internal estimates of market demand, the Board considers that the existing annual caps in respect of 2017 and 2018 for the transactions in relation to the sale of Haidilao Customized Products to the Haidilao Group will not be able to satisfy the business needs of the Group and the demands from the Haidilao Group for the two years ending 31 December 2017 and 2018. In arriving at the above proposed revised annual caps, the Company has taken into account the following factors:

- (i) the historical transaction amounts with the Haidilao Group;
- (ii) Haidilao Group's rapid expansion in recent years, as demonstrated by the number of stores of the Haidilao Group in the PRC as at 31 December 2014, 2015, 2016 and 30 June 2017, being 111, 142, 167 and 192 respectively;
- (iii) the stable growth in the same store results of the stores of the Haidilao Group;
- (iv) substantial increase in revenue of the Group from 2013 to 2016, which is largely attributable to the sales to the Haidilao Group; and
- (v) the growth of the PRC catering industry.

The increase in the proposed revised annual cap for 2018 as compared to 2017 is due to the expected organic growth of the Group.

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

(III) REVISED ANNUAL CAPS UNDER THE MASTER SALES AGREEMENT

Due to the entering into of the Supplemental Master Sales Agreement and the revision of annual caps for the sales of Haidilao Customized Products as stated above, the Company estimated that the Revised Annual Caps for the continuing connected transactions under the Master Sales Agreement (the annual caps for the Haidilao Retail Products are not revised) are as follows:

	For the year ending 31 December	
	2017	2018
	(RMB'000)	(RMB'000)
Original annual caps	764,000	980,000
(i) Haidilao Customized Products	740,000	950,000
(ii) Haidilao Retail Products	24,000	30,000
Revised Annual Caps	994,800	1,569,700
(i) Haidilao Customized Products	968,000	1,526,000
(ii) Haidilao Retail Products	24,000	30,000
(iii) Small Hotpot Products	2,800	13,700

LETTER FROM THE BOARD

Shareholders should note that the above Revised Annual Caps should not be construed as an assurance or forecast by the Company of the future revenues of the Group under the terms of the Master Sales Agreement.

(IV) REASONS FOR AND BENEFITS OF THE HAIDILAO CONTINUING CONNECTED TRANSACTIONS

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

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

(V) INFORMATION ON THE PARTIES

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

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

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

(VI) LISTING RULES IMPLICATIONS

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

Sichuan Haidilao is directly or indirectly held as to approximately 33.5% by Mr. Zhang Yong and Ms. Shu Ping (controlling shareholders of the Company), 50% by Jingyuan Investment (which in turn is held as to approximately 68% by Mr. Zhang Yong and Ms. Shu Ping), 8% by Mr. Shi Yonghong (a substantial shareholder and non-executive Director) and 0.1% by Mr. Gou Yiqun (a non-executive Director).

LETTER FROM THE BOARD

Singapore Haidilao is indirectly held as to approximately 62.7% by Mr. Zhang Yong and Ms. Shu Ping (controlling shareholders of the Company) , 29.7% by Mr. Shi Yonghong (a non-executive Director) and his wife, and 2% by Mr. Gou Yiqun (a non-executive Director).

Sichuan Haidilao and Singapore Haidilao are, therefore, connected persons of the Company by virtue of being associates of the controlling shareholders of the Company, and the sales transactions between the Group and the Haidilao Group constitute continuing connected transactions of the Company under the Listing Rules.

Since the highest of all applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Revised Annual Caps under the Master Sales Agreement is more than 5%, the Haidilao Continuing Connected Transactions are subject to the announcement, circular, independent shareholders' approval, annual review and reporting requirements under Chapter 14A of the Listing Rules.

(VII) DIRECTORS' CONFIRMATION IN RELATION TO THE HAIDILAO CONTINUING CONNECTED TRANSACTIONS

The Directors (including the independent non-executive Directors) are of the view that the Haidilao Continuing Connected Transactions have been and will be entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are of the view that the Revised Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In relation to the Haidilao Continuing Connected Transactions, none of the Directors has any material interest in the Haidilao Continuing Connected Transactions or is required to abstain from voting on the Board resolution except for Mr. Zhang Yong, Mr. Shi Yonghong and Mr. Gou Yiqun. Mr. Zhang Yong, together with his wife Ms. Shu Ping, directly or indirectly hold approximately 67.5% of Sichuan Haidilao and approximately 62.7% of Singapore Haidilao. Mr. Shi Yonghong, directly or indirectly, holds approximately 8% of Sichuan Haidilao and approximately 14.9% of Singapore Haidilao. Mr. Gou Yiqun, directly or indirectly, holds approximately 0.1% of Sichuan Haidilao and approximately 2% of Singapore Haidilao.

(VIII) APPROVAL BY INDEPENDENT SHAREHOLDERS

Mr. Zhang Yong, together with his wife Ms. Shu Ping, directly or indirectly hold approximately 67.5% of Sichuan Haidilao and approximately 62.7% of Singapore Haidilao. Mr. Shi Yonghong, directly or indirectly, holds approximately 8% of Sichuan Haidilao and approximately 14.9% of Singapore Haidilao. Mr. Gou Yiqun, directly or indirectly, holds approximately 0.1% of Sichuan Haidilao and approximately 2% of Singapore Haidilao. In accordance with the Listing Rules, Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong, Mr. Gou Yiqun, and their respective associates will abstain from voting on the ordinary resolutions to approve the Haidilao Continuing Connected Transactions (including the Revised Annual Caps) at the Extraordinary General Meeting.

LETTER FROM THE BOARD

The Company will seek the Independent Shareholders' approval at the Extraordinary General Meeting for, among others, the Haidilao Continuing Connected Transactions and the Revised Annual Caps on the condition that:

1. the annual amount of the Haidilao Continuing Connected Transactions shall not exceed their respective annual caps or revised annual caps, as applicable;
2. (i) the Haidilao Continuing Connected Transactions will be entered into in the ordinary and usual course of business of the Group and either (a) on normal commercial terms or better; or (b) if there is no available comparison, on terms no less favourable than terms available to the Group from Independent Third Parties; and

(ii) the Haidilao Continuing Connected Transactions will be entered into in accordance with the Master Sales Agreement and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company will comply with relevant provisions of the Listing Rules in relation to the Haidilao Continuing Connected Transactions.

C. NO EXTREME RELIANCE ON THE HAIDILAO GROUP

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

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

Diversified customer base

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

- (i) Sales through distribution channels: The Group has established an extensive and fast-growing distribution network. The number of its distributors grew rapidly. As at 30 June 2017, the Group had 706 independent distributors, representing an increase of approximately 34% as compared to that of 30 June 2016 (2016: 526). The Group's distributors are now covering 31 provincial territories in the PRC (including all first-tier cities, 32 second-tier cities, 303 third- and fourth-tier and lower tier cities) and 14 overseas countries and markets. In the first half of 2017, the Group's sales revenue from sales to independent (or third-party) distributors amounted to approximately RMB167.2 million, representing a year-on-year increase of approximately 48.9%.
- (ii) Sales through e-commerce channels: The Group puts a lot of efforts in developing e-commerce channels. Both the strengthening of online marketing and promotion, and the

LETTER FROM THE BOARD

management and regulation of e-commerce channels have improved comprehensively in various aspects. As at 30 June 2017, the Group owned five flagship stores on e-commerce platforms such as Tmall, JD.com and Suning E-commerce. Since 2015, the Group has dedicated a team responsible for exploring e-commerce channels and initiating targeted online marketing activities. As at 30 June 2017, the e-commerce sales team had 36 members, representing an increase by 50% as compared to that of 30 June 2016 (2016: 24). In the first six months of 2017, the Group's sales revenue derived from e-commerce channels amounted to approximately RMB17.0 million, representing a year-on-year increase of approximately 215.7%. As far as the Directors understand, all of the target customers through these e-commerce channels are independent third parties.

- (iii) Sales to third-party catering service providers: As a supplier to catering service providers, the Group has been manufacturing customized compound condiment products for third-party catering service providers since March 2015. The Group also supplies products manufactured for the retail market to catering service providers. By continuously enhancing efforts to provide diversified and customized products and services to third-party catering service providers, the Group's third-party catering service providers and customized customers involved various types of catering operations, such as hot pot restaurants, spicy stir-fry restaurants and barbecue restaurants. The number of such customers reached 69 as at 30 June 2017, representing a significant increase of approximately 360.0% as compared to that of 30 June 2016. Like sales through e-commerce channels, the Group has focused on sales to third-party catering providers since 2015 and provided comprehensive support in this sales channel as direction for future strategic development. In the first six months of 2017, the Group's sales revenue from third-party catering service providers amounted to approximately RMB11.7 million, representing a tremendous year-on-year increase of approximately 2,113.6%.

Diversified product portfolio

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

- (i) The Group has a dedicated research and development team with a market-oriented focus to collect and analyze market information and data, formulate and upgrade product formulas, and optimize production processes and equipment. For sales of standard products to third parties, the Group owns the proprietary rights to the formulas of the compound condiment products that the Group develops or upgrades. In the first half of 2017, the Group had successfully launched (i) new products such as spicy beef tallow hotpot soup flavouring and spicy fish flavoured compound condiment; and (ii) improved and upgraded new products on top of certain existing core products. This would not only help the Group's products to better meet the market demand, but could also effectively ease the problem of inadequate products during low seasons. As at 30 June 2017, the Group had a total of 43 hotpot soup flavouring products, seven dipping sauce products and 16 Chinese-style compound condiment products, representing an addition of three hotpot soup flavouring products and

LETTER FROM THE BOARD

two Chinese-style compound condiment products as compared to those as at the end of 2016. For the addition of those five products, only one hotpot soup flavouring product is Haidilao Customized Product, the other four products are new products for sales to third parties.

- (ii) The Group has extensive new product reserve: The Group launched five new instant sauce products in early October 2017, and these new products are standard products primarily for sales through third-party retail channels. In addition, the Group also manufactures Small Hotpot Products for sale since around September 2017. The Small Hotpot Products will primarily be sold through third-party retail channels as well, while the target customers thereof shall substantially be independent third party customers at retail level.

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

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

Interests of the Group and the Haidilao Group are aligned

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

Pursuant to the terms of the Master Sales Agreement, while the Haidilao Group may only engage other suppliers to produce hotpot soup flavouring products in the event that the Group is unable to satisfy the quantity of products demanded by it, the Haidilao Group has agreed that it would only do so after discussion with the Group and upon obtaining the Group's consent. In fact, the Haidilao Group has never engaged alternative suppliers to substitute the Group's original exclusive supplier position for hotpot soup flavouring products due to its incapability in meeting the Haidilao Group's demand. The Directors believe that over the past years, the consistent high quality of the products, adherence to stringent food safety control, maintenance of stable supply and competitive prices have contributed to the success of the Haidilao Group. Accordingly, in addition to the aforementioned contractual arrangements that ensure a stable co-operation relationship between the Haidilao Group and the Group, the Directors believe that it would be uneconomical and administratively burdensome for the Haidilao Group to turn to alternative suppliers.

The process for Haidilao Group to identify alternative suppliers satisfying their quantities demanded and food safety and quality control requirements would be time-consuming and resource-intensive, considering (i) the Group's dominant market share (particularly in the mid-to high-end hotpot soup flavouring market); (ii) the Group's long-standing position for over a

LETTER FROM THE BOARD

decade as the sole supplier of hot pot soup flavouring products to the Haidilao Group in the PRC; and (iii) the time and costs devoted by both the Haidilao Group and the Group to formulate, develop, and monitor compliance with food safety and quality control requirements of hotpot soup flavouring products supplied to the Haidilao Group. Such alternative suppliers may not be able to achieve the Group's production capacity or duplicate its cost structure within a short period of time, which may increase the operational costs of the Haidilao Group. The stability in supply and quality of the Haidilao Group's hotpot soup flavouring products may also be affected, jeopardizing the Haidilao Group's reputation and, consequently, revenue if the Haidilao Group decides to engage alternative suppliers. The Directors believe that the time, cost and uncertainty in connection with a change of the Haidilao Group's supplier pose a significant entry barrier and effectively discourage the Haidilao Group from turning to alternative suppliers.

The Board would like to emphasize that the Group acts in the best interests of the Group and the Shareholders as a whole in formulating sales policy. Whilst the Haidilao Group has been and remains to be the Group's largest customer, in the event that the demand for the Group's products from the Haidilao Group decreases significantly, the Group would solicit business from other customers utilizing its own formulas or formulas provided by customers, and expand its business by leveraging its production know-how, industry experience and existing network. In addition to the 22 products produced exclusively for Haidilao hot pot restaurants as at 30 June 2017, the Group had a diversified product portfolio with 44 products being offered to the retail market with independent third party customers. As stated above, the Group also has an extensive distribution network that enables it to market and sell its products to consumers through both physical and e-commerce channels in domestic and overseas markets. Furthermore, through the Group's years of experience in serving the Haidilao Group, the Group has accumulated extensive knowledge of the catering service industry in the PRC. The Group possesses market-oriented and solid research and development capabilities, and sufficient production capabilities to formulate customized condiment formulas, manufacture high-quality condiment products at scale to meet catering service providers' needs, and expand quickly into new market segments to command a significant market share.

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

LETTER FROM THE BOARD

Directors consider that the commercial and financial benefits from the business relationship with the Haidilao Group in the foreseeable future shall outweigh the reliance on its position as the single largest customer of the Group. It shall be in the best interests of the Group and the Shareholders as a whole to maintain the current business relationship with the Haidilao Group in the coming future.

(b) Level of reliance

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

This is reinforced by the fact that the Joint Venture was established for the manufacture of Small Hotpot Products. The Group has paid great attention in diversifying its source of revenue as it is anticipated that revenue from the sales of Small Hotpot Products to the Haidilao Group would not represent a substantial proportion of the total revenue of the Joint Venture for the three years ending 31 December 2019 and the eight months ending 31 August 2020. Therefore, it is currently expected that the revenue contribution from the Haidilao Group as a percentage of the Group's total revenue will decrease over time in the coming future.

(c) Industry landscape

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

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

LETTER FROM THE BOARD

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

(d) Mutual reliance

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

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

(e) Capability of maintaining revenue in future

According to the research report of a market consultant, in 2015, the market size of compound condiments in the PRC was RMB75.1 billion, representing 18.2% of the total condiment market size in the PRC. In 2015, the Company's market share in the overall compound condiment market is 1.7%. According to the aforesaid report, the market size of the compound condiments in the PRC is expected to reach higher growth in the future because (i) there is an increasing trend to use compound condiment by home cooking; and (ii) standardization made it more suitable to use for catering service providers. The market size of compound condiments in China is expected to reach RMB148.8 billion in 2020, with a compound annual growth rate of 14.7% since 2015, representing 22.1% of the total condiment market size in China.

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

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

LETTER FROM THE BOARD

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

For each of the three years ended 31 December 2016, sales to the Haidilao Group amounted to approximately RMB276,982,000, RMB457,753,000 and RMB597,546,000, representing approximately 55.6%, 54.0% and 54.9% of the Group's total revenue, respectively. As stated above, the revenue contribution from the Haidilao Group as a percentage of the Group's total revenue is expected to be relatively stable for the two years ending 31 December 2018. The Group expects that such proportion will maintain at similar level as that from 2014 to 2016 with the measures stated herein, and hopefully will decrease over time in the coming future due to the expected faster growth in sales of the Group's products to third-party customers as a result of the Group's active marketing efforts, continuous expansion of distribution networks as well as the launch of new products.

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

(a) Sales through distribution channels

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

(b) Sales through e-commerce channels

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

(c) Sales to third-party catering service providers

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

LETTER FROM THE BOARD

(d) **Diversified product portfolio**

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

(e) **Staff training**

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

(f) **Regular monitoring**

The finance team will regularly monitor the proportion of sales between the Haidilao Group and the independent third parties. If it is noted that the proportion of sales to the Haidilao Group may potentially exceed the historical percentage ratio, the Group would take the following steps as appropriate with a view to increasing the sales to independent third parties such that such proportion will maintain at similar level as that from 2014 to 2016: (i) organize various marketing activities such as tasting events and themed promotion events in different cities; (ii) further increase the inventory level at the terminal sales point and enhance shelf display management for attracting awareness of potential new customers; (iii) broaden online new product portfolios, (iv) expand the sales team and the distribution network; (v) enhance efforts to provide diversified and customized products and services to third-party catering service providers; and (vi) expand the research and development team so as to formulate and upgrade product formulas and develop new products.

INTERNAL CONTROL MEASURES

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

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

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 1 November 2017 to Monday, 6 November 2017, both days inclusive, in order to determine the eligibility of the shareholders to attend and vote at the Extraordinary General Meeting. The shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 31 October 2017 will be entitled to attend and vote at the Extraordinary General Meeting. In order to be eligible to attend and vote at the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Tuesday, 31 October 2017.

EXTRAORDINARY GENERAL MEETING

Set out on pages 70 to 73 of this circular is the notice of the Extraordinary General Meeting at which, inter alia, ordinary resolutions will be proposed to the Shareholders to consider and approve (i) the Framework Sales and Purchase Agreements and the JV Transactions Annual Caps, (ii) the Supplemental Master Sales Agreement and (iii) the Revised Annual Caps.

LETTER FROM THE BOARD

A form of proxy is enclosed for use at the Extraordinary General Meeting. Such form of proxy is also published on the website of the Stock Exchange (www.hkexnews.hk). Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for the holding of the Extraordinary General Meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude Shareholders from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting thereof should they so wish.

In accordance with the Listing Rules, Ms. Dang Chunxiang, Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong, Mr. Gou Yiqun and their respective associates have a material interest in the JV Transactions and will abstain from voting on the ordinary resolution to approve the Framework Sales and Purchase Agreements and the JV Transactions Annual Caps at the Extraordinary General Meeting.

In accordance with the Listing Rules, Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong, Mr. Gou Yiqun and their respective associates have a material interest in the Haidilao Continuing Connected Transactions and will, at the Extraordinary General Meeting, abstain from voting on the ordinary resolution to approve the Supplemental Master Sales Agreement and the Revised Annual Caps.

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

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

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

RECOMMENDATION OF THE BOARD

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

LETTER FROM THE BOARD

RECOMMENDATION OF THE INDEPENDENT FINANCIAL ADVISER AND THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the terms of the Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps), and First Shanghai has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders.

The Independent Financial Adviser considers the Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps) are on normal commercial terms and in the ordinary and usual course of business of the Group. The Independent Financial Adviser also considers that Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The full text of the letter from the Independent Financial Adviser issued by First Shanghai containing its recommendation in respect of the Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps) is set out on pages 35 to 62 of this circular.

The Independent Board Committee, having taken into account the advice of First Shanghai, considers the terms of the Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the Extraordinary General Meeting to approve Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps). The full text of the letter from the Independent Board Committee is set out on page 34 of this circular.

Yours faithfully,
For and on behalf of the Board
Yihai International Holding Ltd.
Gou Yiqun
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



YIHAI INTERNATIONAL HOLDING LTD.

頤海國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1579)

18 October 2017

To the Independent Shareholders

**CONTINUING CONNECTED TRANSACTIONS
(1) SALE OF HOTPOT SOUP FLAVOURING PRODUCTS
TO THE JOINT VENTURE AND PURCHASE OF
SMALL HOTPOT PRODUCTS FROM THE JOINT VENTURE
(2) SALE OF SMALL HOTPOT PRODUCTS TO THE HAIDILAO GROUP
AND
(3) REVISION OF ANNUAL CAPS UNDER THE MASTER SALES
AGREEMENT IN RESPECT OF 2017 AND 2018**

Dear Sir or Madam,

We have been appointed as the Independent Board Committee to advise you in connection with the Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps), details of which are set out in the letter from the Board contained in the circular issued by the Company to the Shareholders dated 18 October 2017, of which this letter forms part. We wish to draw your attention to the letter from the Independent Financial Adviser as set out on pages 35 to 62 of the circular. Terms defined in the circular shall have the same meanings when used herein, unless the context otherwise requires.

Having considered the information set out in the letter from the Board, the terms of the Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps) and the advice of First Shanghai in relation thereto as set out on pages 35 to 62 of the circular, we are of the view that the Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps) are on normal commercial terms and conducted in the ordinary and usual course of the business of the Group. We are also of the view that the Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps) are in the interests of the Company and the Shareholders as a whole, and are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the Extraordinary General Meeting to approve the Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps).

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter to the Independent Board Committee and the Independent Shareholders received from the Independent Financial Adviser setting out its opinion regarding the Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps), for the purpose of inclusion in this circular.



19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

18 October 2017

*To the Independent Board Committee and
the Independent Shareholders*

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS
(1) SALE OF HOTPOT SOUP FLAVOURING PRODUCTS
TO THE JOINT VENTURE AND PURCHASE OF
SMALL HOTPOT PRODUCTS FROM THE JOINT VENTURE
(2) SALE OF SMALL HOTPOT PRODUCTS TO THE HAIDILAO GROUP
AND
(3) REVISION OF ANNUAL CAPS UNDER THE MASTER SALES
AGREEMENT IN RESPECT OF 2017 AND 2018

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions comprising (i) the JV Transactions contemplated under the Framework Sales and Purchase Agreements (including the JV Transactions Annual Caps); and (ii) the Haidilao Continuing Connected Transactions contemplated under the Master Sales Agreement (as supplemented by the Supplemental Master Sales

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Agreement) (including the Revised Annual Caps), details of which are contained in the circular to the Shareholders dated 18 October 2017 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those ascribed in the Circular.

The Framework Sales and Purchase Agreements

The Joint Venture was newly formed in September 2017 in Shanghai, the PRC to principally engage in the manufacture and sale of Small Hotpot Products.

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

The Supplemental Master Sales Agreement

On 18 September 2017, Yihai Shanghai, Sichuan Haidilao and Singapore Haidilao entered into the Supplemental Master Sales Agreement, pursuant to which Yihai Shanghai (for itself and on behalf of its subsidiaries, including the Joint Venture) agreed to sell Small Hotpot Products to the Haidilao Group for a term of not more than three years and will expire on 31 December 2018.

As disclosed in the Prospectus, Yihai Shanghai entered into the Master Sales Agreement with Sichuan Haidilao and Singapore Haidilao to regulate the transactions in relation to, among others, the sale of Haidilao Customized Products to the Haidilao Group.

As set out in the “Letter from the Board” contained in the Circular, the Directors estimate that the maximum transaction value for the Haidilao Customized Products to be supplied by the Group to the Haidilao Group under the Master Sales Agreement for each of the two years ending 31 December (the “**Year(s)**”) 2017 and 2018 will exceed the original annual caps for each of the two Years 2017 and 2018 as disclosed in the announcement dated 18 September 2017 and the Prospectus. The Board therefore proposes to revise the original annual caps under the Master Sales Agreement for each of the two Years 2017 and 2018.

LISTING RULES IMPLICATIONS

The Framework Sales and Purchase Agreements

The Joint Venture is currently a 60% held non wholly-owned subsidiary of the Company. As the Joint Venture is owned as to 40% by Xinpai Shanghai, which is controlled as to approximately 62.70% by the controlling shareholders of the Company, Mr. Zhang Yong and Ms. Shu Ping, and 29.7% by Mr.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Shi Yonghong (a non-executive Director) and his wife, and 2% by Mr. Gou Yiqun (a non-executive Director), the Joint Venture is therefore a connected subsidiary of the Company. Accordingly, the transactions contemplated under the Framework Sales and Purchase Agreements constitute continuing connected transactions of the Company for the purpose of the Listing Rules.

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

Since the highest of all applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the JV Transactions Annual Caps under the Framework Sales and Purchase Agreements is more than 5%, the JV Transactions are subject to announcement, circular and independent shareholders' approval, annual review and reporting requirements under Chapter 14A of the Listing Rules.

In accordance with the Listing Rules, Ms. Dang Chunxiang, Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong, Mr. Gou Yiqun and their respective associates will abstain from voting on the ordinary resolution to approve the JV Transactions (including the JV Transactions Annual Caps) at the Extraordinary General Meeting.

The Supplemental Master Sales Agreement

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

Sichuan Haidilao is directly or indirectly held as to approximately 33.5% by Mr. Zhang Yong and Ms. Shu Ping (controlling shareholders of the Company), 50% by Jingyuan Investment (which in turn is held as to approximately 68% by Mr. Zhang Yong and Ms. Shu Ping), 8% by Mr. Shi Yonghong (a substantial Shareholder and non-executive Director) and 0.1% by Mr. Gou Yiqun (a non-executive Director).

Singapore Haidilao is indirectly held as to approximately 62.7% by Mr. Zhang Yong and Ms. Shu Ping (being the controlling shareholders of the Company), 29.7% by Mr. Shi Yonghong (a non-executive Director) and his wife, and 2% by Mr. Gou Yiqun (a non-executive Director).

Sichuan Haidilao and Singapore Haidilao are, therefore, connected persons of the Company by virtue of being associates of the controlling shareholders of the Company, and the sales transactions between the Group and the Haidilao Group constitute continuing connected transactions of the Company under the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Since the highest of all applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Revised Annual Caps under the Master Sales Agreement is more than 5%, the Haidilao Continuing Connected Transactions are subject to the announcement, circular, independent shareholders' approval, annual review and reporting requirements under Chapter 14A of the Listing Rules.

The Extraordinary General Meeting will be convened and held to consider and, if thought fit, to approve the JV Transactions, the Haidilao Continuing Connected Transactions and the Revised Annual Caps.

Mr. Zhang Yong, together with his wife Ms. Shu Ping, directly or indirectly hold approximately 67.5% of Sichuan Haidilao and approximately 62.7% of Singapore Haidilao. Mr. Shi Yonghong, directly or indirectly, holds approximately 8% of Sichuan Haidilao and approximately 14.9% of Singapore Haidilao. Mr. Gou Yiqun, directly or indirectly, holds approximately 0.1% of Sichuan Haidilao and approximately 2% of Singapore Haidilao. In accordance with the Listing Rules, Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong, Mr. Gou Yiqun, and their respective associates will abstain from voting on the ordinary resolutions to approve the Haidilao Continuing Connected Transactions (including the Revised Annual Caps) at the Extraordinary General Meeting.

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

THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising Mr. Yau Ka Chi, Mr. Qian Mingxing and Ms. Ye Shujun, being all the three independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps).

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

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company (the "**Management**"). We have assumed that all information, representations and opinions

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the Management for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group, the Joint Venture and the Haidilao Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Non-exempt Continuing Connected Transactions comprising (i) the JV Transactions contemplated under the Framework Sales and Purchase Agreements (including the JV Transactions Annual Caps); and (ii) the Haidilao Continuing Connected Transactions contemplated under the Master Sales Agreement (as supplemented by the Supplemental Master Sales Agreement) (including the Revised Annual Caps), we have taken into consideration the following principal factors and reasons:

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

1. Background of the relevant contracting parties

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

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

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

The Joint Venture was newly formed in September 2017 in Shanghai, the PRC to principally engage in the manufacture and sale of self-serving Small Hotpot Products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Principal terms of the Framework Sales and Purchase Agreements

On 18 September 2017, Yihai Shanghai and the Joint Venture entered into the Framework Sales and Purchase Agreements, pursuant to which (i) Yihai Shanghai (for itself and on behalf of its subsidiaries, other than the Joint Venture) agreed to sell hotpot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hotpot Products; and (ii) the Joint Venture agreed to sell self-serving Small Hotpot Products to Yihai Shanghai and its subsidiaries (other than the Joint Venture) for a term of not more than three years from 18 September 2017 to 31 August 2020. The principal terms of the Framework Sales and Purchase Agreements are summarized below.

Term

The Framework Sales and Purchase Agreements are for a term of not more than three years from 18 September 2017 to 31 August 2020, and shall take effect upon the approval of the agreement and the proposed annual caps under it having been obtained from the Independent Shareholders in accordance with the Listing Rules.

Subject to compliance with the applicable laws and regulations (including the Listing Rules) and requirements of securities regulatory authorities, and unless terminated by Yihai Shanghai by giving notice to the Joint Venture, upon the end of each term, the term will be automatically renewed for three years without limitation on the number of renewals.

Nature of transactions

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

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

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

Pricing basis

(i) Hotpot soup flavouring products

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Small Hotpot Products

The purchase price of Small Hotpot Products shall be determined by the parties after arm's length negotiations with reference to (i) the price of the Small Hotpot Products sold by the Joint Venture to independent third party distributors; (ii) the estimated overall net profit margin through sales to independent third party distributors; (iii) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Small Hotpot Products; and (iv) the market price of similar products sold by comparable companies to independent third party distributors.

Any adjustment to the aforementioned prices must be agreed by both parties after one party gives prior written notice one month in advance.

Payment terms

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

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

3. Reasons for and benefits of entering into the Framework Sales and Purchase Agreements

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

The Joint Venture is formed to engage in the manufacture and sales of Small Hotpot Products which will enrich the existing product range of the Group, and expand the existing business of the Group.

Instead of manufacturing self-serving small hotpot products by a wholly-owned subsidiary of the Company, Yihai Shanghai and Xinpai Shanghai formed the Joint Venture because Xinpai Shanghai has given the Joint Venture an undertaking and authorization for the Joint Venture to use the trademarks owned by Xinpai Shanghai on an exclusive and royalty-free basis during the terms of the trademarks. Such trademarks are essential for the successful launching of the Small Hotpot Products in the market. Xinpai Shanghai will also help the Group with the fostering, developing and marketing of the Small Hotpot Products, as Xinpai Shanghai has a comprehensive understanding of the "hotpot" concept, relating to aspects including but not limited to its established restaurant network covering near 200 restaurants domestically, its internal online and offline channels and resources, its branding promotion network which emerged from its rapid expansion in terms of areas, and the testing and verification of the taste and formula of new products by its large client base, etc.. These would be of great help to the sales of the Small Hotpot Products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

4. Proposed annual caps and basis of determination

The Company estimates that the JV Transactions Annual Caps under the Framework Sales and Purchase Agreements are as follows:

	For the year ending 31 December			For the eight months ended 31
	2017	2018	2019	August 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Sale of hotpot soup flavouring products	2,400	9,500	14,500	12,800
Expected quantity to be sold (pouches)	2,330,000	9,258,000	14,046,000	12,480,000
Unit selling price (approximate RMB)	1.0	1.0	1.0	1.0
Buffer for unanticipated demand	3%	3%	3%	3%
Purchase of Small Hotpot Products	48,300	131,800	191,000	165,533
Expected quantity to be purchased (packs)	1,953,000	5,328,000	7,726,000	6,696,000
Unit purchase price (RMB)	24.0	24.0	24.0	24.0
Buffer for unanticipated demand	3%	3%	3%	3%
Aggregated amount	50,700	141,300	205,500	178,333

Basis of determination of the JV Transactions Annual Caps

We understand from the Management that in determining the JV Transactions Annual Caps under the Framework Sales and Purchase Agreements, the Board has taken into account the following factors:

(a) Sale of hotpot soup flavouring products

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) Purchase of Small Hotpot Products

The annual caps in relation to the purchase of Small Hotpot Products are determined based on the following factors:

- (i) the expected market demand, in particular, for the annual cap in 2017, the Company has taken into account the seasonal pattern of hotpot consumption;
- (ii) the prevailing market price of similar products sold by the Joint Venture to independent third party distributors;
- (iii) current production costs and expenses incurred in connection with the production of Small Hotpot Products by the Joint Venture; and
- (iv) the strong growth and extensive market potential of the PRC catering industry and the self-serving small hotpot market.

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

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

However, we have reviewed the working schedule including calculation formulas, bases and assumptions for setting the proposed JV Transactions Annual Caps for the Framework Sales and Purchase Agreements for the coming three years ending 31 December 2018 to 2020, and noted that the projection basis is basically consistent with the Group's historical revenue growth rate for the past few years, and therefore is logical, prudent, fair and reasonable.

Sale of hotpot soup flavouring products

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the Joint Venture was newly established in September 2017, there are no historical transaction figures available for projection of future operating performance. The proposed annual cap of RMB2.4 million for the two calendar months of November and December 2017 is based on the Directors' past experience in the hotpot catering market in the PRC and their best estimates of approximately 2,330,000 pouches of hotpot flavouring products to be initially sold at around RMB1.0 per pouch during the two-month period up to 31 December 2017, and a buffer of 3% for any unanticipated increase in demand for the hotpot soup flavouring products by the Joint Venture.

The Directors currently anticipate that as the Small Hotpot Products will gradually be accepted by the market in the subsequent three Years, there would be approximately 9.3 million, 14.0 million and 12.5 million (note: approximately 18.7 million on annualised basis) pouches of hotpot soup flavouring products to be sold to the Joint Venture for manufacture of self-serving Small Hotpot Products for each of the three Years 2018 to 2020 (note: only the eight months from January to August 2020), representing an annual growth rate of approximately 51.7% and 33.3% for the two Years 2019 and 2020, respectively. Based on our independent review of the Prospectus and the annual report of the Company for the year ended 31 December 2016 (the "**Annual Report**"), we noted that the Group's revenue from sale of hotpot soup flavouring products had been increasing rapidly from approximately RMB257.2 million, RMB411.5 million, RMB698.7 million to RMB872.5 million over the past four Years from 2013 to 2016 respectively, representing a compound annual growth rate (the "**CAGR**") of approximately 50.3% over the periods. According to the interim report of the Company for the six months ended 30 June 2017 (the "**Interim Report**"), the Group's revenue from sale of hotpot soup flavouring products has continued to increase tremendously, and amounted to approximately RMB536.2 million for the six months ended 30 June 2017, representing an increase of approximately 57.8% when compared to that of approximately RMB339.7 million for the corresponding period in the Year 2016. Having considered the Group's historical outstanding revenue trend, we concur with the Directors' sales forecasts for the coming three years up to 31 August 2020, and therefore are of view that the proposed annual caps for the sale of hotpot soup flavouring products pursuant to the Framework Sales and Purchase Agreements shall be justifiable, fair and reasonable.

Purchase of Small Hotpot Products

In assessing the fairness and reasonableness of the proposed annual caps for the Group's purchase of Small Hotpot Products from the Joint Venture pursuant to the Framework Sales and Purchase Agreements, we have reviewed the schedule including calculation formulas, bases and assumptions for setting purchase of Small Hotpot Products from the Joint Venture provided by the Company for three Years from 2017 (note: only the four months from September to December 2017) to 2020 (note: only the eight months from January to August 2020).

As mentioned above, the Joint Venture has just been set-up to test the market demand for the self-serving Small Hotpot Products in the PRC, so there are no historical comparable transaction figures available for projection of future operating performance. The proposed annual cap of RMB48.3 million for the four calendar months from 1 September 2017 to 31 December 2017 is based on the Directors' past experience in the hotpot catering market in the PRC and their best estimates of approximately 1,953,000 packs of Small Hotpot Products to be initially purchased at RMB24.0 per pack during the four-month period up to 31 December 2017, and a buffer of 3% for any unanticipated increase in demand for the Small Hotpot Products by the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors currently anticipate that as the Small Hotpot Products will gradually be accepted by the market in the subsequent three Years from 2018 to 2020, there would be approximately 5.3 million, 7.7 million and 6.7 million (note: approximately 10.0 million on an annualised basis) packs of Small Hotpot Products to be purchased by the Group for sale to the Haidilao Group and other independent third party distributors and/or customers for each of the three Years 2018 to 2020 (note: only the eight months from January to August 2020), representing an annual growth rate of approximately 45.0% and 30.0% for each of the two Years 2019 and 2020, respectively. As mentioned above, the Group's revenue had a tremendous increasing trend over the past four Years from 2013 to 2016 with a CAGR of approximately 51.0% over the period. Furthermore, the Group's revenue has continued to increase tremendously with a strong growth rate of approximately 56.6% for the six months ended 30 June 2017 when compared to the corresponding period in the Year 2016. Based on our understanding, the ultimate customers in the hotpot catering market shall be substantially the same among those having their hotpot meals at Haidilao restaurants or enjoying the self-serving Small Hotpot Products at home; while people having hotpot meals in the PRC has been growing popular over the years and in the near future. On such basis, we consider that the Group's past revenue may provide a good starting point of reference and/or comparable basis for its forecast for sale of Small Hotpot Products in the coming years. Having considered the Group's historical outstanding revenue trend, we concur with the Directors' sales forecasts for the coming three years up to 31 August 2020, and therefore are of the view that the proposed annual caps for the Small Hotpot Products pursuant to the Framework Sales and Purchase Agreements shall be justifiable, fair and reasonable.

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

(ii) SALE OF SMALL HOTPOT PRODUCTS TO THE H Aidilao GROUP

1. Reasons for and benefits of entering into the Supplemental Master Sales Agreement

The Haidilao Group is the largest Chinese hotpot restaurant chain in the PRC. The Group has established a long-term and stable relationship with the Haidilao Group. The sale of Small Hotpot Products to the Haidilao Group will enrich the Group's existing product scope and expand its existing business, and is expected to create a new source of profit growth for the Group.

2. Principal terms of the Supplemental Master Sales Agreement

The Joint Venture was newly formed in September 2017 in Shanghai, the PRC to engage in the manufacture and sale of self-serving Small Hotpot Products. The sale of Small Hotpot Products will enrich the existing product scope and expand the Group's existing business, and is expected to create a new source of income stream and profit growth for the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 18 September 2017, Yihai Shanghai, Sichuan Haidilao and Singapore Haidilao entered into the Supplemental Master Sales Agreement, pursuant to which Yihai Shanghai (for itself and on behalf of its subsidiaries, including the Joint Venture) agreed to sell Small Hotpot Products to the Haidilao Group for a term of not more than three years and will expire on 31 December 2018. The principal terms of the Supplemental Master Sales Agreement are summarized below.

Term

The Supplemental Master Sales Agreement will be for a term of not more than three years and will expire on 31 December 2018. The Supplemental Master Sales Agreement shall take effect upon obtaining Independent Shareholders' approval at the Extraordinary General Meeting.

Nature of transactions

Pursuant to the Supplemental Master Sales Agreement, Yihai Shanghai (for itself and on behalf of its subsidiaries, including the Joint Venture) agreed to sell Small Hotpot Products to the Haidilao Group.

The quantity of the Small Hotpot Products to be sold to the Haidilao Group is not fixed under the Supplemental Master Sales Agreement, but is to be determined and agreed between the relevant parties from time to time.

During the current term of the Supplemental Master Sales Agreement, the Joint Venture and the Haidilao Group may enter into separate agreements from time to time in respect of the sale and purchase of the Small Hotpot Products upon and subject to the terms and conditions in accordance with Supplemental Master Sales Agreement.

Pricing basis

The sales price of Small Hotpot Products shall be determined by the parties after arm's length negotiations with reference to the following factors:

- (i) the price of the Small Hotpot Products sold by the Joint Venture to independent third party distributors;
- (ii) the estimated overall net profit margin through sales to independent third party distributors;
- (iii) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Small Hotpot Products; and
- (iv) the market price of similar products sold by comparable companies to independent third party distributors.

Taking into account historical data and forecasted estimates, the independent non-executive Directors will regularly review and reassess the sales prices of Small Hotpot Products semi-annually and make

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

The pricing basis for fixing the selling price for the sale of Small Hotpot Products are basically consistent with the current price mechanism and rationale for setting selling price of Haidilao Customized Products under the original Master Sales Agreement. The substance of entering into the Supplemental Master Sales Agreement is to include supply and sale of Small Hotpot Products from the Group to the Haidilao Group following formation of the Joint Venture and its subsequent commencement of manufacture and sale of Small Hotpot Products shortly and in the future. Detailed analysis of our assessment of the principal terms, in particular the pricing basis, pursuant to the Master Sales Agreement (as supplemented by the Supplemental Master Sales Agreement) and our opinion on its fairness and reasonableness are set out below.

Payment terms

Fees payable under the Supplemental Master Sales Agreement will be billed on a monthly basis, which will be settled in the following month.

According to the Prospectus, the Group has provided trade credit to certain major distributors, who are independent third parties, for periods of ranging from 30 days to 60 days from the invoice date, depending on their financial positions, purchasing volume, track record and other factors. We consider that the payment terms on a monthly basis for the supply of Small Hotpot Products to the Haidilao Group pursuant to the Supplemental Master Sales Agreement are typical and on normal commercial terms and fair and reasonable.

Proposed annual caps and basis of determination

The Company estimates that the annual caps for the sales of Small Hotpot Products under the Supplemental Master Sales Agreement are RMB2,800,000 and RMB13,700,000 for each of the two Years 2017 and 2018, respectively.

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

- (i) Haidilao Group's rapid expansion in recent years, as demonstrated by the number of stores of the Haidilao Group in the PRC as at 31 December 2014, 2015 and 2016 and 30 June 2017, being 111, 142, 167 and 192 respectively; and
- (ii) the strong growth and extensive market potential of the PRC catering industry and the self-serving small hotpot market.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Since the Joint Venture was established recently, there are no historical transaction figures for the sale of Small Hotpot Products available.

Detailed analysis of our assessment of the proposed annual caps for sale of Small Hotpot Products pursuant to the Supplemental Master Sales Agreement and our opinion on its fairness and reasonableness are set out below.

(iii) REVISION OF ANNUAL CAPS UNDER THE MASTER SALES AGREEMENT IN RESPECT OF 2017 AND 2018

1. Background information of the Group

The Group is principally engaged in the manufacture and sale of hotpot soup flavouring products, hotpot dipping sauce products and Chinese style compound condiment products in the PRC. The Group is a leading and fast-growing compound condiment manufacturer in the PRC, and the sole supplier of hotpot soup flavouring products for the Haidilao Group in the PRC, and its products have significantly contributed to the successful growth of the Haidilao Group.

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

The Group has entered into a number of agreements with the Haidilao Group that, together, constitute the framework for its continued long-term, stable and mutually beneficial business relationship. These agreements, made on arms' length basis, cover both the provision of certain services by the Haidilao Group to the Group, and the sales of the Group's hotpot soup flavouring products to the Haidilao Group. As a result of these contractual arrangements, the Haidilao Group continues to be the Group's largest customer since its establishment, and the Group continues to be the sole supplier of hotpot soup flavouring products to the Haidilao Group in the PRC. This strong alignment of interests enables the Group to grow alongside the Haidilao Group's persistent expansion, while the Group maintains and extends its diversified customer base through new and broadened distribution channels, geographical expansion and the development and launching of new products. As at 30 June 2017, out of the 66 products under the Group's three major product lines, 22 products were customized for exclusive supply to Haidilao hotpot restaurants, and 44 products were developed and produced for the retail market.

In terms of operating performance, against a backdrop of economic downturn in the PRC, the Group had still achieved a high growth in its business operation in the Year 2016. For the Year 2016, the Group recorded revenue of approximately RMB1,088.0 million, representing a year-on-year increase of approximately 28.4% when compared to that of RMB847.3 million in the Year 2015; while its net profit reached a record high at approximately RMB186.7 million for the Year 2016, representing a year-on-year increase of approximately 49.9% when compared to that of RMB124.5 million in the Year 2015.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Background information of the Haidilao Group

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

Over the past two decades, the Haidilao Group has developed into the largest Chinese hotpot restaurant chain and the No. 1 Chinese cuisine restaurant company in China in terms of sales value in the Years 2014 and 2015. There have been over 50 million customers dining at Haidilao hotpot restaurants in the recent years, some of them were with Haidilao Group’s memberships. The Haidilao Group was recognized as one of the Top 10 Famous Chinese Hotpot Brands for the Year 2014 by China Cuisine Association.

In 2016, the Haidilao Group achieved stable growth in the same store sales and rapid expansion in the number of hotpot restaurants, benefiting from the growth in the PRC catering industry and the hotpot catering consumption market. The Group’s revenue from sales of customized hotpot soup flavouring products and compound condiments to the Haidilao Group amounted to approximately RMB597.5 million for the Year 2016, representing an increase by approximately 36.0% as compared to that of approximately RMB439.3 million in the Year 2015, mainly due to the steady growth in the same store revenue of Haidilao hotpot restaurants and the increased number of Haidilao hotpot restaurants widespread across different cities in the PRC. The Group’s revenue from sales of customized hotpot soup flavouring products and compound condiments to the Haidilao Group has accounted for more than 50% of the Group’s total revenue over the past four Years from 2013 to 2016.

3. Principal terms of the Master Sales Agreement

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

Term

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Nature of transactions

During the term of the Master Sales Agreement, the Group is the sole supplier of hotpot soup flavouring products customized for the Haidilao Group for use in its hotpot restaurants in the PRC, save to the extent that the Haidilao Group may engage other suppliers in the event that the Group is unable to satisfy the quantity of products demanded, after discussion with the Group and upon obtaining the Group's written consent.

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

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

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

If there is any change in pricing policy in the future, the Group shall fully comply with the relevant requirements under Chapter 14A of the Listing Rules (if applicable) unless the Group applies for and obtain a separate waiver from the Stock Exchange.

Pricing basis

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

Payment terms

Fees payable under the Master Sales Agreement will be billed in a timely and appropriate manner according to terms agreed by both parties. For sales to hotpot restaurants in the PRC, payment shall be made on a monthly basis following delivery of products and the issuance of delivery invoices; for sales to overseas hotpot restaurants, payment shall be made based on the purchase volume per individual order.

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

4. Assessment of the principal terms of the Master Sales Agreement (as supplemented by the Supplemental Master Sales Agreement)

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

Since August 2014, the Group has adopted a new pricing policy for its sales of Haidilao Customized Products, which allows it to retain commercially acceptable net profit margins that are the same as the net profit margins arising from sales to independent third party customers; whilst still fostering a mutually beneficial, fair and long-term working relationship with the Haidilao Group and its affiliates. However, the Group's pricing for its sales to the Haidilao Group and its affiliates was still different

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

from the pricing for its sales to independent third party customers, mainly because the sales to the Haidilao Group and its affiliates do not require material packaging costs or selling and distribution expenses (the “**PSD Expenses**”), which constitute a major part of the Group’s cost structure with respect to sales to independent third party customers.

Based on this new pricing policy, which applies to both Sichuan Haidilao and Singapore Haidilao as well as their affiliates, prices are determined with reference to (i) the historical sales price, (ii) the Group’s estimated overall net profit margin through sales to independent third party distributors in accordance with the pricing formula, (iii) the Group’s production costs including the cost of raw materials, selling and administrative expenses incurred in connection with the production of Haidilao Customized Products, and (iv) the market price of similar products sold by comparable companies to independent third party distributors. Primarily as a result of the new pricing policy as well as the increased sales volume to the related parties, the Group’s revenue from sales to related parties, including the Haidilao Group, have rapidly increased, which in turn also contributed to the rapid growth of its overall revenue and profit since then. Taking into account historical data and forecasts, the independent non-executive Directors regularly review and reassess the prices of the Group’s sales to the Haidilao Group on a semi-annual basis and adjust the prices as appropriate to maintain a net profit margin similar to its sales to other independent third party distributors.

Based on our independent review of the Annual Report, we noted that the average selling price per kilogram of the Haidilao Customized Products to the Haidilao Group had been slightly lower than the hotpot soup flavouring products sold to the Group’s independent third party customers for the two Years 2015 and 2016; while the respective gross profit margins (i.e. before deducting the PSD Expenses) of the hotpot soup flavouring products sold to them separately in different production formulas, packaging and tastes had deviated very largely at approximately 24.2% versus 51.6% in the Year 2015, and 28.5% versus 56.0% in the Year 2016.

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

- (i) the Group uses its own formulas to produce retail products, but use the Haidilao Group Formulas to produce their customized products;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

The Group, as a manufacturer focusing on mid- to high-end market, revenue from its mid- to high-end hotpot soup flavouring products accounted for substantially all of its total revenue from hotpot soup flavouring products over the years.

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

We have obtained from the Company a detailed schedule for calculation of unit selling price of the Haidilao Customized Products to be supplied by the Group to the Haidilao Group for the seven months ended 31 July 2017, which can clearly demonstrate how the unit selling prices of each of the Haidilao Customized Products are to be determined so as to make their net profit margins (i.e. after deducting the PSD Expenses) to be comparable with that of hotpot soup flavouring products to be supplied to independent third party customers. We also noted that the net profit margins (i.e. after deducting the PSD Expenses) between the Haidilao Customized Products and hotpot soup flavouring products to be supplied by the Group to the Haidilao Group and the independent third party customers were basically comparable with (i) each other at an average net profit margins (i.e. after deducting the PSD Expenses) of around 14.7% and 17.0% for the two Years 2015 and 2016, respectively; and (ii) the overall net profit margins (i.e. after deducting the PSD Expenses) of the Group as disclosed in the Annual Report for the same periods.

Based on our independent review of the Prospectus and Annual Report, we noted that the Group's overall gross profit margins (i.e. before deducting the PSD Expenses) have been increasing steadily at approximately 22.0%, 24.0%, 34.7% and 38.3% over the past four Years from 2013 to 2016 respectively; while its overall net profit margins (i.e. after deducting the PSD Expenses) have also been increasing persistently with the similar trend at approximately 7.0%, 8.5%, 14.7%, 17.2% over the same period respectively, even though there have been relatively lower average selling price, and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

hence much lower overall gross profit margins (i.e. before deducting the PSD Expenses), of the Haidilao Customized Products to be supplied to the Haidilao Group when compared to the retail hotpot soup flavouring products to be sold to independent third party customers, and accordingly, we consider it to be commercially justifiable without prejudicial or detrimental to the interests of the Independent Shareholders.

Further in terms of actual profitability, the Group's gross profits had been continuously increasing from approximately RMB69.4 million, RMB119.5 million, RMB294.2 million to RMB416.9 million over the past four Years from 2013 to 2016 respectively, representing a CAGR of approximately 81.8% over the period; while its net profit attributable to owners of the Company had also been increasing rapidly with approximately RMB22.1 million, RMB42.5 million, RMB124.5 million and RMB186.7 million over the four Years from 2013 to 2016 respectively, representing a CAGR of approximately 103.8% during the same period. Based on such scenario, it further demonstrated that the different pricing arrangements between the Group and the Haidilao Group and other independent third customers did not adversely affect the overall profitability of the Group and are commercially justifiable without prejudicial or detrimental to the interests of the Independent Shareholders, and therefore fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

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

5. The historical transaction amounts, existing annual caps and the Revised Annual Caps for the Master Sales Agreement (as supplemented by the Supplemental Master Sales Agreement)

Historical transaction amounts

The table below sets out the historical transaction amounts received by the Group in relation to the sales of Haidilao Customized Products to the Haidilao Group pursuant to the Master Sales Agreement (as supplemented by the Supplemental Master Sales Agreement) during the periods indicated below:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended/ending 31 December					
	Increase		Increase		Increase	
	2015 from 2014	2016 from 2015	2016 from 2015	2017 from 2016	2017 from 2016	2017 from 2016
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Existing annual caps of Haidilao Customized Product to be sold to the Haidilao Group	N/A	N/A	580,000	N/A	740,000	27.6
Actual/estimated transaction amounts of Haidilao Customized Products to be sold to the Haidilao Group	439,280	66.9	579,921	32.0	968,000 <i>(Note 1)</i>	66.9
Utilisation rate of the existing annual caps	N/A		99.9		130.8	
Total revenue of the Group	847,339	70.1	1,088,014	28.4	N/A <i>(Note 2)</i>	N/A
Proportion of revenue from the Haidilao Group to the total revenue of the Group	51.8%		53.3%		N/A	

Notes:

1. *The estimated transaction amount for the full year ending 31 December 2017 is based on the actual transaction amount of Haidilao Customized Products sold by the Group to the Haidilao Group of approximately RMB424,299,000 for the six months ended 30 June 2017, and then to be revised in consistent with the Revised Annual Cap for the Year 2017.*
2. *The Directors consider that it may not be appropriate to make forecast for the total revenue of the Group for the full year ending 31 December 2017.*

The original annual caps and the Revised Annual Caps

The original annual caps and the Revised Annual Caps under the Master Sales Agreement (as supplemented by the Supplemental Master Sales Agreement) proposed by the Board are as follows:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended/ending 31 December				
	Increase			Increase	
	2016	2017	from 2016	2018	from 2017
	RMB'000	RMB'000	%	RMB'000	%
Original annual caps	598,000	764,000	27.8	980,000	28.3
Haidilao Customized Products	580,000	740,000	27.6	950,000	28.4
Haidilao Retail Products	18,000	24,000	33.3	30,000	25.0
Revised Annual Caps		994,800	66.3	1,569,700	57.8
Haidilao Customized Products		968,000	66.9	1,526,000	57.6
Haidilao Retail Products		24,000	33.3	30,000	25.0
Small Hotpot Products		2,800	N/A	13,700	22.3
		<i>(Note 1)</i>		<i>(Note 2)</i>	<i>(Note 3)</i>

Notes:

1. *The proposed annual cap of Small Hotpot Products for the Year 2017 only accounts for three calendar months from 1 October 2017 to 31 December 2017, which is arrived at by a formulae of: 110,000 packs x RMB24.0 per pack x 105% = RMB2,772,000, and then rounded up to RMB2,800,000.*
2. *The proposed annual cap of Small Hotpot Products for the Year 2018 accounts for the full Year 2018, which is arrived at by a formulae of: roughly 150 Haidilao restaurants x 10 packs per day x 360 days for a full Year 2018 x RMB24.0 per pack x 105% = RMB13,608,000, and then rounded up to RMB13,700,000.*
3. *The proposed annual cap of Small Hotpot Products of RMB2,800,000 is set for the three months from 1 October 2017 to 31 December 2017, while the percentage of increase in the Year 2018 by approximately 22.3% is calculated based on the same at RMB2.8 million to be annualised for the full Year 2017 at approximately RMB11.2 million, and then compared with that of RMB13.7 million for the Year 2018.*

Basis of determination of the Revised Annual Caps

Based on the Group's latest unaudited management accounts, the actual transaction amount of the sale of Haidilao Customized Products to the Haidilao Group under the Master Sales Agreement from 1 January 2017 to 30 June 2017 amounted to approximately RMB424.3 million, representing approximately 57.3% of the original annual cap for the Year 2017, which had not exceeded the original annual cap for the Year 2017.

With the rapid development of the Group's businesses and based on the internal estimates of market demand, the Board considers that the existing annual caps in respect of the two Years 2017 and 2018 for the transactions in relation to the sale of Haidilao Customized Products to the Haidilao Group will not be able to satisfy the business needs of the Group, and the demands from the Haidilao Group for the two years ending 31 December 2017 and 2018. We understand from the Management that in determining the above Revised Annual Caps under the Master Sales Agreement (as supplemented by the Supplemental Master Sales Agreement), the Company has taken into account the following factors:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (i) the historical transaction amounts with the Haidilao Group;
- (ii) Haidilao Group's rapid expansion in recent years, as demonstrated by the number of stores of the Haidilao Group in the PRC as at 31 December 2014, 2015, 2016 and 30 June 2017, being 111, 142, 167 and 192 respectively;
- (iii) the stable growth in the same store results of the stores of the Haidilao Group;
- (iv) substantial increase in revenue of the Group from Years 2013 to 2016, which is largely attributable to the sales to the Haidilao Group; and
- (v) the growth of the PRC catering industry.

The increase in the proposed revised annual cap for 2018 as compared to 2017 is due to the expected organic growth of the Group.

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

The Directors are of the view that the Revised Annual Caps under the Master Sales Agreement (as supplemented by the Supplemental Master Sales Agreement) are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and Shareholders as a whole.

In assessing the fairness and reasonableness of the Revised Annual Caps under the Master Sales Agreement (as supplemented by the Supplemental Master Sales Agreement), we have reviewed the schedule of forecasted sales of Haidilao Customized Products to the Haidilao Group prepared by the Company for each of the two Years 2017 and 2018, which is used to determine the Revised Annual Caps under the Master Sales Agreement (as supplemented by the Supplemental Master Sales Agreement) and prepared based on the latest sales pattern of the Haidilao Customized Products between the Group and the Haidilao Group. Based on our discussion with the Management, we understand that the original annual caps of RMB740.0 million and RMB950.0 million for sale of Haidilao Customized Products to the Haidilao Group for each of the two Years 2017 and 2018, respectively, were determined based on the Group's sales estimates in the Year 2016 before the listing of the Company on the Stock Exchange in July 2016. Benefiting from the increase in the PRC food service industry and the hotpot catering market, the Haidilao Group achieved not only the stable same store sales growth, but also the rapid expansion in terms of the Haidilao restaurant number, therefore the Haidilao Group increased its demand for Haidilao Customized Products, and the Group currently anticipates that actual transaction amounts for the sale of Haidilao Customized Products would exceed the existing annual caps for the two Years 2017 and 2018.

(i) Haidilao Customized Products

According to the Interim Report, the Group's revenue from sale of Haidilao Customized Products to the Haidilao Group under the Master Sales Agreement for the six months ended 30 June 2017 amounted to approximately RMB424.3 million, representing a significant increase by approximately

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

54.2% when compared to that of approximately RMB275.1 million for the corresponding period in the Year 2016. Based on our independent review of the Prospectus, the Group's business has been subject to seasonal fluctuations. Since a majority of the Group's revenue is derived from hotpot condiment products and there are seasonal patterns for hotpot consumption, so the Group has historically been experiencing higher sales of its hotpot condiment products during the winter months and lower sales during the summer months, resulting in its higher revenues in the second half of each financial year. Such seasonality may also vary across different regions in the PRC. According to the Annual Report, the Group's revenue for the first six months of each of the two Years 2015 and 2016 had accounted stably for approximately 36.3% and 37.0% for each of the two periods, respectively. If such operating performance is projected on an annualised basis in consistent with the same revenue pattern as that of the previous two Years 2015 and 2016, the annual revenue may reach approximately RMB1,146.8 million (i.e. which is calculated as: $\text{RMB424.3 million} \times 100\% / 37\%$) for the full Year 2017, which would be approximately 18.5% more than the Revised Annual Caps of RMB968.0 million for the Haidilao Customized Products now to be proposed for the Year 2017. In comparison with the historical actual transaction amount of approximately RMB579.9 million for the Year 2016, the Revised Annual Cap for Haidilao Customized Products of RMB968.0 million for the Year 2017 would represent a considerable increase by approximately 66.9% during the Year.

Based on our further analysis on the Prospectus and Annual Report, we noted that the Group's revenue had been increasing rapidly from approximately RMB315.9 million, RMB498.3 million, RMB847.3 million to RMB1,088.0 million over the past four Years from 2013 to 2016 respectively, representing a CAGR of approximately 51.0% over the period. According to the Interim Report, the Group's revenue has continued to increase tremendously and amounted to approximately RMB630.9 million for the six months ended 30 June 2017, representing an increase of approximately 56.6% when compared to that of approximately RMB402.9 million for the corresponding period in the Year 2016; while its gross profit amount also showed a similar growth rate of approximately 57.6% and the gross profit margin (i.e. before deducting the PSD Expenses) had been stable at around 33.8% between the two periods. Having taken into account of the Group's outstanding operating performance over the past four Years from 2013 to 2016 and up to the six months ended 30 June 2017, the considerable increase in the Revised Annual Caps for the Year 2017 of approximately 66.9%, after allowing a reasonable buffer, say 10%, would be closely comparable to its historical revenue growth as analysed above.

The Revised Annual Caps for Haidilao Customized Products of approximately RMB968.0 million and RMB1,526.0 million for each of the two Years 2017 and 2018 represent an annual growth rate of approximately 57.6% over the periods, which is slightly above the Group's historical CAGR in revenue of 51.0% over the past four Years from 2013 to 2016, but closely comparable to the revenue growth of approximately 56.6% between the two six-month period of the Years 2016 and 2017. If we re-compute the CAGR in terms of the Group's revenue by linking up the historical actual transaction amounts for the past four Years from 2013 to 2016 with the Revised Annual Caps for the two Years 2017 and 2018, the projected CAGR would account for approximately 55.4% for the six Years from 2013 to 2018, which would also be closely comparable to the annual cap growth rate of approximately 57.6% between the two Years 2017 and 2018. The slight deviation of about 6.6% may imply a reasonable buffer to accommodate any unanticipated increase in the sales of Haidilao Customized Products in the Year 2018. On such basis, the Revised Annual Caps for Haidilao Customized Products now to be proposed up to RMB968.0 million for the full Year 2017 may not be unjustifiable, and is therefore prudent, fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In consideration of the Directors' estimate to allow a buffer of less than 10% for the two Years 2017 and 2018, based on our independent research from the public website at <http://www.stats.gov.cn>, we noted from a press release with heading of “中華人民共和國2016年國民經濟和社會發展統計公報 (Statistical Communiqué of the PRC on the 2016 National Economic and Social Development)” released by National Bureau of Statistics of China on 28 February 2017 that the market size of China's catering industry increased by approximately 10.8% on a year-on-year basis to approximately RMB3.6 trillion when compared to that in the Year 2015; while the total retail sales of consumer goods reached approximately RMB33.0 trillion in the Year 2016, representing a year-on-year increase by approximately 10.4% when compared to that in the Year 2015, against a backdrop of a slowdown in the economic growth in China with gross domestic product growth of 6.7%. On such basis, it shall be prudent, fair and reasonable for the Group customarily applying a reasonable buffer of less than 10% to cater for any possible increase in market demand, production cost and possible inflation in coming years.

(ii) Haidilao Retail Products

The original annual caps of the Haidilao Retail Products at RMB24.0 million and RMB30.0 million for the two Years 2017 and 2018, respectively, need not be revised.

(iii) Small Hotpot Products

In assessing the fairness and reasonableness of the Revised Annual Caps for the Small Hotpot Products pursuant to the Supplemental Master Sales Agreement, we have reviewed the schedule of forecasted sales of Small Hotpot Products to the Haidilao Group provided by the Company for each of the two Years 2017 and 2018.

Based on our discussion with the Management, the Joint Venture is just start-up and now at its very preliminary stage of operation to test the market demand for the self-serving Small Hotpot Products in the PRC, so the proposed annual cap amounts involved for the 15 calendar months ending 31 December 2018 would still be limited. As the Joint Venture was newly established in September 2017, there are no historical transaction figures available for projection of future operating performance. The proposed annual cap of RMB2.8 million for the three calendar months from 1 October 2017 to 31 December 2017 is based on the Directors' past experience in the hotpot catering market in the PRC and their best estimates of approximately 110,000 packs of Small Hotpot Products to be sold at a standard price of RMB24.0 per pack during the three-month period, and a buffer of 5% for any unanticipated increase in demand for the Small Hotpot Products.

The Directors currently anticipate that as the Small Hotpot Products will gradually be accepted by the market subsequently, there would be around 10 packs of the Small Hotpot Products to be sold each day for the Year 2018 (i.e. 360 days) at the roughly 150 Haidilao restaurants widespread in different cities across the PRC, and hence 540,000 packs of Small Hotpot Products could be sold at a standard price of RMB24.0 per pack for a full Year and the anticipated revenue may reach RMB13.7 million by allowing a buffer of probable increase by 5%.

Based on the Directors' sales estimates as analysed above and the Group's historical revenue growth at a CAGR of approximately 51.0% for the past four Years from 2013 to 2016, the forecasted

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

annual growth rate for sale of Small Hotpot Products to the Haidilao Group is now fixed at about 22.3% on an annualised basis for the Year 2018, we consider that the Revised Annual Caps by including the proposed annual caps for sale of Small Hotpot Products at RMB2.8 million (note: only three months from 1 October 2017 to 31 December 2017) and RMB13.7 million for the full Year 2018 shall be prudent, fair and reasonable.

Having considered the above factors and analysis, we are of the view that the rationale behind and basis adopted by the Management in determining the Revised Annual Caps are prudent, justifiable, fair and reasonable so far as the Company and the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

However, the Independent Shareholders should note that the Revised Annual Caps relate to future events and do not represent a forecast of transaction amounts to be incurred as a result of the Haidilao Continuing Connected Transactions.

6. Internal control measures to govern the Non-exempt Continuing Connected Transactions

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

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

In view of the above, the Board considers that sufficient and effective internal control measures are in place to ensure that the Haidilao Continuing Connected Transactions contemplated under, among others, the Master Sales Agreement (as supplemented by the Supplemental Master Sales

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

As disclosed in the Annual Report, the independent non-executive Directors have confirmed that the above Haidilao Continuing Connected Transactions for the Year 2016 were entered into by the Group: (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreement (including the pricing principle and guidelines set out therein) governing them and on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In addition, the auditors of the Group had reviewed the Haidilao Continuing Connected Transactions for the Year 2016 and confirmed to the Board that the Haidilao Continuing Connected Transactions: (i) have received the approval of the Board; (ii) were in accordance with the pricing policies of the Group; (iii) were entered into in accordance with the relevant agreement governing the transaction; and (iv) have not exceeded the relevant annual caps.

The Directors confirm that the Company's existing internal control guidelines as mentioned above will also be fully applicable to the new JV Transactions to be contemplated under the Framework Sales and Purchase Agreements upon commencement of the sale of hotpot soup flavouring products to, and purchase of Small Hotpot Products from, the Joint Venture.

Given the existing internal control measures governing the Non-exempt Continuing Connected Transactions are in force and have been operating effectively and will also be applicable to the JV Transactions, we concur with the Directors' belief that the requirements under Rules 14A.55 to 14A.59 of the Listing Rules have been, and will be, properly followed in the coming years.

RECOMMENDATION

Having taken into account the principal factors and reasons as referred to the above, we are of the view that Non-exempt Continuing Connected Transactions comprising (i) the JV Transactions (including the JV Transactions Annual Caps) contemplated under the Framework Sales and Purchase Agreements; and (ii) the Haidilao Continuing Connected Transactions (including the Revised Annual Caps) contemplated under the Master Sales Agreement (as supplemented by the Supplemental Master Sales Agreement) are on normal commercial terms and conducted in the ordinary and usual course of business of the Group; and the Non-exempt Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting to approve the Non-exempt Continuing Connected Transactions (including the JV Transactions Annual Caps and the Revised Annual Caps) and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

Note:

Ms. Fanny Lee and Mr. Nicholas Cheng have been the Responsible Officers of Type 6 (advising on corporate finance) regulated activity under the SFO and have over 15 years of experience in corporate finance industry. Both of them have participated in the provision of independent financial advisory services for and completed various connected transactions involving companies listed in Hong Kong.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

As of the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company and their respective associates in the Shares, underlying Shares or debentures of the Company or any of the associated corporations of the Company (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director	Capacity/nature of interest	Number of Ordinary Shares	Approximate percentage of shareholding in the total issued share capital (%)
Mr. Gou Yiqun ⁽¹⁾	Interest of controlled corporation	25,974,000 (L)	2.48% (L)
Mr. Zhang Yong ⁽²⁾	Founder of a discretionary trust and interest of controlled corporation	372,547,021 (L)	35.59% (L)
Mr. Shi Yonghong ⁽³⁾	Founder of a discretionary trust, interest of controlled corporation and interest of spouse	177,243,492 (L)	16.93% (L)
Ms. Dang Chunxiang ⁽⁴⁾	Beneficiary of a trust	1,010,000 (L)	0.10% (L)
Mr. Sun Shengfeng ⁽⁵⁾	Beneficiary of a trust	500,000 (L)	0.05% (L)

(L) denotes a long position

Note:

(1) Mr. Gou Yiqun directly holds 100% interest in GYQ YIHAI Ltd and is deemed to be interested in the Shares held by GYQ YIHAI Ltd for the purpose of the SFO.

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

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

(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 Ltd and LHY YIHAI Ltd, which in turn holds a total of 177,243,492 Shares. For the purpose of the SFO, Mr. Shi Yonghong and Ms. Li Haiyan are deemed to be interested in the Shares in which SYH YIHAI Ltd and LHY YIHAI Ltd are interested.

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

(4) 1,010,000 RSUs were granted to Ms. Dang Chunxiang pursuant to the RSU Scheme on 28 December 2016.

(5) 500,000 RSUs were granted to Mr. Sun Shengfeng pursuant to the RSU Scheme on 28 December 2016.

Save as disclosed above, as of the Latest Practicable Date, none of the Directors or chief executives of the Company and their respective associates has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or which will be required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS

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

Name of substantial Shareholder	Capacity/nature of interest	Number of Ordinary Shares	Approximate percentage of shareholding in the total issued share capital
Shu Ping ⁽¹⁾	Founder of a discretionary trust and interest of controlled corporation	372,547,021 (L)	35.59% (L)
UBS Trustees (B.V.I.) Limited ⁽¹⁾	Trustee (other than a bare trustee)	372,547,021 (L)	35.59% (L)
ZYSP YIHAI Ltd ⁽¹⁾	Beneficial owner	372,547,021 (L)	35.59% (L)
Cititrust Private Trust (Cayman) Limited ⁽²⁾	Trustee (other than a bare trustee)	177,243,492 (L)	16.93% (L)
Li Haiyan ⁽²⁾	Founder of a discretionary trust, interest of controlled corporation and interest of spouse	177,243,492 (L)	16.93% (L)
Twice Happiness Limited ⁽²⁾	Interest of controlled corporation	177,243,492 (L)	16.93% (L)
LHY YIHAI Ltd ⁽²⁾	Beneficial owner	88,621,746 (L)	8.47% (L)
SYH YIHAI Ltd ⁽²⁾	Beneficial owner	88,621,746 (L)	8.47% (L)
JLJH YIHAI Ltd ⁽³⁾	Beneficial owner and nominee for another person	77,220,000 (L)	7.38% (L)
Vistra Fiduciary (HK) Limited ⁽³⁾	Trustee (other than a bare trustee)	77,220,000 (L)	7.38% (L)
FIL Limited ⁽⁴⁾	Interest of controlled corporation	63,928,000 (L)	6.11% (L)

Name of substantial Shareholder	Capacity/nature of interest	Number of Ordinary Shares	Approximate percentage of shareholding in the total issued share capital
FIL Asia Holdings Pte Limited ⁽⁴⁾	Interest of controlled corporation	63,928,000 (L)	6.11% (L)
FIL Investment Management (Hong Kong) Limited ⁽⁴⁾	Beneficial owner	58,581,000 (L)	6.00% (L)

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

Note:

- (1) ZYSP Trust is a discretionary trust set up by Mr. Zhang Yong and Ms. Shu Ping as the settlors and protectors on 1 June 2016 for their own benefit. The entire share capital of ZYSP YIHAI Ltd is wholly owned by UBS Trustees (B.V.I.) Limited as the trustee of the ZYSP Trust. Mr. Zhang Yong and Ms. Shu Ping (as founders of the ZYSP Trust) and UBS Trustees (B.V.I.) Limited are deemed to be interested in the Shares held by ZYSP YIHAI Ltd for the purpose of the SFO.
- (2) SL Trust is a discretionary trust set up by Mr. Shi Yonghong and Ms. Li Haiyan as the settlors and protectors on 2 June 2016 for their own benefit. The entire share capital of SYH YIHAI Ltd and LHY YIHAI Ltd is wholly owned by Twice Happiness Limited and ultimately owned by Cititrust Private Trust (Cayman) Limited as the trustee of the SL Trust. Mr. Shi Yonghong and Ms. Li Haiyan (as founders of the SL Trust), Twice Happiness Limited and Cititrust Private Trust (Cayman) Limited are deemed to be interested in the Shares held by SYH YIHAI Ltd and LHY YIHAI Ltd for the purpose of the SFO. Mr. Shi Yonghong is the spouse of Ms. Li Haiyan and is deemed to be interested in the same number of Shares in which Ms. Li Haiyan is interested for the purpose of the SFO. Ms. Li Haiyan is the spouse of Mr. Shi Yonghong and is deemed to be interested in the same number of Shares in which Mr. Shi Yonghong is interested for the purpose of the SFO.
- (3) Vistra Fiduciary (HK) Limited is the trustee and JLJH YIHAI Ltd is the nominee to administer the RSU Scheme. JLJH YIHAI Ltd holds the Shares underlying the RSU granted by us for the benefit of eligible participants pursuant to the RSU Scheme.
- (4) FIL Limited owns 100% of FIL Asia Holdings Pte Limited, which owns 100% of FIL Investment Management (Hong Kong) Limited. Each of FIL Limited and FIL Asia Holdings Pte Limited is therefore deemed to be interested in 58,581,000 Shares (long position) held by FIL Investment Management (Hong Kong) Limited.

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

4. QUALIFICATIONS AND CONSENT

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

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

- (a) As at the Latest Practicable Date, First Shanghai had not had any beneficial interest in the share capital of any member of the Group, did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and did not have any interest, either directly or indirectly, in any assets which had been, since 31 December 2016, being the date of the latest published audited accounts of the Company, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (b) First Shanghai has given and has not withdrawn its written consent to the issue of this circular with inclusion of its opinion and letter, as the case may be, and the references to its name included herein in the form and context in which they respectively appear.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Company since 31 December 2016, being the date to which the latest published audited financial statement of the Company have been made up.

6. LITIGATION

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

7. SERVICE CONTRACT OF THE DIRECTORS

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

8. INTERESTS OF DIRECTORS

- (a) The Directors are not aware of any Director or his respective associates having, as at the Latest Practicable Date, any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would be required to be disclosed under the Listing Rules.
- (b) No Director was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant to the business of the Group taken as a whole.
- (c) Since 31 December 2016, being the date of the latest published audited consolidated accounts of the Company, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or which are proposed to be acquired, disposed of by or leased to, any member of the Group.

9. GENERAL

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

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on Monday to Friday (other than public holidays) at the offices of Davis Polk & Wardwell at 18th Floor, The Hong Kong Club Building, 3A Chater Road, Hong Kong, from the date of this circular up to and including 1 November 2017:

- (a) the Hotpot Soup Flavouring Products Sales Agreement entered into between Yihai Shanghai and the Joint Venture;
- (b) the Small Hotpot Products Sales Agreement entered into between Yihai Shanghai and the Joint Venture;
- (c) the Master Sales Agreement entered into between Sichuan Haidilao, Singapore Haidilao and Yihai Shanghai;
- (d) the Supplemental Master Sales Agreement entered into between Sichuan Haidilao; Singapore Haidilao and Yihai Shanghai;
- (e) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 34 of this circular;
- (f) the letter of advice issued by First Shanghai, being the Independent Financial Adviser, the text of which is set out on pages 35 to 62 of this circular; and
- (g) the written consent referred to in paragraph 4 of this Appendix I.

NOTICE OF EXTRAORDINARY GENERAL MEETING



YIHAI INTERNATIONAL HOLDING LTD.

颐海國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1579)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (“**Extraordinary General Meeting**”) of Yihai International Holding Ltd. (“**the Company**”) will be held at Conference Room 1, 2nd Floor, Building 6, Songlei Office Building, Heng Song Yuan, Middle Road of South 3rd Ring Road, Fengtai District, Beijing, PRC on Monday, 6 November 2017 at 2:00 p.m. for the following purposes:

AS ORDINARY RESOLUTIONS

1. “**THAT**

- (i) the hotpot soup flavouring products sales agreement (the “**Hotpot Soup Flavouring Products Sales Agreement**”) dated 18 September 2017 entered into between Yihai (Shanghai) Food Co., Ltd. (“**Yihai Shanghai**”) and Fuhai (Shanghai) Food Co., Ltd. (the “**Joint Venture**”) in relation to the sale of hotpot soup flavouring products by Yihai Shanghai and its subsidiaries to the Joint Venture, and the self-serving small hotpot products sales agreement (the “**Small Hotpot Products Sales Agreement**”) dated 18 September 2017 entered into between the Joint Venture and Yihai Shanghai in relation to the sales of self-serving small hotpot products (the “**Small Hotpot Products**”) by the Joint Venture to Yihai Shanghai and its subsidiaries (the Hotpot Soup Flavouring Products Sales Agreement and the Small Hotpot Products Sales Agreement are collectively referred to as the “**Framework Sales and Purchase Agreements**”), and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (ii) the proposed annual caps in relation to the transactions contemplated under the Framework Sales and Purchase Agreements as specified below be and are hereby approved, ratified and confirmed;

	For the year ending 31 December			For the eight months ending
	2017	2018	2019	31 August 2020
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Sale of hotpot soup flavouring products	2,400	9,500	14,500	12,800
Purchase of Small Hotpot Products	48,300	131,800	191,000	165,533
Aggregated amount	50,700	141,300	205,500	178,333

NOTICE OF EXTRAORDINARY GENERAL MEETING

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

2. “THAT

- (i) the supplemental master sales agreement (the “**Supplemental Master Sales Agreement**”) dated 18 September 2017 entered into between Sichuan Haidilao Catering Corporation Ltd. (“**Sichuan Haidilao**”), HAI DI LAO HOLDINGS PTE. LTD. (“**Singapore Haidilao**” and, together with Sichuan Haidilao and their respective subsidiaries, the “**Haidilao Group**”) and Yihai Shanghai to regulate the sale of Small Hotpot Products by Yihai Shanghai and its subsidiaries to the Haidilao Group, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (ii) any director of the Company be and is hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he may in his discretion consider necessary or desirable or expedient for the purpose of or in connection with the Supplemental Master Sales Agreement and to make and agree such variations of a non-material nature in or to the terms of the Supplemental Master Sales Agreement as he may in his discretion consider to be desirable and in the interests of the Company.”

3. “THAT

- (i) in relation to the master sales agreement dated 24 June 2016 entered into between Sichuan Haidilao, Singapore Haidilao and Yihai Shanghai (as supplemented by the Supplemental Master Sales Agreement) governing (a) the sale of hotpot soup flavouring and Chinese-style compound condiment products manufactured using formulas owned by the Haidilao Group for use in its hot pot restaurants (the “**Haidilao Customized Products**”); (b) the sale of retail hotpot soup flavouring, hotpot dipping sauce and Chinese-style compound condiment products manufactured using formulas owned by Yihai Shanghai for display and sale to consumers in hot pot restaurants of the Haidilao Group (the “**Haidilao Retail Products**”); (c) the sale of the Small Hotpot

NOTICE OF EXTRAORDINARY GENERAL MEETING

Products, the proposed annual caps for the sale of the Small Hotpot Products and the proposed revised annual caps for the Haidilao Customized Products (collectively, the “**Revised Annual Caps**”) as specified below be and are hereby approved, ratified and confirmed;

	For the year ending 31 December	
	2017	2018
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revised Annual Caps	994,800	1,569,700
Haidilao Customized Products	968,000	1,526,000
Haidilao Retail Products	24,000	30,000
Small Hotpot Products	2,800	13,700

- (ii) any director of the Company be and is hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he may in his discretion consider necessary or desirable or expedient for the purpose of or in connection with the implementation and/or the giving effect to the Revised Annual Caps.”

By order of the Board of Directors
Yihai International Holding Ltd.
Mr. Gou Yiqun
Chairman

Beijing, China
18 October 2017

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies (if such member is the holder of two or more shares) to attend and to vote instead of them. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member of the Company from attending the Extraordinary General Meeting and vote in person. In such event, his form of proxy will be deemed to have been revoked.
- (2) Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- (3) A form of proxy for use at the meeting is enclosed.
- (4) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.
- (5) The voting at the Extraordinary General Meeting will be taken by poll.
- (6) The register of members of the Company will be closed from Wednesday, 1 November 2017 to Monday, 6 November 2017, both days inclusive, in order to determine the eligibility of the shareholders to attend and vote at the Extraordinary General Meeting. The shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 31 October 2017 will be entitled to attend and vote at the Extraordinary General Meeting. In order to be eligible to attend and vote at the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Tuesday, 31 October 2017.