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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**

- (I) SALE OF SMALL HOTPOT PRODUCTS TO THE HAIDILAO GROUP**
- (II) REVISION OF ANNUAL CAPS UNDER THE MASTER SALES AGREEMENT IN RESPECT OF 2017 AND 2018**
- (III) REVISION OF ANNUAL CAPS UNDER THE SHUHAI WAREHOUSE STORAGE SERVICE AGREEMENT IN RESPECT OF 2017 AND 2018**

**1. Sale of Small Hotpot Products to Haidilao Group**

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.

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.

**2. Revision of annual caps under the Master Sales Agreement**

Reference is made to the Prospectus in relation to, inter alia, the sale of Haidilao Customized Products by the Group to the Haidilao Group.

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.

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 actual transaction amounts for the sale of Haidilao Customized Products to Haidilao Group 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 announcement, the actual transaction amounts for these transactions also have not exceeded the annual cap for the year ending 31 December 2017.

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.

**3. Revision of annual caps under the Shuhai Warehouse Storage Service Agreement**

Reference is made to the Prospectus in relation to, inter alia, the engagement of the Shuhai Supply Chain Group for the provision of warehouse storage and logistics services to the Group.

As disclosed in the Prospectus, Yihai Shanghai entered into the Shuhai Warehouse Storage Service Agreement with the Shuhai Supply Chain for the provision of warehousing facilities and related services, including warehouse storage, sorting process management, stock-taking, and other logistics services to the Group in connection with storage of the Group's products.

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 Shuhai Supply Chain Group from strict compliance with the announcement requirements under Chapter 14A of the Listing Rules. Pursuant to the Waiver, the transactions in relation to the provision of warehouse storage and logistics services to the 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 transactions contemplated under the Shuhai Warehouse Storage Service Agreement. 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 under the Shuhai Warehouse Storage Service Agreement will not be able to satisfy the business needs of the Group for the two years ending 31 December 2017 and 2018.

The actual transaction amounts for that provision of warehouse storage and logistics services by the Shuhai Supply Chain Group had not exceeded the annual cap for the year ended 31 December 2016. In addition, as at the date of this announcement, the actual transaction amounts for these transactions also have not exceeded the annual cap for the year ending 31 December 2017.

The Board proposes that the existing annual caps for the transactions contemplated under the Shuhai Warehouse Storage Service Agreement in respect of 2017 and 2018 be revised for the two years ending 31 December 2017 and 2018.

#### 4. **Listing Rules implications**

Since the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) are more than 0.1% but less than 5%, the revision of annual caps under the Shuhai Warehouse Storage Service Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval under Chapter 14A of the Listing Rules.

Since the highest of all applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) is more than 5%, the Continuing Connected Transactions and the Revised Annual Caps 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 Continuing Connected Transactions and the Revised Annual Caps. In accordance with the Listing Rules, Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong, and Mr. Gou Yiqun have a material interest in the Continuing Connected Transactions and will abstain from voting on the ordinary resolution to approve the Continuing Connected Transactions and the Revised 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 Continuing Connected Transactions and the Revised 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 Continuing Connected Transactions and the Revised 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 Continuing Connected Transactions and the Revised Annual Caps, is expected to be dispatched to the Shareholders on or before 11 October 2017.

## **I. SALE OF SMALL HOTPOT PRODUCTS TO THE HAIDILAO GROUP**

### **1. BACKGROUND**

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.

Reference is also made to the Prospectus in relation to, inter alia, the Master Sales Agreement, pursuant to which the Group agreed to sell Haidilao Customized Products and Haidilao Retail Products to the Haidilao Group.

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

### **2. 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 to be held to consider the Continuing Connected Transactions and the Revised Annual Caps.

### **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 (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 and basis of determination**

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

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

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
- (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**

### **1. BACKGROUND**

Reference is made to the Prospectus in relation to, inter alia, the sale of Haidilao Customized Products between the Group and the Haidilao Group.

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 announcement, 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.

## **2. SALES OF HAIDILAO CUSTOMIZED PRODUCTS**

The Group sells hotpot soup flavoring 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:



**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 transactions:** During the term of the Master Sales Agreement, the Group is the sole supplier of hotpot soup flavoring 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.

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.

**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.

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.

**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.

### **3. HISTORICAL AMOUNTS, EXISTING AND PROPOSED REVISED CAPS AND REASONS FOR REVISING THE CAPS FOR THE TRANSACTIONS IN RELATION TO THE SALE OF HAIDILAO CUSTOMIZED PRODUCTS TO THE HAIDILAO GROUP**

#### **3.1. 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 announcement, 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:

| <b>Goods</b>                 | <b>For the year ended 31 December</b> |             |             | <b>Six months</b>  |
|------------------------------|---------------------------------------|-------------|-------------|--------------------|
|                              | <b>2014</b>                           | <b>2015</b> | <b>2016</b> | <b>ended</b>       |
|                              | <b>(audited)</b>                      |             |             | <b>30 June</b>     |
|                              | <b>(RMB'000)</b>                      |             |             | <b>(unaudited)</b> |
|                              |                                       |             |             | <b>2017</b>        |
| 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.

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

### **3.2. 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; the stable growth in the same store results of the stores of the Haidilao Group;
- (iii) substantial increase in revenue of the Group from 2013 to 2016, which is largely attributable to the sales to the Haidilao Group; and
- (iv) 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:

|                                  | <b>For the financial year<br/>ending 31 December<br/>2017<br/>(RMB'000)</b> | <b>For the financial year<br/>ending 31 December<br/>2018<br/>(RMB'000)</b> |
|----------------------------------|---|---|
| <b>Original annual caps</b>      | <b>764,000</b>  | <b>980,000</b>  |
| (i) Haidilao Customized Products | 740,000   | 950,000   |
| (ii) Haidilao Retail Products    | 24,000  | 30,000  |
| <b>Revised Annual Caps</b>       | <b>994,800</b>  | <b>1,569,700</b>  |
| (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  |

**Shareholders should note that the above monetary 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. REVISION OF ANNUAL CAPS UNDER THE SHUHAI WAREHOUSE STORAGE SERVICE AGREEMENT**

### **1. BACKGROUND**

Reference is made to the Prospectus in relation to, inter alia, the engagement of Shuhai Supply Chain Group for the provision of warehouse storage and logistics services to the Group.

As disclosed in the Prospectus, Yihai Shanghai entered into the Shuhai Warehouse Storage Service Agreement with Shuhai Supply Chain for the provision of warehousing facilities and related services, including warehouse storage, sorting process management, stock-taking, and other logistics services to the Group in connection with storage of the Group's products.

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 Shuhai Supply Chain Group from strict compliance with the announcement requirements under Chapter 14A of the Listing Rules. Pursuant to the Waiver, the transactions in relation to the provision of warehouse storage and logistics services to the 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 transactions contemplated under the Shuhai Warehouse Storage Service Agreement. With the continued development of the business of the Group and based on internal estimates of demand and the current prospects forecast of the Group's operations, the Board considers that the existing annual caps in respect of 2017 and 2018 under the Shuhai Warehouse Storage Service Agreement will not be able to satisfy the significant increase in the demand for the products from the Haidilao Group and the increase in demand for warehouse storage service therefrom for the two years ending 31 December 2017 and 2018.

The existing annual caps for the transactions contemplated under the Shuhai Warehouse Storage Service Agreement are RMB3,000,000, RMB3,900,000 and RMB5,000,000 for the year ended 31 December 2016 and the two years ending 31 December 2017 and 2018, respectively. The actual transaction amounts had not exceeded the annual cap for the year ended 31 December 2016. In addition, as at the date of this announcement, the actual transaction amounts for these transactions also have not exceeded the annual cap for the year ending 31 December 2017, but are currently anticipated to exceed the existing annual cap by the end of 2017.

The Board proposes that the existing annual caps for the transactions contemplated under the Shuhai Warehouse Storage Service Agreement in respect of 2017 and 2018 be revised for the two years ending 31 December 2017 and 2018. The table in the paragraph headed “3. HISTORICAL AMOUNTS, EXISTING AND PROPOSED REVISED CAPS AND REASONS FOR REVISING THE CAPS FOR THE TRANSACTIONS CONTEMPLATED UNDER THE SHUHAI WAREHOUSE STORAGE SERVICE AGREEMENT— 3.1. Historical amounts, existing annual caps and proposed revised annual caps” 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.

## **2. SHUHAI WAREHOUSE STORAGE SERVICE AGREEMENT**

The Group engages Shuhai Supply Chain Group for warehouse storage services for the Group’s products for sale (i) through e-commerce channels and (ii) to Haidilao Group hot pot restaurants in Northern China. Before the listing of the Shares on the Stock Exchange, Yihai Shanghai entered into the Shuhai Warehouse Storage Service Agreement with Shuhai Supply Chain to regulate the provision of warehouse storage service to the Group. No term has been modified or changed since the parties entered into the Shuhai Warehouse Storage Service Agreement. The principal terms of the Shuhai Warehouse Storage Service Agreement which have been set out in the Prospectus are summarized below:

Date: 24 June 2016

Parties: (1) Yihai Shanghai  
(2) Shuhai Supply Chain

Term: The Shuhai Warehouse Storage Service Agreement has a term of three years from 1 January 2016 to 31 December 2018. Subject to compliance with Listing Rules and applicable laws and regulations, the Shuhai Warehouse Storage Agreement may be automatically renewed for a further term of three years from time to time, unless Yihai Shanghai notifies Shuhai Supply Chain to the contrary with 30 days’ written notice prior to the expiry of the agreement’s term. Upon renewal of the Shuhai Warehouse Storage Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.



|                         |  |
|-------------------------|--|
| Nature of transactions: | During the term of the Shuhai Warehouse Storage Service Agreement, Shuhai Supply Chain Group has agreed to provide warehousing facilities and related services, including warehouse storage, sorting process management, stock-taking, and other logistics service, to the Group in connection with the storage of the Group's products.   |
| Pricing basis:          | <p>The storage service fees will be charged on a per parcel basis, at a rate determined by reference to factors such as location of the warehouse and services provided, and will be payable in the following month.</p> <p>The storage service fees under the Shuhai Warehouse Storage Service Agreement shall be determined by both parties through arm's length negotiation with reference to (i) the geographic location of the warehouses, (ii) the quality of storage services provided by Shuhai Supply Chain Group, and (iii) fees charged by independent third parties for similar storage services with comparable warehouse facilities and locations.</p> |
| Payment Terms:          | An invoice regarding fees payable under the Shuhai Warehouse Storage Service Agreement will be sent by the Shuhai Supply Chain to Yihai Shanghai on a monthly basis, and a bill will be issued upon confirmation. The relevant fees will be settled by the end of the following month.   |

### **3. HISTORICAL AMOUNTS, EXISTING AND PROPOSED REVISED CAPS AND REASONS FOR REVISING THE CAPS FOR THE TRANSACTIONS CONTEMPLATED UNDER THE SHUHAI WAREHOUSE STORAGE SERVICE AGREEMENT**

#### **3.1. Historical amounts, existing annual caps and proposed revised annual caps**

The Group has closely monitored the progress of its transactions contemplated under the Shuhai Warehouse Storage Service Agreement. As of the date of this announcement, the actual transaction amounts have not exceeded the respective 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 paid by the Group for the transactions contemplated under the Shuhai Warehouse Storage Service Agreement during the periods indicated below:

| <b>Services</b>      | <b>For the year ended</b> |                  |             | <b>Six months</b>  |
|----------------------|---------------------------|------------------|-------------|--------------------|
|                      | <b>31 December</b>        |                  |             | <b>ended</b>       |
|                      | <i>2014</i>               | <i>2015</i>      | <i>2016</i> | <b>30 June</b>     |
|                      |                           | <b>(audited)</b> |             | <b>(unaudited)</b> |
|                      |                           | <i>(RMB'000)</i> |             | <i>2017</i>        |
| Storage Service Fees | Nil                       | 189              | 2,308       | 1,033              |

For the reasons detailed below, the Board proposes that the existing annual caps for the transactions contemplated under the Shuhai Warehouse Storage Service Agreement 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.

| <b>Services</b>      | <b>For the year ending 31 December</b> |                   |                   |                   |
|----------------------|--|-------------------|-------------------|-------------------|
|                      | <b>2017</b>                            |                   | <b>2018</b>       |                   |
|                      | <b>Original</b>                        | <b>Proposed</b>   | <b>Original</b>   | <b>Proposed</b>   |
|                      | <b>annual cap</b>                      | <b>revised</b>    | <b>annual cap</b> | <b>revised</b>    |
|                      |  | <b>annual cap</b> |                   | <b>annual cap</b> |
|                      |  | <i>(RMB'000)</i>  |                   |                   |
| Storage Service Fees | 3,900                                  | 6,000             | 5,000             | 9,000             |

### **3.2. Reasons for revising the caps and basis of determination**

With the rapid development of the Group's businesses and based on the projected growth and expansion, taking into account the fact that the warehouse storage businesses of the Haidilao Group are now provided by Shuhai Supply Chain Group as a result of the acquisition of most of the warehouse storage businesses of the Haidilao Group by Shuhai Supply Chain Group in September 2017, the Board considers that the existing annual caps in respect of 2017 and 2018 for the transactions contemplated under the Shuhai Warehouse Storage Service Agreement will not be able to satisfy the business needs of the Group for the two years ending 31 December 2017 and 2018.

In arriving at the above proposed revised annual caps, the Group has taken into account the following factors:

- (i) the historical transaction amounts with Shuhai Supply Chain Group;
- (ii) the acquisition of most of the warehouse storage businesses of the Haidilao Group by the Shuhai Supply Chain Group, such that the storage service previously provided by the Haidilao Group to the Group will now be provided by the Shuhai Supply Chain Group (therefore it is expected that the transaction amount with the Haidilao Group for its storage service will be reduced); and
- (iii) the significant increase in demand for the products from the Haidilao Group as stated in “II. Revision of Annual Cap for the Sales of Haidilao Customized Products under the Master Sales Agreement” and therefore the increase in demand of warehouse storage service.

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

## **V. REASONS FOR AND BENEFITS OF THE 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 flavoring, hotpot dipping sauce and Chinese-style compound condiment products. The Haidilao Group is the largest Chinese hot pot restaurant chain in the PRC. Being the sole supplier of hotpot soup flavoring products for the Haidilao Group in the PRC, the Group has benefited from working with the Haidilao Group. The Group has established a long-term and stable relationship with the Haidilao Group. Such relationship is fair and reasonable, beneficial for the stable operation and business expansion of the Group and in the interests of the Company and the Shareholders as a whole.

In relation to the warehouse storage service, having considered the relevant expertise of Shuhai Supply Chain Group and the service fees charged, the Group has benefited from co-operation with the Shuhai Supply Chain Group.

The Directors (including the independent non-executive Directors) are of the view that the Continuing Connected Transactions and the transactions contemplated under the Shuhai Warehouse Storage Service Agreement, which 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 (other than 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. The independent non-executive Directors will form their views in respect of the Revised Annual Caps after receiving advice from the Independent Financial Adviser.

In relation to the revised annual caps under the Shuhai Warehouse Storage Service Agreement, 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.

## **VI. INFORMATION ON THE PARTIES**

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.

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.

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

## **VI. LISTING RULES IMPLICATIONS**

As at the date of this announcement, 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 (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.

Shuhai Supply Chain is indirectly held as to approximately 52.2% by the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, and their associate, 12.3% by Mr. Shi Yonghong (a non-executive Director) and 11% by Mr. Gou Yiqun (a non-executive Director).

Shuhai Supply Chain is, therefore, a connected person of the Company by virtue of being an associate of the controlling shareholders of the Company, and the transactions contemplated under the Shuhai Warehouse Storage Service Agreement 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) is more than 5%, the Continuing Connected Transactions are subject to the announcement, circular, independent shareholders' approval, annual review and reporting requirements under Chapter 14A of the Listing Rules.

Since the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) are more than 0.1% but less than 5%, the revision of annual caps under the Shuhai Warehouse Storage Service Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval under Chapter 14A of the Listing Rules.

In relation to the Continuing Connected Transactions, none of the Directors has any material interest in the Continuing Connected Transactions or is required to abstain from voting on the Board resolution in relation to the Revised Annual Caps 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.

In relation to the revised annual caps for the Shuhai Warehouse Storage Service Agreement, none of the Directors has any material interest 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 and an associate, hold approximately 52.2% of Shuhai Supply Chain. Mr. Shi Yonghong and Mr. Gou Yiqun hold approximately 12.3% and 11% of Shuhai Supply Chain, respectively.

The Extraordinary General Meeting will be convened to consider and, if thought fit, to approve the Continuing Connected Transactions and the Revised Annual Caps. 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 Continuing Connected Transactions and will abstain from voting on the ordinary resolution to approve the Continuing Connected Transactions and the Revised 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 Continuing Connected Transaction and the Revised 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 Continuing Connected Transactions and the Revised 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 consider and, if thought fit, approve the Continuing Connected Transactions and the Revised Annual Caps, is expected to be dispatched to the Shareholders on or before 11 October 2017.

## VII. DEFINITIONS

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

|                                     |   |
|-------------------------------------|---|
| “associate(s)”                      | has the meaning ascribed to it 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 incorporated under the laws of the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange |
| “connected person(s)”               | has the meaning ascribed to it under the Listing Rules  |
| “controlling shareholders(s)”       | has the meaning ascribed to it under the Listing Rules  |
| “Continuing Connected Transactions” | the sale of Haidilao Customized Products, Haidilao Retail Products and Small Hotpot Products to the Haidilao Group pursuant to the Master Sales Agreement   |
| “Directors”                         | the directors of the Company  |
| “Extraordinary General Meeting”     | an extraordinary general meeting of the Company to consider and, if thought fit, approve Continuing Connected Transactions and the Revised Annual Caps  |
| “Group”                             | the Company and its subsidiaries  |
| “Haidilao Customized Products”      | the hot pot soup flavoring and Chinese-style compound condiment products manufactured by the Group using formulas owned by Haidilao Group for use in its hot pot 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                                    |

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|---------------------------------|--|
| “Haidilao Retail Products”      | the 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   |
| “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 Continuing Connected Transactions and the Revised 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 Continuing Connected Transactions and the Revised Annual Caps |
| “Independent Shareholders”      | has the meaning ascribed to it under the Listing Rules, and in relation to approving the Continuing Connected Transactions 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                                     |
| “Jingyuan Investment”           | Jiayang City Jingyuan Investment Co., Ltd.* (簡陽市靜遠投資有限公司), a limited liability company established in the PRC on 13 March 2009, which is held as to 68% by Mr. Zhang and Ms. Shu (the 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   |
| “Listing Rules”                 | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited   |



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| “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 |
| “PRC”  | the People’s Republic of China, and for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan   |
| “Prospectus”                                 | the Company’s prospectus dated 30 June 2016   |
| “Revised Annual Caps”                        | the proposed revised annual caps for the Continuing Connected Transactions for the two years ending 31 December 2017 and 2018   |
| “RMB”  | Renminbi, the lawful currency of the PRC  |
| “Securities and Futures Ordinance”           | the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemental or otherwise modified from time to time  |
| “Shareholder(s)”                             | holders of Shares   |
| “Share(s)”                                   | ordinary share(s) in the share capital of the Company with nominal value of US\$0.00001 each  |
| “Shuhai Supply Chain”                        | Shuhai (Beijing) Supply Chain Management Co., Ltd.* (蜀海(北京)供應鏈管理有限責任公司), a limited liability company established in the PRC on 3 June 2014  |
| “Shuhai Supply Chain Group”                  | Shuhai Supply Chain and its subsidiaries  |
| “Shuhai Warehouse Storage Service Agreement” | the warehouse storage service agreement dated 24 June 2016 entered into between Yihai Shanghai and Shuhai Supply Chain, each for itself and on behalf of its subsidiaries, in relation to the provision of warehousing facilities and related services by Shuhai Supply Chain Group to the Group  |

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|---------------------------------------|--|
| “Sichuan Haidilao”                    | Sichuan Haidilao Catering Corporation Ltd.* (四川海底撈餐飲股份有限公司), a joint stock limited liability company established in the PRC 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 and Ms. Shu (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 to be manufactured and sold by the Joint Venture  |
| “Stock Exchange”                      | The Stock Exchange of Hong Kong Limited  |
| “subsidiaries”                        | have the meaning ascribed thereto in the Listing Rules   |
| “substantial shareholder(s)”          | has the meaning ascribed to it under the Listing Rules   |
| “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 and the Shuhai Supply Chain Group, respectively, 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 |

“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*