

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



**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**

**PURCHASE OF SHUHAI INGREDIENTS FROM THE SHUHAI SUPPLY  
CHAIN**

**AND**

**REVISION OF ANNUAL CAPS UNDER THE SHUHAI SALES AGREEMENT  
AND THE FRAMEWORK SALES AND PURCHASE AGREEMENTS IN  
RESPECT OF 2019 AND 2020**

**1. PURCHASE OF SHUHAI INGREDIENTS FROM THE SHUHAI SUPPLY  
CHAIN**

On 10 June 2019, the Company and Shuhai Supply Chain entered into the Shuhai Purchase Agreement, pursuant to which the Group agreed to purchase Shuhai Ingredients from Shuhai Supply Chain Group for a term of not more than two years from 1 June 2019 to 31 December 2020.

**2. REVISION OF ANNUAL CAPS UNDER THE SHUHAI SALES  
AGREEMENT AND THE FRAMEWORK SALES AND PURCHASE  
AGREEMENTS IN RESPECT OF 2019 AND 2020**

Reference is made to the announcements of the Company dated 18 September 2017 and 6 July 2018 in relation to, among others, the Shuhai Sales Agreement and Framework Sales and Purchase Agreements.

The Company has closely monitored the progress of each of its continuing connected transactions under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements. With respect to the annual caps for the transactions contemplated under the Shuhai Sales Agreement, the Board considers that the existing annual caps in respect of 2019 and 2020 for the sale of Shuhai Customized Products and Shuhai Retail Products will not be able to satisfy the business needs of the Group and the demands of Shuhai Supply Chain Group for the two years ending 31 December 2019 and 2020. With respect to the annual caps for the transactions contemplated under the Framework Sales and Purchase Agreements, namely the 2017 Hot Pot Soup Flavouring Products Sales Agreement and 2018 Hot Pot Soup Flavouring Products Sales Agreement, the Board considers that the existing annual caps in respect of 2019 and 2020 for the sale of hot pot soup flavouring products from Yihai Shanghai and its subsidiaries to the Joint Venture will not be able to satisfy the business needs of the Group and the demands of the Joint Venture for the two years ending 31 December 2019 and 2020.

The Board proposes that the existing annual caps for the transactions in relation to the Shuhai Sales Agreement be revised for the two years ending 31 December 2019 and 2020. The Board further proposes that the existing annual caps for the transactions in relation to the 2017 Hot Pot Soup Flavouring Products Sales Agreement and 2018 Hot Pot Soup Flavouring Products Sales Agreement be revised for the two years ending 31 December 2019 and 2020. The Board does not propose to revise the annual caps for the transactions in relation to the 2017 Small Hot Pot Products Sales Agreement and 2018 Small Hot Pot Products Sales Agreement, which also form part of the Framework Sales and Purchase Agreements.

### **3. LISTING RULES IMPLICATION**

Since the highest of all applicable ratios (as defined in Rule 14.07 of the Listing Rules) is more than 5%, each of the Shuhai Purchase Agreement, the revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements in respect of 2019 and 2020, respectively, are subject to reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Extraordinary General Meeting will be convened to consider and, if thought fit, to approve the Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revised annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements. In accordance with the Listing Rules, Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong and their respective associates have a material interest in each of the Shuhai Purchase Agreement, the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements, respectively, and will abstain from voting on the ordinary resolutions to approve the Shuhai Purchase Agreement (including the proposed annual caps), the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements at the Extraordinary General Meeting.

An Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in connection with the terms of the Shuhai Purchase Agreement and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements. 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 Shuhai Purchase Agreement and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements, 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 Shuhai Purchase Agreement and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements, is expected to be dispatched to the Shareholders on or before 2 July 2019.

## **I. PURCHASE OF SHUHAI INGREDIENTS FROM THE SHUHAI SUPPLY CHAIN**

### **BACKGROUND**

On 10 June 2019, the Company and Shuhai Supply Chain entered into the Shuhai Purchase Agreement, pursuant to which the Group agreed to purchase Shuhai Ingredients from the Shuhai Supply Chain Group for a term of not more than two years from 1 June 2019 to 31 December 2020.

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

The principal terms of the Shuhai Purchase Agreement are summarized below.

## **THE SHUHAI PURCHASE AGREEMENT**

**Date:** 10 June 2019

**Parties:** (1) The Company  
(2) Shuhai Supply Chain

### **Term**

The Shuhai Purchase Agreement has an initial term of not more than two years from 10 June 2019 to 31 December 2020. Subject to compliance with the Listing Rules and applicable laws and regulations, the Shuhai Purchase Agreement may be renewed for a further term of three years from time to time, unless the Company notifies Shuhai Supply Chain to the contrary prior to the expiry of the agreement's term. Upon renewal of the Shuhai Purchase Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

### **Nature of transactions**

Pursuant to the terms of the Shuhai Purchase Agreement, the Group will purchase Shuhai Ingredients from the Shuhai Supply Chain Group. Such Shuhai Ingredients will primarily be used in the manufacture of the Small Hot Pot Products.

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

### **Pricing basis**

The purchase price of Shuhai Ingredients shall be determined by the parties after arm's length negotiations with reference to the market price for similar ingredients sold by comparable companies. The Shuhai Ingredients will be sold to the Group on terms no less favourable than those offered by Shuhai Supply Chain Group to any independent third parties.

The procurement team would solicit at least two other contemporaneous transactions with independent third parties for products in similar quantities to determine if the price and terms offered by Shuhai Supply Chain are fair and reasonable and comparable to those offered by unrelated third parties. The Group shall ensure that the purchase price of the Shuhai Ingredients shall not be less favourable than the quotations the procurement team obtained from independent third party suppliers. The independent non-executive Directors will regularly review and re-assess the purchase prices of Shuhai Ingredients semi-annually.

### **Payment terms**

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

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

The Company estimates that the annual caps for the Shuhai Purchase Agreement for the seven months ending 31 December 2019 and the year ending 31 December 2020 are as follows:

	<b>For the seven months ending 31 December 2019 (RMB'000)</b>	<b>For the year ending 31 December 2020 (RMB'000)</b>
Shuhai Ingredients	<b>85,584</b>	<b>228,037</b>

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

- (i) the rapid growth in sales of the Small Hot Pot Products since its launch in 2017 and the estimated increase in demand, which is evidenced by the Group's revenue from sale of convenient ready-to-eat food products (primarily consisting of Small Hot Pot Products) in 2018 amounting to approximately RMB449.3 million, representing a tremendous increase by over 7.3 times when compared to that of approximately RMB61.4 million for 2017;
- (ii) the historical purchase of similar food ingredients from independent third parties. For the year ended 31 December 2018, the Group purchased packs of beef or beef offal in the total amount of approximately RMB81.33 million; and
- (iii) the market price for similar ingredients sold by comparable companies.

## **Reasons for and benefits of entering into the Shuhai Purchase Agreement**

The Group manufactures Small Hot Pot Products and plans to further expand its manufacture and sales due to its increasingly popular demand. Shuhai Supply Chain Group is primarily engaged in the supply of food ingredients and provision of storage and logistics services to catering service providers. Shuhai Supply Chain has eight production base in the PRC, and its products have obtained AIB and ISO22000 certification. At present, Shuhai Supply Chain Group is one of the main food suppliers to Haidilao restaurants and it also supplies food products to other famous enterprises. Its broad range of ingredients gives the Group access to high quality ingredients that may be used in the manufacture of Small Hot Pot Products. Shuhai Supply Chain Group also has a strong research and development team, which enables it to develop and produce high quality products and give assurance to the Group in relation to food product safety.

## **Listing Rules implications**

Mr. Zhang Yong and his wife Ms. Shu Ping, a non-executive Director and executive Director respectively of the Company, together hold approximately 35.61% of the total issued shares of the Company and are therefore controlling shareholders of the Company. Mr. Shi Yonghong, the Chairman, holds approximately 16.95% of the total issued shares of the Company and is therefore a substantial shareholder of the Company.

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

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

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

## **II. REVISION OF ANNUAL CAPS FOR THE SALE OF PRODUCTS TO THE SHUHAI SUPPLY CHAIN GROUP UNDER THE SHUHAI SALES AGREEMENT IN RESPECT OF 2019 AND 2020**

### **BACKGROUND**

Reference is made to the announcement of the Company dated 6 July 2018 in relation to, among others, the Shuhai Sales Agreement.

The Company has closely monitored the progress of its continuing connected transactions under the Shuhai Sales Agreement. With respect to the annual caps for the transactions contemplated under the Shuhai Sales Agreement, the Board considers that the existing annual caps in respect of 2019 and 2020 for the sale of products customized for Shuhai Supply Chain Group's customers who are catering service clients ("**Shuhai Customized Products**") will not be able to satisfy the business needs of the Group and the demands of Shuhai Supply Chain Group for the two years ending 31 December 2019 and 2020.

The Board proposes that the existing annual caps for the transactions in relation to the Shuhai Sales Agreement be revised for the two years ending 31 December 2019 and 2020. As at the date of this announcement, the actual transaction amounts for the transactions under the Shuhai Sales Agreement had not exceeded the annual cap for the year ending 31 December 2019, but are currently anticipated to exceed the existing annual cap by the end of 2019.

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

The principal terms of the Shuhai Sales Agreement are summarized below.

### **SHUHAI SALES AGREEMENT**

- Date:** 6 July 2018
- Parties:**
- (1) Yihai Shanghai
  - (2) Shuhai Supply Chain

## **Term**

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

## **Nature of transactions**

Pursuant to the terms of the Shuhai Sales Agreement, the Group will supply Shuhai Customized Products and products targeting at the retail market (“**Shuhai Retail Products**”) to the Shuhai Supply Chain Group. Shuhai Customized Products will be sold and distributed by Shuhai Supply Chain Group to its customers who are catering service clients. Shuhai Retail Products will be for internal use of the Shuhai Supply Chain Group only. Shuhai Supply Chain Group is not permitted to sell the Group's products to any third party distributor or any retail channel and shall ensure that its customers will not sell the Group's products to any third party distributor.

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

## **Pricing basis**

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



*(a) Sale of Shuhai Customized Products*

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

Taking into account historical data and forecasted estimates, the independent non-executive Directors regularly review and re-assess the sales prices of Shuhai Customized Products semi-annually and make adjustments as appropriate to maintain a net profit margin for such sales same as those for the Group's sales to independent third party distributors. The Group will also adjust sales prices if there is any significant change in the cost of sales and expenses incurred in connection with the Shuhai Customized Products. The sales prices of Shuhai Customized Products to Shuhai Supply Chain Group shall not be less favourable than the sales price to independent third parties.

*(b) Sale of Shuhai Retail Products*

In respect of the Shuhai Retail Products, the sales price shall be consistent with the pricing policy for similar products the Group offers to independent third party distributors and shall be determined by the parties after arm's length negotiations with reference to (i) the production cost, including the cost of raw materials, incurred in connection with the production of the Shuhai Retail Products, selling and administrative expenses, and (ii) the prevailing market price of similar products. The independent non-executive Directors review and re-assess the sales price of Shuhai Retail Products semi-annually and make adjustments if there is any significant change in the production cost. The sales prices of Shuhai Retail Products to Shuhai Supply Chain Group shall not be less favourable than the sales price to independent third party distributors.

**Payment terms**

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

## Historical amounts and existing annual caps

The table below sets forth the historical amounts for the sales to the Shuhai Supply Chain Group under the Shuhai Sales Agreement for the two years ended 31 December 2017 and 2018 and the three months ended 31 March 2019, and the existing annual caps for the two years ending 31 December 2019 and 2020:

	<b>For the year ended 31 December 2017 <i>(RMB'000)</i></b>	<b>For the year ended 31 December 2018 <i>(RMB'000)</i></b>	<b>For the three months ended 31 March 2019 <i>(RMB'000)</i></b>	<b>Existing annual cap for the year ending 31 December 2019 <i>(RMB'000)</i></b>	<b>Existing annual cap for the year ending 31 December 2020 <i>(RMB'000)</i></b>
Shuhai Customized					
Products	8,469	11,912	1,746	18,600	27,900
Shuhai Retail					
Products	306	320	113	1,060	1,600
<b>Total</b>	<b>8,775</b>	<b>12,232</b>	<b>1,859</b>	<b>19,660</b>	<b>29,500</b>

There was a significant decrease in the sales of Shuhai Customized Products for the three months ended 31 March 2019 because Shuhai Supply Chain Group had already purchased sufficient amount of the Shuhai Customized Products in the 4th quarter of 2018 as inventory in anticipation of the demand for the Chinese New Year in 2019. A lower demand for Shuhai Customized Products in the first quarter of the year compared to the fourth quarter of the year is a recurring trend in the sales of Shuhai Customized Products, due to the seasonality of the demand for such products. The Company has taken this seasonal fluctuation into account when determining the annual cap, and expects the significance of variance in fluctuation to decrease in the future, due to the increase in the network of clients of the Shuhai Supply Chain Group and richness of their resources.

As at the date of this announcement, the actual transaction amount has not exceeded the annual cap for the year ending 31 December 2019.

## Proposed revision of annual caps and basis of determination

The existing annual caps and the proposed revised annual caps for the transactions contemplated under the Shuhai Sales Agreement for the two years ending 31 December 2019 and 2020 and the basis of determination of such annual caps are set out below. The Board does not propose to revise the annual caps for the transactions in relation to the sale of Shuhai Retail Products.

	<b>For the year ending 31 December 2019</b>		<b>For the year ending 31 December 2020</b>	
	<i>(RMB'000)</i>		<i>(RMB'000)</i>	
	<b>Existing annual cap</b>	<b>Revised annual cap</b>	<b>Existing annual cap</b>	<b>Revised annual cap</b>
Shuhai Customized Products	18,600	79,800	27,900	130,060
Shuhai Retail Products	1,060	No change	1,600	No change
<b>Total</b>	<b>19,660</b>	<b>80,860</b>	<b>29,500</b>	<b>131,660</b>

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

- (i) historical sales of Shuhai Customized Products by the Group to Shuhai Supply Chain Group, including sales volumes and sales prices;
- (ii) the prevailing production cost and expenses incurred by the Group in connection with the production of Shuhai Customized Products; and
- (iii) the estimated increase in demand for Shuhai Customized Products due to the internal business restructuring plan of the Group in June 2019 as further described in the paragraph headed “Reasons for and benefits of the sale of products to the Shuhai Supply Chain Group” below. Prior to the business restructuring plan, the products supplied to the Shuhai Supply Chain are hot pot condiment products. After the business restructuring plan, it is anticipated that the amount of hot pot condiment products to be supplied to the Shuhai Supply Chain for the two years ending 31 December 2020 will remain unchanged. The revision of annual caps shall solely be attributable to the supply of Chinese style compound condiment products in various tastes for grilled/roasted food purposes. Shuhai Supply Chain has been broadening its client base, which is expected to lead to an increase in demand for Shuhai Customized Products from the Group. The Shuhai Customized Products shall comprise hot pot condiment products and Chinese-style compound condiment products.

### **Reasons for and benefits of the sale of products to the Shuhai Supply Chain Group**

While the Group has in the past directly supplied customized condiment products to a number of independent third party distributors and/or catering service clients, as part of its internal business restructuring plan, such customized services and sales to catering service clients will no longer be performed by the Group due to economies of scale. Instead, such services will be provided by the Shuhai Supply Chain Group as Shuhai Supply Chain has extensive client network and it currently provides food

ingredients to various famous enterprises. Shuhai Supply Chain is primarily engaged in the supply of food ingredients and provision of storage and logistics services to catering service providers. Its extensive client network increases consumer exposure to the Group's products and promotes the brand image of the Group. The Group will keep on monitoring the performance of Shuhai Supply Chain, in particular its performance in sourcing new catering service clients. In the event that the performance is unsatisfactory, the Group may consider engaging the service of other independent third parties or re-establishing such service by the Group.

The growth of the third-party customized catering business of the Group remains sluggish. For the year ended 31 December 2018, revenue from third-party customized catering clients was approximately RMB21.6 million, representing a year-on-year decrease of approximately 7.8%. Revenue from third-party customized catering clients accounted for approximately 1% of total revenue from third party customers in 2018. As the revenue from third-party customized catering clients is relatively insignificant, it is not cost effective for the Group to maintain a dedicated team (consisting of around 10 employees) to serve and maintain the catering service clients, and develop new catering service clients. Rather, it will be more cost effective to utilize the larger sales and customer relations teams at Shuhai Supply Chain (currently amounting to around 200 employees), which has much experience in the industry and with supply chain management.

Under the existing business model for the third-party customized catering business, basically the Group has to arrange for delivery of customized condiment products to the catering service clients that are brought by the third party distributors as well as to provide other service required by those catering service clients. Given Shuhai Supply Chain Group has abundant resources in serving catering service clients, delivery and after-sales service will be provided by the Shuhai Supply Chain Group instead of the Group. Further, with increased consumer exposure and heightened brand recognition of the Group achieved through collaboration with the Shuhai Supply Chain Group, the Group expects sales of customized condiment products to increase sharply, as the Shuhai Supply Chain Group has established relationships with various types of restaurants and corporate consumers in the hot pot, barbecue, Chinese food, fastfood, retail, delivery and other businesses.

As such, it is in the interests of the Company and its shareholders as a whole to conduct the internal business restructuring plan given it is not cost effective for the Group to maintain a team for the catering service clients and engage third party distributors for the third-party customized catering business.

## **Listing Rules implications**

Mr. Zhang Yong and his wife Ms. Shu Ping, a non-executive Director and executive Director respectively of the Company, together hold approximately 35.61% of the total issued shares of the Company and are therefore controlling shareholders of the Company. Mr. Shi Yonghong, the Chairman, holds approximately 16.95% of the total issued shares of the Company and is therefore a substantial shareholder of the Company.

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

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

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

### **III. REVISION OF ANNUAL CAPS FOR THE SALE OF HOT POT SOUP FLAVOURING PRODUCTS TO THE JOINT VENTURE UNDER THE FRAMEWORK SALES AND PURCHASE AGREEMENTS IN RESPECT OF 2019 AND 2020**

#### **BACKGROUND**

Reference is made to the announcements of the Company dated 18 September 2017 and 6 July 2018 in relation to, among others, the Framework Sales and Purchase Agreements.

The Company has closely monitored the progress of its continuing connected transactions with the Joint Venture. With respect to the annual caps for the transactions contemplated under the Framework Sales and Purchase Agreements, namely the 2017 Hot Pot Soup Flavouring Products Sales Agreement and 2018 Hot Pot Soup Flavouring Products Sales Agreement, the Board considers that the existing annual caps in respect of 2019 and 2020 for the sale of hot pot soup flavouring products from Yihai Shanghai and its subsidiaries to the Joint Venture will not be able to satisfy the business needs of the Group and the demands of the Joint Venture for the two years ending 31 December 2019 and 2020.

The Board proposes that the existing annual caps for the transactions in relation to the 2017 Hot Pot Soup Flavouring Products Sales Agreement and 2018 Hot Pot Soup Flavouring Products Sales Agreement be revised for the two years ending 31 December 2019 and 2020. The Board does not propose to revise the annual caps for the transactions in relation to the 2017 Small Hot Pot Products Sales Agreement and 2018 Small Hot Pot Products Sales Agreement, which also form part of the Framework Sales and Purchase Agreements. As at the date of this announcement, the actual transaction amounts for the transactions under the 2017 Hot Pot Soup Flavouring Products Sales Agreement had not exceeded the annual cap for the year ending 31 December 2019, but are currently anticipated to exceed the existing annual cap by the end of 2019.

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

The principal terms of the Framework Sales and Purchase Agreements are summarized below.

## **FRAMEWORK SALES AND PURCHASE AGREEMENTS**

**Date:** 18 September 2017 in relation to the 2017 Hot Pot Soup Flavouring Products Sales Agreement and 2017 Small Hot Pot Products Sales Agreement

6 July 2018 in relation to the 2018 Hot Pot Soup Flavouring Products Sales Agreement and 2018 Small Hot Pot Products Sales Agreement

**Parties:** (1) Yihai Shanghai  
(2) Joint Venture

### **Term**

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

## **Nature of transactions**

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

The quantity of (a) the hot pot soup flavouring products to be sold to the Joint Venture; and (b) the Small Hot Pot 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 hot pot soup flavouring products and the Small Hot Pot Products upon and subject to the terms and conditions in compliance with the Framework Sales and Purchase Agreements.

## **Pricing basis**

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

### *(a) Sale of hot pot soup flavouring products*

The sales price of hot pot 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. The sales price of hot pot soup flavouring products to the Joint Venture shall not be less favourable than the sales price to independent third parties.

### *(b) Purchase of Small Hot Pot Products*

The purchase price of Small Hot Pot Products shall be determined by the parties after arm's length negotiations with reference to (i) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Small Hot Pot Products, and (ii) the prevailing market price of similar products. The purchase price of Small Hot Pot Products shall not be less favourable than the quotations obtained from independent third parties.

## Payment terms

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

## Historical amounts and existing annual caps

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

	<b>For the year ended 31 December 2017 <i>(RMB'000)</i></b>	<b>For the year ended 31 December 2018 <i>(RMB'000)</i></b>	<b>For the three months ended 31 March 2019 <i>(RMB'000)</i></b>	<b>Existing annual cap for the year ending 31 December 2019 <i>(RMB'000)</i></b>	<b>Existing annual cap for the year ending 31 December 2020 <i>(RMB'000)</i></b>
Sale of Hot Pot Soup Flavouring Products	Nil	7,918	7,824	14,500	25,600
Purchase of Small Hot Pot Products	2,560	96,750	19,655	191,000	331,066
<b>Total</b>	<b>2,560</b>	<b>104,668</b>	<b>27,479</b>	<b>205,500</b>	<b>356,666</b>

The sales of hot pot soup flavouring products for the three months ended 31 March 2019 increased significantly because substantially all of the hot pot soup flavouring products were manufactured by the Group and there was a substantial increase in the sale of Small Hot Pot Products. For the three months ended 31 March 2019, the sale of Small Hot Pot Products had increased over 270.3% year-on-year, and the Company expects that the sale of Small Hot Pot Products will be increased by approximately 100% in 2019 as compared to 2018.

As at the date of this announcement, the actual transaction amount has not exceeded the annual cap for the year ending 31 December 2019.

## Proposed revision of annual caps and basis of determination

The existing annual caps and the proposed revised annual caps for the transactions contemplated under the 2017 Hot Pot Soup Flavouring Products Sales Agreement and



2018 Hot Pot Soup Flavouring Products Sales Agreement for the two years ending 31 December 2019 and 2020 and the basis of determination of such annual caps are set out below. The Board does not propose to revise the annual caps for the transactions in relation to the 2017 Small Hot Pot Products Sales Agreement and 2018 Small Hot Pot Products Sales Agreement.

	<b>For the year ending 31 December 2019</b>		<b>For the year ending 31 December 2020</b>	
	<i>(RMB'000)</i>		<i>(RMB'000)</i>	
	<b>Existing annual cap</b>	<b>Revised annual cap</b>	<b>Existing annual cap</b>	<b>Revised annual cap</b>
Sale of Hot Pot Soup Flavouring Products	14,500	67,362	25,600	121,251
Purchase of Small Hot Pot Products	191,000	No change	331,066	No change
<b>Total</b>	<b>205,500</b>	<b>258,362</b>	<b>356,666</b>	<b>452,317</b>

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

- (i) the rapid growth in sales of Small Hot Pot Products since its launch in 2017; and
- (ii) the shifting away of the hot pot soup flavouring products business of the Group from mainly OEM (original equipment manufacturer) to self-manufacturing since 2018, and therefore substantially all of the hot pot soup flavouring products for the manufacture of the Small Hot Pot Products will be supplied by the Group instead of independent OEMs. Such shift from OEM to self-manufacturing improves efficiency and cost margins, and allows the Group to have better control over quality of products. In 2018, the Group had self-manufactured approximately 57,600 tons of hot pot soup flavouring products, representing approximately 80% of the production volume of hot pot soup flavoring products. The remaining 20% (approximately 14,400 tons) of the hot pot soup flavouring products were manufactured by OEMs. Such hot pot soup flavoring products were in turn sold to independent third party customers and related parties (including Haidilao) in 28,153 tons and 43,772 tons, respectively. In 2018, the Joint Venture had procured hot pot soup flavouring products in an aggregate amount of approximately RMB28.3 million, of which approximately RMB7.9 million was acquired from the Group and the remaining RMB20.4 million was procured from independent third party suppliers. In the first quarter of 2019, substantially all of the hot pot soup flavouring products were manufactured by the Group. The Company has the capacity to fulfil the planned

production volume as (a) Phase I of Maanshan production base has commenced operation in first half of 2018, with production capacity of approximately 60,000 tons, (b) the factory plant of Phase I of Bazhou project was basically completed in 2018, the south workshop has commenced production in May 2019 and it is expected that the north workshop in Phase 1 of Bazhou project will commence mass production in September 2019, with expected production capacity of approximately 70,000 tons, (c) the existing production base in Zhengzhou has production capacity of approximately 30,000 tons, and (d) Phase II of Maanshan condiment production base is expected to commence production in 2021 with an addition of approximately 200,000 tons of production capacity.

### **Reasons for and benefits of the sale and purchase of products with the Joint Venture**

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

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

The Group's sale of the Small Hot Pot Products creates a new source of income stream and profit growth for the Group.

### **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 a wholly-owned subsidiary of Haidilao and Mr. Zhang Yong and Ms. Shu Ping are the controlling shareholders of Haidilao, 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 hot pot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hot Pot Products and the subsequent purchase of Small Hot Pot 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 hot pot soup flavouring products; and (ii) purchase of Small Hot Pot Products are aggregated.

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

#### **IV. DIRECTORS' CONFIRMATION**

The Shuhai Purchase Agreement, the proposed revision of annual caps under the Shuhai Sales Agreement and Framework Sales and Purchase Agreements have been negotiated and agreed on an arms' length basis by the parties thereto. The Directors (including the independent non-executive Directors) are of the view that each of the Shuhai Purchase Agreement, Shuhai Sales Agreement and Framework Sales and Purchase Agreements have been and will be entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors (excluding the independent non-executive Directors) are of the view that the proposed annual caps under the Shuhai Purchase Agreement, the proposed revision of annual caps under the Shuhai Sales Agreement and Framework Sales and Purchase Agreements 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 proposed annual caps under the Shuhai Purchase Agreement, the proposed revision of annual caps under the Shuhai Sales Agreement and Framework Sales and Purchase Agreements after receiving advice from the Independent Financial Adviser.

Except for Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong, none of the Directors has any material interest in the Shuhai Purchase Agreement and the Shuhai Sales Agreement or is required to abstain from voting on the Board resolutions. Mr. Zhang Yong, together with his wife Ms. Shu Ping, and their associate indirectly hold approximately 52.17% of Shuhai Supply Chain. Mr. Shi Yonghong, together with his wife, directly or indirectly, hold approximately 24.65% of Shuhai Supply Chain. Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong have abstained from voting on the relevant board resolutions approving the Shuhai Purchase Agreement and the proposed revision of annual caps under the Shuhai Sales Agreement.

As Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong are indirectly interested in the equity interests of Xinpai Shanghai, which holds 40% equity interests in the Joint Venture, they have abstained from voting on the relevant board resolutions approving the proposed revised annual caps under the Framework Sales and Purchase Agreements. Except for Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong, no

other Director has a material interest in the Framework Sales and Purchase Agreements and is required to abstain from voting on the board resolutions for approving the proposed revision of annual caps under the Framework Sales and Purchase Agreements.

## **V. APPROVAL BY INDEPENDENT SHAREHOLDERS**

The Extraordinary General Meeting will be convened to consider and, if thought fit, to approve the Shuhai Purchase Agreement and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements.

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

An Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in connection with the terms of the Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements. In this respect, First Shanghai Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders.

A circular containing, among others, further information on the Shuhai Purchase Agreement and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements, 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 Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements, is expected to be dispatched to the Shareholders on or before 2 July 2019.

## VI. INFORMATION OF THE PARTIES

The Group is principally engaged in the manufacture and sales of compound condiments and convenient ready-to-eat food products in the PRC.

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

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 Hot Pot Products.

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

## VII. DEFINITIONS

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

“2017 Hot Pot Soup Flavouring Products Sales Agreement”	the hot pot soup flavouring products sales agreement dated 18 September 2017 entered into between Yihai Shanghai and the Joint Venture in relation to the sales of hot pot soup flavouring products from Yihai Shanghai and its subsidiaries to the Joint Venture for a term from 18 September 2017 to 31 August 2020
“2017 Small Hot Pot Products Sales Agreement”	the self-serving small hot pot products sales agreement dated 18 September 2017 entered into between the Joint Venture and Yihai Shanghai in relation to the sales of Small Hot Pot Products by the Joint Venture to Yihai Shanghai and its subsidiaries for a term from 18 September 2017 to 31 August 2020
“2018 Hot Pot Soup Flavouring Products Sales Agreement”	the hot pot soup flavouring products sales agreement dated 6 July 2018 entered into between Yihai Shanghai and the Joint Venture in relation to the sales of hot pot soup flavouring products from Yihai Shanghai and its subsidiaries to the Joint Venture for a term from 1 September 2020 to 31 December 2020

“2018 Small Hot Pot Products Sales Agreement”	the self-serving small hot pot products sales agreement dated 6 July 2018 entered into between the Joint Venture and Yihai Shanghai in relation to the sales of Small Hot Pot Products by the Joint Venture to Yihai Shanghai and its subsidiaries for a term from 1 September 2020 to 31 December 2020
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	YIHAI INTERNATIONAL HOLDING LTD. (頤海國際控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands on 18 October 2013, and the Shares of which have been listed on the Main Board of the Stock Exchange since 13 July 2016
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“continuing connected transaction(s)”	has the meaning ascribed thereto in the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	director(s) of the Company
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held to consider and if thought fit, approve the Shuhai Purchase Agreement and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements in respect of 2019 and 2020, or any adjournment thereof
“Framework Sales and Purchase Agreements”	collectively, the 2017 Hot Pot Soup Flavouring Products Sales Agreement, 2018 Hot Pot Soup Flavouring Products Sales Agreement, 2017 Small Hot Pot Products Sales Agreement and 2018 Small Hot Pot Products Sales Agreement
“Group”	the Company and its subsidiaries

“Haidilao”	Haidilao International Holding Ltd., whose shares are listed on the Stock Exchange (stock code: 6862)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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 Shuhai Purchase Agreement and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements in respect of 2019 and 2020
“Independent Financial Adviser”	First Shanghai Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and Independent Shareholders in relation to the Shuhai Purchase Agreement and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements in respect of 2019 and 2020
“Independent Shareholders”	has the meaning ascribed to it under the Listing Rules; and in relation to approving (i) the Shuhai Purchase Agreement at the Extraordinary General Meeting, means the Shareholders other than Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong, and their respective associates, and (ii) the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements in respect of 2019 and 2020 at the Extraordinary General Meeting, means the Shareholders other than Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong and their respective associates
“independent third party(ies)”	party(ies) not connected with any of the Directors, chief executive, substantial shareholders of the Company or any of its subsidiaries or any of their respective associates

“Joint Venture”	Fuhai (Shanghai) Food Technology Co., Ltd.* (馥海(上海)食品科技有限公司), a company established in the PRC and a 60% owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“PRC”	the People’s Republic of China, excluding for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	ordinary share(s) in the share capital of the Company with nominal value of US\$0.00001 each
“Shuhai Ingredients”	the food ingredients sold by Shuhai Supply Chain Group to the Group pursuant to the Shuhai Purchase Agreement
“Shuhai Purchase Agreement”	the purchase agreement dated 10 June 2019 entered into between the Company and Shuhai Supply Chain in relation to the sale of Shuhai Ingredients by the Shuhai Supply Chain Group to the Group
“Shuhai Sales Agreement”	the sales agreement dated 6 July 2018 entered into between Yihai Shanghai and Shuhai Supply Chain in relation to the sale of hot pot soup flavoring products, hot pot dipping sauce products and other compound condiment products by the Group to the Shuhai Supply Chain Group
“Shuhai Supply Chain”	Shuhai (Beijing) Supply Chain Management Co., Ltd.* (蜀海(北京)供應鏈管理有限責任公司), a limited liability company established in the PRC on 3 June 2014 and is indirectly held as to approximately 52.17% by the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, and their associate and 24.65% by Mr. Shi Yonghong and his wife
“Shuhai Supply Chain Group”	Shuhai Supply Chain and its subsidiaries



“Small Hot Pot Products”	the self-serving small hot pot products manufactured and sold by the Joint Venture
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Xinpai Shanghai”	Xinpai (Shanghai) Catering Management Co., Ltd.* (新派(上海)餐飲管理有限公司), a company established in the PRC with limited liability and is a wholly-owned subsidiary of Haidilao
“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

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

Beijing, the PRC, 10 June 2019

*As at the date of this announcement, the executive directors of the Company are Mr. Shi Yonghong, Ms. Dang Chunxiang, Mr. Sun Shengfeng, Ms. Shu Ping and Mr. Guo Qiang; the non-executive director of the Company is Mr. Zhang Yong; and the independent non-executive directors of the Company are Mr. Yau Ka Chi, Mr. Qian Mingxing and Ms. Ye Shujun.*

*\* For identification purposes only*