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YIHAI INTERNATIONAL HOLDING LTD.

頤海國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1579)

CONTINUING CONNECTED TRANSACTIONS

**SALE OF HOTPOT SOUP FLAVOURING PRODUCTS TO THE JOINT VENTURE
PURCHASE OF SMALL HOTPOT PRODUCTS FROM THE JOINT VENTURE**

The Board is pleased to announce that 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). The Framework Sales and Purchase Agreements are for a term of not more than three years from 18 September 2017 to 31 August 2020.

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

Since the sales of hotpot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hotpot Products and the subsequent purchase of Small Hotpot Products are related, the sales and purchase transactions as contemplated under the Framework Sales and Purchase Agreements will be aggregated and treated as if they were one transaction pursuant to Rules 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 proposed annual caps under the Framework Sales and Purchase Agreements is more than 5%, the transactions contemplated thereunder 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 to consider and, if thought fit, to approve the Transactions and the relevant annual caps. 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 Transactions and will abstain from voting on the ordinary resolution to approve the Transactions and the relevant annual caps at the Extraordinary General Meeting.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in respect of the Transactions and the relevant annual caps. In this respect, First Shanghai Capital Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

A circular containing, among others, further information on the Transactions and the relevant annual caps, a letter from the Independent Board Committee to the Independent Shareholders containing its recommendation, a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, together with a notice to convene the Extraordinary General Meeting to approve the Transactions and the relevant annual caps, is expected to be dispatched to the shareholders on or before 11 October 2017.

I. INTRODUCTION

Reference is made to the announcement of the Company dated 11 July 2017 in relation to the formation of the Joint Venture for the manufacture and sale of Small Hotpot Products.

The Board is pleased to announce that the Joint Venture was formed in August 2017 and 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.

II. THE FRAMEWORK SALES AND PURCHASE AGREEMENTS

Date: 18 September 2017

Parties: (1) Yihai Shanghai

(2) Joint Venture

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 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.

III. PROPOSED ANNUAL CAPS AND BASIS OF DETERMINATION

The Company estimates that annual caps under the Framework Sales and Purchase Agreements are as follows:

	For the year ending 31 December		For the eight months ending 31 August 2020	
	2017 (RMB'000)	2018 (RMB'000)	2019 (RMB'000)	August 2020 (RMB'000)
(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.

(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 hotpot product is a new product, there are no historical comparable transaction figures available.

IV. 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.

V. 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.

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.

The 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 these Transactions are expected to provide a new source of profit growth of the Group; and (b) all the 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 its shareholders as a whole. The Directors (other than the independent non-executive Directors) are of the view that the annual caps for the Framework Sales and Purchase Agreements are fair and reasonable and in the interests of the Company and its shareholders as a whole. The independent non-executive Directors will form their views in respect of the annual caps for the Framework Sales and Purchase Agreements after receiving advice from the Independent Financial Adviser.

VI. LISTING RULES IMPLICATIONS

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

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 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 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 Transactions and is required to abstain from voting on the board resolutions for approving the Transactions.

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 proposed annual caps under the Framework Sales and Purchase Agreements is more than 5%, the transactions contemplated thereunder 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 to consider and, if thought fit, to approve the Transactions and the relevant annual caps. 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 Transactions and will abstain from voting on the ordinary resolution to approve the Transactions and the relevant annual caps at the Extraordinary General Meeting.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in respect of the Transactions and the relevant annual caps. In this respect, First Shanghai Capital Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

A circular containing, among others, further information on the Transactions and the relevant annual caps, a letter from the Independent Board Committee to the Independent Shareholders containing its recommendation, a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, together with a notice to convene the Extraordinary General Meeting to approve the Transactions and the relevant annual caps, is expected to be dispatched to the shareholders on or before 11 October 2017.

VII. DEFINITIONS

“Board”	the board of directors of the Company
“Company”	Yihai International Holding Ltd., an exempted company incorporated under the laws of the Cayman Islands with limited liability
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Extraordinary General Meeting”	an extraordinary general meeting of the Company to consider and, if thought fit, approve the Transactions and the relevant annual caps
“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

“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 independent non-executive Directors, namely Mr. Yau Ka Chi, Mr. Qian Mingxing and Ms. Ye Shujun, established to advise the Independent Shareholders on the Transactions and the relevant annual caps
“Independent Financial Adviser”	First Shanghai Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance, and the independent financial adviser to the Independent Board Committee and Independent Shareholders in relation to the Transactions and the relevant annual caps
“Independent Shareholders”	has the meaning ascribed to it under the Listing Rules, and in relation to approving the Transactions and the relevant annual caps at the Extraordinary General Meeting, means the shareholders of the Company other than Ms. Dang Chunxiang, Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong, Mr. Gou Yiqun and their respective associates
“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
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Small Hotpot Products”	the self-serving small hotpot products to be 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
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Transactions”	the sales 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
“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 (i) 62.70% by the controlling shareholders of the Company, Mr. Zhang Yong and Ms. Shu Ping, (ii) 29.7% by Mr. Shi Yonghong and his wife, and (iii) 2% by Mr. Gou Yiqun
“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

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

Beijing, the PRC, 18 September 2017

As at the date of this announcement, the executive Directors are Ms. Dang Chunxiang and Mr. Sun Shengfeng; the non-executive Directors are Mr. Gou Yiqun, Mr. Zhang Yong, Mr. Shi Yonghong and Mr. Pan Di; and the independent non-executive Directors are Mr. Yau Ka Chi, Mr. Qian Mingxing and Ms. Ye Shujun.

** for identification purposes only*