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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

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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)**

**(1) RENEWAL OF ANNUAL CAPS FOR CONTINUING CONNECTED  
TRANSACTIONS IN RESPECT OF 2021 TO 2023  
(2) RE-ELECTION OF EXECUTIVE DIRECTOR  
AND  
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



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A notice convening the Extraordinary General Meeting of the Company to be held at Room 609, No. 5 Building of Jiuting Center, No. 65 Huting North Road, Songjiang District, Shanghai, PRC at 10:00 a.m. on Thursday, 31 December 2020 is set out on pages 105 to 108 of this circular.

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

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

15 December 2020

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## DEFINITIONS

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

“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	YIHAI INTERNATIONAL HOLDING LTD. (頤海國際控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands on 18 October 2013, and the Shares of which have been listed on the Main Board of the Stock Exchange since 13 July 2016
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“continuing connected transaction(s)”	has the meaning ascribed thereto in the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Convenient Ready-to-eat Food Products”	collectively, instant silk noodles, instant rice, self-serving rice and Small Hot Pot Products manufactured and sold by the Joint Venture
“Director(s)”	director(s) of the Company
“Existing Haidilao Master Sales Agreement”	the master sales agreement dated 6 July 2018 entered into between Singapore Haidilao and Yihai Shanghai to regulate the sale of Haidilao Customized Products, Haidilao Retail Products and Small Hot Pot Products by the Group to the Haidilao Group
“Existing Joint Venture Framework Sales and Purchase Agreements”	collectively, the hot pot soup flavouring products sales agreements dated 18 September 2017 and 6 July 2018 entered into between Yihai Shanghai and the Joint Venture in relation to the sales of condiment products from Yihai Shanghai and its subsidiaries to the Joint Venture, and the self-serving small hot pot products sales agreements dated 18 September 2017 and 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

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## DEFINITIONS

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“Existing Non-exempt Agreements”	collectively, the Existing Shuhai Purchase Agreement, Existing Joint Venture Framework Sales and Purchase Agreements, the Existing Haidilao Master Sales Agreement and the Existing Shuhai Sales Agreement
“Existing 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
“Existing 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 Shuhai Supply Chain Group
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held on 31 December 2020 to consider and if thought fit, approve the Yihai Continuing Connected Transaction, or any adjournment thereof
“Group”	the Company and its subsidiaries
“Haidilao”	Haidilao International Holding Ltd., a 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 (stock code: 6862)
“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”	Haidilao and its subsidiaries, the principal business of which is to operate hot pot restaurant chain in the PRC and overseas countries
“Haidilao Master Sales Agreement”	the master sales agreement dated 7 December 2020 entered into between Haidilao and the Company to regulate the sale of Haidilao Customized Products, Haidilao Retail Products and Convenient Ready-to-eat Food Products by the Group to the Haidilao Group

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## DEFINITIONS

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“Haidilao Retail Products”	the retail hot pot soup flavouring, hot pot 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 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 Yihai Continuing Connected Transactions
“Independent Financial Adviser” or “First Shanghai”	First Shanghai Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and Independent Shareholders in relation to the Yihai Continuing Connected Transactions
“Independent Shareholders”	has the meaning ascribed to it under the Listing Rules; and in relation to approving the Yihai Continuing Connected Transactions 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
“Jinghai Investment”	Jiayang Jinghai Investment Co., Ltd. (簡陽市靜海投資有限公司), a limited liability company incorporated in the PRC on 11 May 2011, which is a wholly-owned subsidiary of Jingyuan Investment

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## DEFINITIONS

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“Jingyuan Investment”	Jiayang Jingyuan Investment Co., Ltd. (簡陽市靜遠投資有限公司), a limited liability company incorporated in the PRC on 13 March 2009, which is owned as to 52% by Mr. Zhang Yong, 16% by Ms. Li Haiyan, 16% by Ms. Shu Ping and 16% by Mr. Shi Yonghong as of the Latest Practicable Date
“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
“Joint Venture Framework Sales and Purchase Agreements”	collectively, the JV Condiment Products Sales Agreement and JV Convenient Ready-to-eat Food Products Sales Agreement
“JV Condiment Products Sales Agreement”	the condiment products sales agreement dated 7 December 2020 entered into between the Company and the Joint Venture in relation to the sales of condiment products from the Group to the Joint Venture
“JV Convenient Ready-to-eat Food Products Sales Agreement”	the convenient ready-to-eat food products sales agreement dated 7 December 2020 entered into between the Joint Venture and the Company in relation to the sales of Convenient Ready-to-eat Food Products by the Joint Venture to the Group
“Latest Practicable Date”	9 December 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“Leda Haisheng”	Shanghai Leda Haisheng Enterprise Management Consulting Co., Ltd.* (上海樂達海生企業管理諮詢有限公司), a limited liability company incorporated in the PRC on May 23, 2017, which is held as to approximately 62.70% by Beijing Yihan Consulting Management Co., Ltd.* (北京宜涵諮詢管理有限公司), a company controlled by Mr. Zhang Yong and Ms. Shu Ping and approximately 14.85% by Mr. Shi Yonghong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules

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## DEFINITIONS

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“Non-exempt Framework Agreements”	collectively, the Haidilao Master Sales Agreement, the Shuhai Sales Agreement, the Shuhai Purchase Agreement and the Joint Venture Framework Sales and Purchase Agreements
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“RSU”	restricted share unit
“RSU Scheme”	the RSU scheme approved and adopted by the Company on 24 February 2016
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of the Company with nominal value of US\$0.00001 each
“Shareholder(s)”	holder(s) of the Shares
“Shuhai Customized Products”	the hot pot soup flavoring products, hot pot dipping sauce products and other compound condiment products of the Group that are customized for Shuhai Supply Chain Group’s customers who are catering service providers
“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 7 December 2020 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 Retail Products”	the hot pot soup flavoring products, hot pot dipping sauce products and other compound condiment products of the Group sold to the Shuhai Supply Chain Group that are targeted at the retail market

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## DEFINITIONS

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“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 held as to approximately 45% by Leda Haisheng, and 27.56% by Jinghai Investment
“Shuhai Supply Chain Group”	Shuhai Supply Chain and its subsidiaries
“Singapore Haidilao”	HAI DI LAO HOLDINGS PTE. LTD., a limited liability company incorporated in Singapore and a wholly-owned subsidiary of Haidilao
“Small Hot Pot Products”	the self-serving small hot pot products, which are types of Convenient Ready-to-eat Food 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 Continuing Connected Transactions”	collectively, (i) the sale of Haidilao Customized Products, Haidilao Retail Products and Convenient Ready-to-eat Food Products to the Haidilao Group pursuant to the Haidilao Master Sales Agreement, (ii) the sale of Shuhai Customized Products and Shuhai Retail Products by the Group to Shuhai Supply Chain Group pursuant to the Shuhai Sales Agreement, (iii) the purchase of Shuhai Ingredients from the Shuhai Supply Chain Group pursuant to the Shuhai Purchase Agreement, and (iv) the sale of condiment products to and purchase of Convenient Ready-to-eat Food Products from the Joint Venture pursuant to the Joint Venture Framework Sales and Purchase Agreements
“Yihai Shanghai”	Yihai (Shanghai) Food Co., Ltd. (頤海(上海)食品有限公司), a foreign investment enterprise established in the PRC and an indirectly wholly owned subsidiary of the Company
“%”	per cent

\* for identification purpose only



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LETTER FROM THE BOARD

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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)**

***Executive Directors:***

Mr. Shi Yonghong (*Chairman*)  
Mr. Guo Qiang  
Mr. Sun Shengfeng  
Ms. Shu Ping  
Mr. Zhao Xiaokai

***Registered office:***

P.O. Box 31119  
Grand Pavilion  
Hibiscus Way  
802 West Bay Road  
Grand Cayman KY1-1205  
Cayman Islands

***Non-executive Director:***

Mr. Zhang Yong

***Corporate Headquarters in the PRC:***

Room 1810  
No. 2500 Zhenbei Road  
Putuo District  
Shanghai, PRC

***Independent Non-executive Directors:***

Mr. Yau Ka Chi  
Mr. Qian Mingxing  
Ms. Ye Shujun

***Principal place of business in Hong Kong:***

40th Floor, Sunlight Tower  
No. 248 Queen's Road East  
Wanchai, Hong Kong

15 December 2020

*To the Shareholders*

Dear Sir or Madam,

**(1) RENEWAL OF ANNUAL CAPS FOR CONTINUING CONNECTED  
TRANSACTIONS IN RESPECT OF 2021 TO 2023  
(2) RE-ELECTION OF EXECUTIVE DIRECTOR  
AND  
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

The purpose of this circular is to provide you with information in connection with the proposals to be put forward at the Extraordinary General Meeting to consider: (i) the sale of Haidilao Customized Products, Haidilao Retail Products and Convenient Ready-to-eat Food Products to the Haidilao Group pursuant to the Haidilao Master Sales Agreement, (ii) the sale of Shuhai Customized Products and Shuhai Retail Products by the Group to Shuhai Supply

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## LETTER FROM THE BOARD

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Chain Group pursuant to the Shuhai Sales Agreement, (iii) the purchase of Shuhai Ingredients from the Shuhai Supply Chain Group pursuant to the Shuhai Purchase Agreement, and (iv) the sale of condiment products to the Joint Venture and the purchase of Convenient Read-to-eat Food Products from the Joint Venture under the Joint Venture Framework Sales and Purchase Agreements, and (v) proposed re-election of Mr. Zhao Xiaokai as an executive Director. This circular contains the explanatory statement in compliance with the Listing Rules and to give all the information reasonably necessary to enable Shareholders to make an informed decision on whether to vote for or against the resolutions. A notice convening the Extraordinary General Meeting is set out on pages 105 to 108 of this circular.

COVID-19 had a particularly strong impact on the hot pot and dining industry in the first half of 2020, which also caused a great reduction in our sales to Haidilao Group, our connected person. However, the Company maintains a very large third-party customer base that includes retail markets such as supermarkets, markets and convenience stores and achieved sales revenue of RMB1,700 million in the first half of 2020. The Company believes that such achievement was attained despite the challenges brought about by COVID-19 due to the advent of the “stay at home” economy and the Company’s promotion of its Convenient Ready-to-eat Food Products. COVID-19 is therefore both a challenge and an opportunity for the Company, and the Company has taken this into account in the estimation of annual caps.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### A. H Aidilao Master Sales Agreement

##### (I) Sale of Products to the Haidilao Group

###### **Background**

Reference is made to the announcement of the Company dated 7 December 2020 in relation to the renewal of annual caps for continuing connected transactions in respect of 2021 to 2023.

###### **Continuing Connected Transactions under the Haidilao Master Sales Agreement**

On 7 December 2020, the Company and Haidilao entered into the Haidilao Master Sales Agreement, pursuant to which the Group agreed to sell Haidilao Customized Products, Haidilao Retail Products and Convenient Ready-to-eat Food Products to the Haidilao Group for a term of three years from 1 January 2021 to 31 December 2023. The principal terms of the Haidilao Master Sales Agreement are summarized below.

###### **The Haidilao Master Sales Agreement**

###### *Date*

7 December 2020

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## LETTER FROM THE BOARD

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### *Parties*

- (1) the Company
- (2) Haidilao

### *Term*

The Haidilao Master Sales Agreement has an initial term of three years from 1 January 2021 to 31 December 2023. Subject to compliance with the Listing Rules and applicable laws and regulations, the Haidilao Master Sales Agreement may be renewed for a further term of three years from time to time, unless the parties agree in writing to terminate the Haidilao Master Sales Agreement during its term; or the Haidilao 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 Haidilao Master Sales Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

### *Nature of transactions*

#### *(a) Sale of Haidilao Customized Products*

Pursuant to the terms of the Haidilao Master Sales Agreement, the Group is a supplier of Haidilao Customized Products to the Haidilao Group for use in its hot pot restaurants in mainland PRC. Upon fulfillment of certain requirements relating to mass production and standardization, the Group is also the supplier of the Haidilao Customized Products to the Haidilao Group for use in its hot pot restaurants in Hong Kong, China, Macau, China, Taiwan, China and overseas. However, if the Group is unable to satisfy the quantity of the products demanded, or the quality of the Haidilao Customized Products supplied by the Group does not fulfill the specifications of the Haidilao Group, and the matter cannot be resolved within a reasonable period (not longer than 30 days) after consultation with the Group, the Haidilao Group may engage other suppliers. Under the Haidilao Master Sales Agreement, the Group may engage contract manufacturers to produce Haidilao Customized Products.

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

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)

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## LETTER FROM THE BOARD

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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 are primarily engaged in the 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 Haidilao 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 Haidilao 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.

*(b) Sale of Haidilao Retail Products*

Pursuant to the terms of the Haidilao Master Sales Agreement, the Group is the sole supplier of the Haidilao Retail Products to the Haidilao Group for display and sales to customers on the online platforms of the Haidilao Group and in the hot pot restaurants of the Haidilao Group. Haidilao Retail Products are manufactured with the Group's own formulas. Haidilao Group is not permitted to sell the Group's products to any third party distributor.

Sale of Haidilao Retail Products will be made on the basis of individual orders specifying the type of product, purchase volume, delivery date etc. The sales price for the Haidilao Retail Products by cities shall be provided to the Haidilao Group semi-annually.

*(c) Sale of Convenient Ready-to-eat Food Products*

Pursuant to the terms of the Haidilao Master Sales Agreement, the Group is the sole supplier of the Convenient Ready-to-eat Food Products to the Haidilao Group for display and sales to customers in the hot pot restaurants of the Haidilao Group and on the online platforms of the Haidilao Group. The Convenient Ready-to-eat Food Products are manufactured with the Group's own formulas. Haidilao Group is not permitted to sell the Group's products to any third party distributor. The quantity of the Convenient Ready-to-eat Food Products for sales is not fixed but is to be determined and agreed between the parties.

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## LETTER FROM THE BOARD

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### *Pricing basis*

The sale prices of Haidilao Customized Products, Haidilao Retail Products and Convenient Ready-to-eat Food Products are determined by the parties with reference to a number of factors as stated below. 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 Haidilao Customized Products*

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 re-assess 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.

#### *(b) Sale of Haidilao Retail Products*

The sale price of Haidilao Retail Products shall be consistent with the pricing policy for similar products that 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, selling and administrative expenses, incurred in connection with the production of Haidilao Retail Products, and (ii) the prevailing market price of similar products. The independent non-executive Directors will regularly review and re-assess the sales prices of the Haidilao Retail Products semi-annually and make adjustments if there is any significant change in the production cost.

#### *(c) Sale of Convenient Ready-to-eat Food Products*

The sales price of Convenient Ready-to-eat Food 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 Convenient Ready-to-eat Food Products, and (ii) the prevailing market price of similar products. The independent non-executive Directors will regularly review and re-assess the sales prices of the Convenient Ready-to-eat Food Products semi-annually and make adjustments if there is any significant change in the production cost.

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## LETTER FROM THE BOARD

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### *Payment terms*

Fees payable under the Haidilao Master Sales Agreement will be billed in a timely and appropriate manner according to the terms agreed by both parties.

#### *(a) Sale of Haidilao Customized Products*

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.

#### *(b) Sale of Haidilao Retail Products*

Payment shall be made on a monthly basis, following the delivery of products and issuance of invoices by the Group.

#### *(c) Sale of Convenient Ready-to-eat Food Products*

Payment shall be made on a monthly basis, following the delivery of products and issuance of invoices by the Group.

### *Historical amounts*

The table below sets forth the historical amounts for the sales to the Haidilao Group and its associates under the Existing Haidilao Master Sales Agreement for the two years ended 31 December 2019 and the nine months ended 30 September 2020 and the annual cap for the year ending 31 December 2020:

	<b>For the year ended 31 December 2018 (RMB'000)</b>	<b>For the year ended 31 December 2019 (RMB'000)</b>	<b>For the nine months ended 30 September 2020 (RMB'000) (unaudited)</b>	<b>Annual cap for the year ending 31 December 2020 (RMB'000)</b>
Haidilao Customized Products	1,145,717	1,574,464	914,881	3,462,700
Haidilao Retail Products	13,422	30,686	29,273	65,000
Small Hot Pot Products	4,689	20,478	26,704	39,600
<b>Total (Note)</b>	<b>1,163,828</b>	<b>1,625,628</b>	<b>970,858</b>	<b>3,567,300</b>

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## LETTER FROM THE BOARD

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*Note:*

For the two years ended 31 December 2019 and the nine months ended 30 September 2020, the historical amounts for the sale to the Haidilao Group amounted to RMB1,162,738,000, RMB1,625,239,000 and RMB970,857,000.

The Existing Haidilao Master Sales Agreement was entered into between Singapore Haidilao and Yihai Shanghai on 6 July 2018 with a term of two years from 1 January 2019 to 31 December 2020. Prior to the listing of Haidilao on 26 September 2018, the Group had been supplying the products to Singapore Haidilao, Sichuan Haidilao Catering Co., Ltd. (“**Sichuan Haidilao**”) and their then subsidiaries under the previous sales agreement dated 24 June 2016 (as supplemented by two supplemental master sales agreements dated 18 September 2017 and 22 March 2018) (the “**Previous Haidilao Master Sales Agreement**”). The transaction amounts under the Previous Haidilao Master Sales Agreement for the three years ended 31 December 2018 included the sales to Singapore Haidilao, Sichuan Haidilao and their then subsidiaries. Restructuring was carried out among Singapore Haidilao, Sichuan Haidilao and their then subsidiaries for the purpose of the listing of Haidilao in mid to end of 2018, and the Directors were not aware that some of those companies no longer formed part of the Haidilao Group. Therefore, the Group has included the sales to those companies under the Existing Haidilao Master Sales Agreement. The Company will no longer supply products to those associates.

As at the Latest Practicable Date, the actual transaction amount has not exceeded the annual cap for the year ending 31 December 2020.

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

The Company estimates that the annual caps for the Haidilao Master Sales Agreement for the three years ending 31 December 2023 are as follows:

	<b>For the year ending 31 December 2021 (RMB'000)</b>	<b>For the year ending 31 December 2022 (RMB'000)</b>	<b>For the year ending 31 December 2023 (RMB'000)</b>
Haidilao Customized Products	3,580,000	5,060,000	6,580,000
Haidilao Retail Products	150,000	271,000	408,000
Convenient Ready-to-eat Food Products ( <i>Note</i> )	186,000	362,000	552,000
<b>Total</b>	<b>3,916,000</b>	<b>5,693,000</b>	<b>7,540,000</b>

*Note:*

Small Hot Pot Product is a type of Convenient Ready-to-eat Food Products. The Group has developed new products such as instant silk noodles, instant rice, self-serving rice which shall be sold to the Haidilao Group.

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## LETTER FROM THE BOARD

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In arriving at the above proposed annual caps for the Haidilao Customized Products and Haidilao Retail Products, the Group 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 as at 31 December 2017, 2018, 2019 and 30 June 2020, being 273, 466, 768 and 935 respectively; the growth in the same store results of the stores of the Haidilao Group;
- (iii) substantial increase in revenue of the Group from 2013 to 2019, which is partly attributable to the sales to the Haidilao Group; and
- (iv) the growth of the PRC catering industry.

In arriving at the above proposed annual caps for the Convenient Ready-to-eat Food Products, the Group has taken into account the following factors:

- (i) the historical transaction amounts with the Haidilao Group;
- (ii) the launch of new convenient ready-to-eat food products of the Group, such as instant silk noodles and instant rice;
- (iii) Haidilao Group's rapid expansion in recent years, as demonstrated by the number of stores of the Haidilao Group as at 31 December 2017, 2018, 2019 and 30 June 2020, being 273, 466, 768 and 935 respectively; the growth in the same store results of the stores of the Haidilao Group; and
- (iv) the growth and extensive market potential of the PRC catering industry and the convenient ready-to-eat food products market.

The estimated annual caps are calculated based on annual growth of opening of new hot pot restaurants of Haidilao Group of approximately 58.8% between 2019 and 2023.

**Shareholders should note that the above proposed 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 Haidilao Master Sales Agreement.**



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## LETTER FROM THE BOARD

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### **(II) REASONS FOR AND BENEFITS OF ENTERING INTO THE HAIDILAO MASTER SALES AGREEMENT**

The principal activities of the Group are researching and developing, manufacturing, distributing and selling high-quality hot pot soup flavoring, hot pot dipping sauce and Chinese-style compound condiment products. The Haidilao Group is the largest hot pot restaurant chain in the PRC. Being the supplier of hot pot 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.

The sale of Convenient Ready-to-eat Food Products has enriched the existing product scope and expanded the Group's existing business, and has contributed to the profit growth for the Group as the Convenient Ready-to-eat Food Products, such as the Small Hot Pot Products, are well received in the market.

### **(III) INFORMATION OF THE PARTIES**

The Group is principally engaged in the manufacture and sales of hot pot condiment products, Chinese-style compound condiment products and convenient ready-to-eat food products (primarily consists of Small Hot Pot Products) in the PRC.

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

### **(IV) LISTING RULES IMPLICATIONS**

Mr. Zhang Yong and his wife Ms. Shu Ping, the non-executive Director and executive Director, together hold approximately 35.63% of the total issued shares of the Company and are therefore controlling shareholders of the Company. Mr. Shi Yonghong, the Chairman, holds approximately 16.97% of the total issued shares of the Company and is therefore a substantial shareholder of the Company.

Haidilao is held as to approximately 68.16% by the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, and 15.95% by Mr. Shi Yonghong and his wife.

Haidilao is therefore a connected person of the Company by virtue of being an associate 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.

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## LETTER FROM THE BOARD

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Since (i) the nature of products to be sold under the Haidilao Master Sales Agreement and Shuhai Sales Agreement is similar and (ii) both Haidilao and Shuhai Supply Chain are associates of the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, the transactions contemplated under the Haidilao Master Sales Agreement and Shuhai Sales Agreement will be aggregated pursuant to Rule 14A.82(1) and Rule 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of the Haidilao Master Sales Agreement and the Shuhai Sales Agreement are aggregated.

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 annual caps under the Haidilao Master Sales Agreement are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **(V) DIRECTORS' CONFIRMATION IN RELATION TO HAIDILAO MASTER SALES AGREEMENT**

The Directors (including the independent non-executive Directors) are of the view that the Haidilao Master Sales Agreement have been and will be entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are of the view that the proposed annual caps under the Haidilao Master Sales Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Except for Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong, none of the Directors has any material interest in the Haidilao Master Sales Agreement or is required to abstain from voting on the Board resolution. Mr. Zhang Yong, together with his wife Ms. Shu Ping, directly or indirectly hold approximately 68.16% of Haidilao. Mr. Shi Yonghong, together with his wife, directly or indirectly, hold approximately 15.95% of Haidilao.

### **(VI) APPROVAL BY INDEPENDENT SHAREHOLDERS**

Mr. Zhang Yong, together with his wife Ms. Shu Ping, directly or indirectly hold approximately 68.16% of Haidilao. Mr. Shi Yonghong, together with his wife, directly or indirectly, hold approximately 15.95% of Haidilao. In accordance with the Listing Rules, Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong and their respective associates (which in aggregate hold 550,710,513 Shares, representing approximately 52.60% of the issued Shares) will abstain from voting on the ordinary resolutions to approve the Haidilao Master Sales Agreement (including the proposed annual caps) at the Extraordinary General Meeting.

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## LETTER FROM THE BOARD

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The Company will seek the Independent Shareholders' approval at the Extraordinary General Meeting for, among others, the Haidilao Master Sales Agreement on the condition that:

1. the annual transaction amount of the Haidilao Master Sales Agreement shall not exceed the respective annual caps;
2. (i) the Haidilao Master Sales Agreement will be entered into in the ordinary and usual course of business of the Group and either (a) on normal commercial terms or better; or (b) if there is no available comparison, on terms no less favourable than terms available to the Group from Independent Third Parties; and  
  
(ii) the transactions will be entered into in accordance with the Haidilao Master Sales Agreement and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company will comply with relevant provisions of the Listing Rules in relation to the transactions under the Haidilao Master Sales Agreement.

### **B. SHUHAI SALES AGREEMENT**

#### **(I) SALE OF PRODUCTS TO THE SHUHAI SUPPLY CHAIN GROUP**

##### **Background**

Reference is made to the announcement of the Company dated 7 December 2020 in relation to the renewal of annual caps for continuing connected transactions in respect of 2021 to 2023.

##### **Continuing Connected Transactions under the Shuhai Sales Agreement**

On 7 December 2020, the Company and Shuhai Supply Chain entered into the Shuhai Sales Agreement, pursuant to which the Group agreed to supply Shuhai Customized Products and Shuhai Retail Products for a term of three years from 1 January 2021 to 31 December 2023.

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

##### **The Shuhai Sales Agreement**

###### ***Date***

7 December 2020

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## LETTER FROM THE BOARD

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### *Parties*

- (1) the Company
- (2) Shuhai Supply Chain

### *Term*

The Shuhai Sales Agreement has a term of three years from 1 January 2021 to 31 December 2023. 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 the Company 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 Shuhai Retail Products to the Shuhai Supply Chain Group and its associates. 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).

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## LETTER FROM THE BOARD

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*(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, selling and administrative expenses, incurred in connection with the production of Shuhai Customized Products, and (iv) the market price of similar products sold by comparable companies to independent third party distributors.

Taking into account historical data and forecasted estimates, 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.

*(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, selling and administrative expenses, incurred in connection with the production of the Shuhai Retail Products, and (ii) the prevailing market price of similar products. The independent non-executive Directors regularly 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.

***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.

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## LETTER FROM THE BOARD

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### *Historical amounts*

The table below sets forth the historical amounts for the sales to the Shuhai Supply Chain Group under the Existing Shuhai Sales Agreement for the two years ended 31 December 2019 and the nine months ended 30 September 2020 and the annual cap for the year ending 31 December 2020:

	<b>For the year ended 31 December 2018 (RMB'000)</b>	<b>For the year ended 31 December 2019 (RMB'000)</b>	<b>For the nine months ended 30 September 2020 (RMB'000) (unaudited)</b>	<b>Annual cap for the year ending 31 December 2020 (RMB'000)</b>
Shuhai Customized Products	11,912	36,870	17,406	130,060
Shuhai Retail Products	320	540	863	1,600
<b>Total</b>	<b>12,232</b>	<b>37,410</b>	<b>18,269</b>	<b>131,660</b>

As at the Latest Practicable Date, the actual transaction amount has not exceeded the annual cap for the year ending 31 December 2020.

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

The Company estimates that the annual caps for the Shuhai Sales Agreement for the three years ending 31 December 2023 are as follows:

	<b>For the year ending 31 December 2021 (RMB'000)</b>	<b>For the year ending 31 December 2022 (RMB'000)</b>	<b>For the year ending 31 December 2023 (RMB'000)</b>
Shuhai Customized Products	82,000	110,000	150,000
Shuhai Retail Products	2,400	3,360	4,200
<b>Total</b>	<b>84,400</b>	<b>113,360</b>	<b>154,200</b>

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## LETTER FROM THE BOARD

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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) there is a slight decrease in the proposed annual cap from 2020 to 2021 because of the anticipated impact of COVID-19 pandemic on small to medium sized catering service clients;
- (iii) the estimated overall net profit margin through sales to independent third party distributors in accordance with the pricing formula;
- (iv) the prevailing production cost and expenses incurred by the Group in connection with the production of Shuhai Customized Products; and
- (v) the estimated increase in demand for Shuhai Customized Products. 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.

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

- (i) historical sales volume of Shuhai Retail Products by the Group to Shuhai Supply Chain Group;
- (ii) the prevailing market price of similar products sold by the Group to independent third party distributors;
- (iii) the prevailing production cost and expenses incurred by the Group in connection with the production of Shuhai Retail Products; and
- (iv) the estimated demand for Shuhai Retail Products. Shuhai Supply Chain has been broadening its client base, which is expected to lead to an increase in demand for Shuhai Retail Products from the Group.

There are currently 20 companies under the Shuhai Supply Chain Group which services their business in 15 key cities in the PRC and caters to around 6,500 retail clients. The Company's understanding of Shuhai Supply Chain's future business plans is to expand both within the PRC and overseas by increasing their customer base and offering a wider variety of food and beverage.

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## LETTER FROM THE BOARD

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The Directors anticipate that customized catering business will gradually recover in 2021 and based on the business plan of Shuhai Supply Chain, the Company estimates that the transaction amount from 2021 to 2023 will have an increase of approximately 30% annually.

### **(II) REASONS FOR AND BENEFITS OF ENTERING INTO THE SHUHAI SALES AGREEMENT**

Since mid-2019, the Group supplies condiment products to a number of third-party catering service providers through Shuhai Supply Chain. This is because 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.

### **(III) INFORMATION OF THE PARTIES**

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

### **(IV) 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 35.63% of the total issued shares of the Company and are therefore controlling shareholders of the Company. Mr. Shi Yonghong, the Chairman, holds approximately 16.97% of the total issued shares of the Company and is therefore a substantial shareholder of the Company.

Shuhai Supply Chain is held as to approximately 45% by Leda Haisheng and 27.56% by Jinghai Investment.

Shuhai Supply Chain is, therefore, a connected person of the Company by virtue of being an associate of the controlling shareholders (Mr. Zhang Yong and Ms. Shu Ping) of the Company, and the transactions contemplated under the Shuhai Sales Agreement constitute continuing connected transactions of the Company under the Listing Rules.

Since (i) the nature of products to be sold under the Haidilao Master Sales Agreement and Shuhai Sales Agreement is similar and (ii) both Haidilao and Shuhai Supply Chain are associates of the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, the transactions contemplated under the Haidilao Master Sales Agreement and Shuhai Sales Agreement will be aggregated pursuant to Rule 14A.82(1) and Rule 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of the Haidilao Master Sales Agreement and the Shuhai Sales Agreement are aggregated.



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## LETTER FROM THE BOARD

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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 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.

### **(V) DIRECTORS' CONFIRMATION IN RELATION TO THE SHUHAI SALES AGREEMENT**

The Directors (including the independent non-executive Directors) are of the view that the Shuhai Sales Agreement have been and will be entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are of the view that the proposed annual caps under the Shuhai Sales Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Except for Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong, none of the Directors has any material interest in the Shuhai Sales Agreement or is required to abstain from voting on the board resolutions for approving the Shuhai Sales Agreement. Shuhai Supply Chain was controlled by Leda Haisheng, which was held as to approximately 62.70% by Beijing Yihan Consulting Management Co., Ltd.\* (北京宜涵諮詢管理有限公司), a company controlled by Mr. Zhang Yong and Ms. Shu Ping and owned approximately 14.85% by Mr. Shi Yonghong.

### **(VI) APPROVAL BY INDEPENDENT SHAREHOLDERS**

In accordance with the Listing Rules, Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong and their respective associates (which in aggregate hold 550,710,513 Shares, representing approximately 52.60% of the issued Shares) will abstain from voting on the ordinary resolutions to approve the Shuhai Sales Agreement (including the proposed annual caps) at the Extraordinary General Meeting.

The Company will seek the Independent Shareholders' approval at the Extraordinary General Meeting for, among others, the Shuhai Sales Agreement on the condition that:

1. the annual transaction amount of the Shuhai Sales Agreement shall not exceed the respective annual caps;
2. (i) the Shuhai Sales Agreement will be entered into in the ordinary and usual course of business of the Group and either (a) on normal commercial terms or better; or (b) if there is no available comparison, on terms no less favourable than terms available to the Group from independent third parties; and  
(ii) the transactions will be entered into in accordance with the Shuhai Sales Agreement and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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The Company will comply with relevant provisions of the Listing Rules in relation to the transactions under the Shuhai Sales Agreement.

### **C. SHUHAI PURCHASE AGREEMENT**

#### **(I) PURCHASE OF SHUHAI INGREDIENTS FROM THE SHUHAI SUPPLY CHAIN GROUP**

##### **Background**

Reference is made to the announcement of the Company dated 7 December 2020 in relation to, among others, the renewal of annual caps for continuing connected transaction in respect of 2021 to 2023.

##### **Continuing Connected Transactions under the Shuhai Purchase Agreement**

On 7 December 2020, 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 three years from 1 January 2021 to 31 December 2023. The principal terms of the Shuhai Purchase Agreement are summarized below.

##### **The Shuhai Purchase Agreement**

###### ***Date***

7 December 2020

###### ***Parties***

- (1) The Company
- (2) Shuhai Supply Chain

###### ***Term***

The Shuhai Purchase Agreement has an initial term of three years from 1 January 2021 to 31 December 2023. 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.

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## LETTER FROM THE BOARD

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### *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 Convenient Ready-to-eat Food 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.

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## LETTER FROM THE BOARD

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### *Historical amounts*

The table below sets forth the historical amounts for the purchase of Shuhai Ingredients under the Existing Shuhai Purchase Agreement for the seven months ended 31 December 2019 and the nine months ended 30 September 2020, and the annual cap for the year ending 31 December 2020:

<b>For the seven months ended 31 December 2019 (RMB'000)</b>	<b>For the nine months ended 30 September 2020 (RMB'000) (unaudited)</b>	<b>Annual cap for the year ending 31 December 2020 (RMB'000)</b>
22,266	40,756	228,037

As at the Latest Practicable Date, the actual transaction amount has not exceeded the annual cap for the year ending 31 December 2020.

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

The Company estimates that the annual caps for the Shuhai Purchase Agreement for the three years ending 31 December 2023 are as follows:

<b>For the year ending 31 December 2021 (RMB'000)</b>	<b>For the year ending 31 December 2022 (RMB'000)</b>	<b>For the year ending 31 December 2023 (RMB'000)</b>
215,000	300,000	375,000

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

- (i) the historical transaction amounts with the Shuhai Supply Chain Group;
- (ii) 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 2019 amounted to approximately RMB999.0 million, representing a tremendous increase by over 16.3 times when compared of that of approximately RMB61.4 million for 2017;

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## LETTER FROM THE BOARD

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- (iii) there is a slight decrease in the annual cap from 2020 to 2021 because of (a) the Group's need to secure third-party suppliers to ensure a stable supply of ingredients and (b) in consideration of costs of procurement and logistics, the Group places order with other local third-party suppliers after the addition of assembly plants in Bazhou, Zhengzhou and Chengdu for manufacturing Convenient Ready-to-eat Food Products of the Group;
- (iv) the historical purchase of similar food ingredients from independent third parties. For the year ended 31 December 2019, the Group purchased packs of beef or beef offal in the total amount of approximately RMB276.7 million; and
- (v) the market price for similar ingredients sold by comparable companies.

Shuhai Supply Chain Group has been a key supplier of beef, bovine offal, prawn and other meats to the Haidilao hot pot restaurants over the years, whose product quality, stable supply and healthy standard have been well accepted by Haidilao Group and its ultimate end-customers having hot pot dining thereat.

The Group has firstly tried to commence procurement of such Shuhai Ingredients since the second half of 2019, so the historical transaction for purchasing Shuhai Ingredients merely amounted to RMB22.3 million for the period. Upon satisfaction of the quality and healthy standard of such Shuhai Ingredients, the Group has been increasing its procurement volume and amount from Shuhai Supply Chain Group, and will significantly shift its original procurement sources from other independent suppliers to Shuhai Supply Chain Group in the coming years.

The Group had purchased similar hot pot ingredients of beef and bovine offal from independent suppliers in the amount of approximately RMB276.7 million in 2019, which was between the proposed annual caps of RMB215 million and RMB300 million under the Shuhai Purchase Agreement for each of 2021 and 2022. The Group now plans to further expand its manufacture and sales of Convenient Ready-to-eat Food Products by sourcing much larger volume of ingredients from Shuhai Supply Chain Group in each of the three years from 2021 to 2023. Having considered the Group's tremendous increase in sale of Convenient Ready-to-eat Food Products by almost 16.3 times over the three years from 2017 to 2019 and its aggressive business expansion plan for innovating, developing and producing many more categories of Convenient Ready-to-eat Food Products in the coming years, it is desirable for the Company to shift more of the source of supply of products from small, dispersed suppliers to Shuhai Supply Chain Group, whose capabilities to meet the Company's needs had been confirmed consistently over the years.

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## LETTER FROM THE BOARD

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### **(II) REASONS FOR AND BENEFITS OF ENTERING INTO THE SHUHAI PURCHASE AGREEMENT**

The Group manufactures Convenient Ready-to-eat Food 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 Group 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 Convenient Ready-to-eat Food 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.

### **(III) INFORMATION OF THE PARTIES**

The Group is principally engaged in the manufacture and sales of hot pot condiment products, Chinese-style compound condiment products and convenient ready-to-eat food products (primarily consists of Small Hot Pot 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.

### **(IV) 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 35.63% of the total issued shares of the Company and are therefore controlling shareholders of the Company. Mr. Shi Yonghong, the Chairman, holds approximately 16.97% of the total issued shares of the Company and is therefore a substantial shareholder of the Company.

Shuhai Supply Chain is held as to approximately 45% by Leda Haisheng and 27.56% by Jinghai Investment.

Shuhai Supply Chain is, therefore, a connected person of the Company by virtue of being an associate of the controlling shareholders (Mr. Zhang Yong and Ms. Shu Ping) 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.

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## LETTER FROM THE BOARD

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### **(V) DIRECTORS' CONFIRMATION IN RELATION TO SHUHAI PURCHASE AGREEMENT**

The Directors (including the independent non-executive Directors) are of the view that the Shuhai Purchase Agreement have been and will be entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are of the view that the proposed annual caps under the Shuhai Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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 or is required to abstain from voting on the Board resolution. Shuhai Supply Chain was controlled by Leda Haisheng, which was held as to approximately 62.70% by Beijing Yihan Consulting Management Co., Ltd.\* (北京宜涵諮詢管理有限公司), a company controlled by Mr. Zhang Yong and Ms. Shu Ping and owned approximately 14.85% by Mr. Shi Yonghong.

### **(VI) APPROVAL BY INDEPENDENT SHAREHOLDERS**

In accordance with the Listing Rules, Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong and their respective associates (which in aggregate hold 550,710,513 Shares, representing approximately 52.60% of the issued Shares) will abstain from voting on the ordinary resolutions to approve the Shuhai Purchase Agreement (including the proposed annual caps) at the Extraordinary General Meeting.

The Company will seek the Independent Shareholders' approval at the Extraordinary General Meeting for, among others, the Shuhai Purchase Agreement on the condition that:

1. the annual transaction amount of the Shuhai Purchase Agreement shall not exceed the respective annual caps;
2. (i) the Shuhai Purchase Agreement will be entered into in the ordinary and usual course of business of the Group and either (a) on normal commercial terms or better; or (b) if there is no available comparison, on terms no less favourable than terms available to the Group from independent third parties; and  
  
(ii) the transactions will be entered into in accordance with the Shuhai Purchase Agreement and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company will comply with relevant provisions of the Listing Rules in relation to the transactions under the Shuhai Purchase Agreement.

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## LETTER FROM THE BOARD

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### D. JOINT VENTURE FRAMEWORK SALES AND PURCHASE AGREEMENTS

#### (I) SALE OF CONDIMENT PRODUCTS TO THE JOINT VENTURE AND PURCHASE OF CONVENIENT READ-TO-EAT FOOD PRODUCTS FROM THE JOINT VENTURE

##### **Background**

Reference is made to the announcement of the Company dated 7 December 2020 in relation to the renewal of annual caps for continuing connected transactions in respect of 2021 to 2023.

##### **Continuing Connected Transactions under the Joint Venture Framework Sales and Purchase Agreements**

On 7 December 2020, the Company and the Joint Venture entered into the JV Condiment Products Sales Agreement and JV Convenient Ready-to-eat Food Products Sales Agreement, pursuant to which (i) the Company (for itself and on behalf of its subsidiaries, other than the Joint Venture) agreed to sell condiment products to the Joint Venture as raw materials for the manufacture of Convenient Ready-to-eat Food Products under the JV Condiment Products Sales Agreement; and (ii) the Joint Venture agreed to sell Convenient Ready-to-eat Food Products to the Group (other than the Joint Venture) under the JV Convenient Ready-to-eat Food Products Sales Agreement for a term of three years from 1 January 2021 to 31 December 2023.

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

##### **The Joint Venture Framework Sales and Purchase Agreements**

##### ***Date***

7 December 2020

##### ***Parties***

- (1) the Company
- (2) Joint Venture

##### ***Term***

The Joint Venture Framework Sales and Purchase Agreements are for an initial term of three years from 1 January 2021 to 31 December 2023. Subject to compliance with the Listing Rules and applicable laws and regulations, the Joint Venture Framework Sales and



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## LETTER FROM THE BOARD

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Purchase Agreements may be renewed for a further term of three years from time to time, unless the Company 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 Joint Venture 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 Joint Venture Framework Sales and Purchase Agreements, (a) the Company (for itself and on behalf of its subsidiaries, other than the Joint Venture) agreed to sell condiment products to the Joint Venture as raw materials for the manufacture of Convenient Ready-to-eat Food Products; and (b) the Joint Venture agreed to sell Convenient Ready-to-eat Food Products to the Company and its subsidiaries (excluding the Joint Venture).

The quantity of (a) the condiment products to be sold to the Joint Venture; and (b) the Convenient Ready-to-eat Food Products to be sold to the Company, respectively, are not fixed under the Joint Venture 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 Joint Venture Framework Sales and Purchase Agreements, the Company and the Joint Venture may enter into separate agreements from time to time in respect of the sale and purchase of the condiment products and the Convenient Ready-to-eat Food Products upon and subject to the terms and conditions in compliance with the Joint Venture Framework Sales and Purchase Agreements.

### *Pricing basis*

The sales prices of condiment products and the purchase price of the Convenient Ready-to-eat Food 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 condiment products*

The sales price of condiment 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 condiment products to the Joint Venture shall not be less favourable than the sales price to independent third parties.

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## LETTER FROM THE BOARD

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*(b) Purchase of Convenient Ready-to-eat Food Products*

The purchase price of Convenient Ready-to-eat Food 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 incurred in connection with the production of Convenient Ready-to-eat Food Products, selling and administrative expenses, and (ii) the prevailing market price of similar products. The purchase price of Convenient Ready-to-eat Food Products shall not be less favourable than the quotations obtained from independent third parties.

***Payment terms***

Fees payable under the Joint Venture 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***

The table below sets forth the historical amounts for the sales of condiment products to the Joint Venture and the purchase of Small Hot Pot Products under the Existing Joint Venture Framework Sales and Purchase Agreements for the two years ended 31 December 2019 and the nine months ended 30 September 2020, and the annual cap for the year ending 31 December 2020:

	<b>For the year ended 31 December 2018 (RMB'000)</b>	<b>For the year ended 31 December 2019 (RMB'000)</b>	<b>For the nine months ended 30 September 2020 (RMB'000) (unaudited)</b>	<b>Annual cap for the year ending 31 December 2020 (RMB'000)</b>
Sale of condiment products	7,918	58,396	59,793	121,251
Purchase of Small Hot Pot Products	96,750	127,219	69,764	331,066
<b>Total</b>	<b>104,668</b>	<b>185,615</b>	<b>129,557</b>	<b>452,317</b>

As at the Latest Practicable Date, the actual transaction amount has not exceeded the annual cap for the year ending 31 December 2020.

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## LETTER FROM THE BOARD

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

The Company estimates that the caps for the Joint Venture Framework Sale and Purchase Agreements for the three years ending 31 December 2023 are as follows:

	<b>For the year ending 31 December 2021 (RMB'000)</b>	<b>For the year ending 31 December 2022 (RMB'000)</b>	<b>For the year ending 31 December 2023 (RMB'000)</b>
Sale of condiment products	530,000	833,000	1,250,000
Purchase of Convenient Ready- to-eat Food Products	<u>356,000</u>	<u>534,000</u>	<u>748,000</u>
<b>Total</b>	<b><u>886,000</u></b>	<b><u>1,367,000</u></b>	<b><u>1,998,000</u></b>

In arriving at the above proposed annual cap for the sales of condiment products, the Group has taken into account the following factors:

The annual cap in relation to the sale of condiment products is determined based on the expected demand of the Convenient Ready-to-eat Food Products. As the condiment products will be used as raw materials in producing the Convenient Ready-to-eat Food Products, the demand for the former is directly proportionate to the market demand for the latter, as described below.

In arriving at the above proposed annual cap for the purchase of Convenient Ready-to-eat Food Products, the Group has taken into account the following factors:

- (i) the prevailing market price of similar products;
- (ii) the launch of new convenient ready-to-eat food products of the Group, such as instant silk noodles and instant rice;
- (iii) current production costs and expenses incurred in connection with the production of Convenient Ready-to-eat Food Products by the Joint Venture; and
- (iv) the strong growth and extensive market potential of the PRC catering industry and the convenient ready-to-eat food products market.

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## LETTER FROM THE BOARD

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The Group has been providing condiment products to the Joint Venture for production of Convenient Ready-to-eat Food Products since its establishment in September 2017. The Group generally procures beef and bovine offal from Shuhai Supply Chain Group, and other food ingredients from other independent suppliers. The Joint Venture has mainly combined all food ingredients and condiments into packs of Convenient Ready-to-eat Food Products for sale to the Group and other independent distributors as well as independent customers. As the Joint Venture has continuously been innovating, developing and producing new Convenient Ready-to-eat Food Products for sale to the market, it has to increase procurement of condiment products from the Group and also food ingredients from Shuhai Supply Chain Group and/or other independent suppliers. As the quality and healthy standard of such Shuhai Ingredients has been satisfactory after the past two years' experience, the Group has been increasing its procurement volume and amount from Shuhai Supply Chain Group, and will significantly shift its original procurement sources from other independent suppliers to Shuhai Supply Chain Group in the coming years.

The Group currently has adopted a research and development strategy, namely "project-based system for products", for implementing new products. This is an incentive-based mechanism, which has been relying on the Group's strong research and development platform and supporting channels, its staff may form a team to propose innovative new products, and the development project of such new products would be completed by the team throughout the whole process from proposal to market launch. After the project was launched into the market and received earnings, the project team would immediately receive the corresponding rewards. This policy has provided opportunities for all staff to develop new products, enhanced the development efficiency of new products and the motivation of staff in exploring the markets. At present, the mechanism has been operating well, and the number of new products launched in the market have been increasing in 5, 7, 12 and 22 Convenient Ready-to-eat Food Products on hand as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, which had generated revenue of RMB61.4 million, RMB449.3 million, RMB999.0 million and RMB668.2 million for each of the three years from 2017 to 2019 and the six months ended 30 June 2020. Each Convenient Ready-to-eat Food Product can increasingly generate average revenue from RMB12.3 million, RMB64.2 million to RMB83.2 million from 2017 to 2019, respectively. The Group will continue to innovate, development and produce many more categories of Convenient Ready-to-eat Food Products in the foreseeable future.

### **(II) REASONS FOR AND BENEFITS OF THE JOINT VENTURE FRAMEWORK SALES AND PURCHASE AGREEMENTS**

Convenient ready-to-eat food products are 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.

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## LETTER FROM THE BOARD

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By selling condiment products to the Joint Venture, the Company can further ensure that the Convenient Ready-to-eat Food Products to be manufactured by the Joint Venture are of satisfactory quality.

The Group's sale of the products of the Joint Venture to the clients through its specific channels such as the Group's Tmall flagship can further boost the sale of the Convenient Ready-to-eat Food Products, and thus increase the profitability of the Company.

### **(III) INFORMATION OF THE PARTIES**

The Group is principally engaged in the manufacture and sales of hot pot condiment products, Chinese-style compound condiment products and convenient ready-to-eat food products (primarily consists of Small Hot Pot Products) in the PRC.

The Joint Venture is principally engaged in the manufacture and sales of Convenient Ready-to-eat Food Products.

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

### **(IV) LISTING RULES IMPLICATIONS**

The Joint Venture is currently a 60% held non wholly-owned subsidiary of the Company. As the Joint Venture is owned as to 40% by Xinpai Shanghai, which is 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 Joint Venture Framework Sales and Purchase Agreements constitute continuing connected transactions of the Company for the purpose of the Listing Rules.

Since the sales of condiment products to the Joint Venture as raw materials for the manufacture of Convenient Ready-to-eat Food Products and the subsequent purchase of Convenient Ready-to-eat Food Products are related, the sales and purchase transactions as contemplated under the Joint Venture 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 condiment products; and (ii) purchase of Convenient Ready-to-eat Food Products are aggregated.

Since the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) are more than 5%, the proposed annual caps under the Joint Venture 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.

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## LETTER FROM THE BOARD

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### **(V) DIRECTORS' CONFIRMATION IN RELATION TO THE SALE AND PURCHASE OF PRODUCTS WITH THE JOINT VENTURE**

The Directors (including the independent non-executive Directors) are of the view that the Joint Venture Framework Sales and Purchase Agreement have been and will be entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are the view that the proposed annual caps under the Joint Venture Framework Sales and Purchase Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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 Joint Venture 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 Joint Venture Framework Sales and Purchase Agreements and is required to abstain from voting on the board resolutions for approving the Joint Venture Framework Sales and Purchase Agreements and the proposed annual caps thereunder.

### **(VI) APPROVAL BY INDEPENDENT SHAREHOLDERS**

In accordance with the Listing Rules, Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong and their respective associates (which in aggregate hold 550,710,513 Shares, representing approximately 52.60% of the issued Shares) will abstain from voting on the ordinary resolutions to approve the Joint Venture Framework Sales and Purchase Agreements (including the proposed annual caps) at the Extraordinary General Meeting.

The Company will seek the Independent Shareholders' approval at the Extraordinary General Meeting for, among others, the Joint Venture Framework Sales and Purchase Agreement on the condition that:

1. the annual transaction amount of the Joint Venture Framework Sales and Purchase Agreement shall not exceed the respective annual caps;
2. (i) the Joint Venture Framework Sales and Purchase Agreement will be entered into in the ordinary and usual course of business of the Group and either (a) on normal commercial terms or better; or (b) if there is no available comparison, on terms no less favourable than terms available to the Group from Independent Third Parties; and  
  
(ii) the transactions will be entered into in accordance with the Joint Venture Framework Sales and Purchase Agreement and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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The Company will comply with relevant provisions of the Listing Rules in relation to the transactions under the Joint Venture Framework Sales and Purchase Agreements.

### INTERNAL CONTROL MEASURES

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

- (i) The Group has designated a team of senior management from business operation, legal, risk control and finance departments and the Board office to continuously monitor continuing connected transactions. The team of senior management continuously traces and regularly monitors the progress of continuing connected transactions and reports to the Board.
- (ii) The relevant personnel of the business department of the Company will conduct regular checks on the market price for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the pricing basis for the relevant continuing connected transactions:
  - (a) the marketing team will from time to time (on a regular basis and/or prior to price negotiation) gather market intelligence by way of research, investigation and obtaining quotations from independent third parties to ascertain the quality of the products compared to similar products in the market and the reference price of each type of the products in the market. The benchmark price and the sale price of the products will be entered into the computer system of the Group, such that the purchase price and the sale price of the products will be referenced to the price in the system; and
  - (b) the Company would conduct regular reviews on monthly basis of the sales, profit margin, market and profitability of the products, and ensure the transactions are within the annual cap.
- (iii) The team of senior management together with the finance department of the Group regularly monitor the actual amounts incurred for each type of continuing connected transactions for the purpose of ensuring the relevant annual caps are not exceeded.
- (iv) The team of senior management of the Group organizes and runs internal control tests regularly to evaluate the completeness and effectiveness of the internal control measures in relation to continuing connected transactions.

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## LETTER FROM THE BOARD

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- (v) The Board conducts annual review on the implementation of continuing connected transactions and conducts review of financial statements which include the disclosure of continuing connected transactions semi-annually. The review mainly includes a review on whether the Group and the connected parties have fulfilled the terms of the agreements in relation to continuing connected transactions during the relevant year or semi-annually and whether the actual transaction amounts incurred between the Group and the connected persons are within the annual caps.
- (vi) The team of senior management of the Group collects and reviews continuing connected transactions each month in order to guarantee (i) the connected parties have fulfilled the terms of the agreements in relation to continuing connected transactions during the relevant month; and (ii) the actual transaction amounts incurred and estimated to be incurred between the Company and the connected parties are within the annual caps.
- (vii) The independent non-executive Directors conduct annual review of continuing connected transactions and provide annual confirmations in the Company's annual report on whether the continuing connected transactions are conducted (i) in the Group's ordinary course of business; (ii) in accordance with normal commercial terms or better and on terms that are fair and reasonable; (iii) in accordance with the terms of the relevant agreements; and (iv) in the interests of the Company and the Shareholders as a whole.
- (viii) The audit committee has assigned the independent internal audit team the task to ensure that the Company's internal measures in respect of the continuing connected transactions remain effective and complete.
- (ix) To assist the Company in complying with the applicable rules listed in chapter 14A of the Listing Rules, the external auditor of the Company performs work in accordance with the regulations in the "Hong Kong Standard on Assurance Engagements 3000 – Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to the "Practice Note 740 – Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, on the Company's continuing connected transactions and issue a letter in respect of the continuing connected transactions disclosed in the Company's annual report in accordance with the applicable accounting standards and the Listing Rules.



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## LETTER FROM THE BOARD

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### RE-ELECTION OF EXECUTIVE DIRECTOR

In accordance with Article 16.2 of the Articles of Association, and Director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. According to A.4.2 of the Appendix 14 to the Listing Rules, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Accordingly, Mr. Zhao Xiaokai who was appointed by the Board on 25 August 2020 to fill up the casual vacancy arising from the resignation of an executive Director will retire from office and offer himself for re-election at the Extraordinary General Meeting.

Mr. Zhao Xiaokai, aged 44, currently the director of the supply system of the Company. He is responsible for the management of the supply system of the Company. He is committed to optimizing and managing the production of factories, inventory logistics and technological research. He has extensive experience in risk management and control, cost optimization, quality control and supply chain management. Mr. Zhao joined the Company on 31 March 2017, and served as the special assistance of the general manager, and the director of the supply management department since 1 December 2017. Prior to this, Mr. Zhao has served as the general manager in production of Douglas (Qingdao) Wines Co., Ltd (青島道格拉斯洋酒有限公司) from May 2016 to March 2017, worked at Heinz (Qingdao) Food Co., Ltd. (亨氏(青島)食品有限公司) from April 2004 to April 2016 (and had been the operational director). He has served as the quality auditor of Unilever Bestfood\* (聯合利華百仕福) from October 2000 to April 2004 and the production officer of Weifang Yue Hwa Food Co., Ltd.\* (濰坊裕華食品有限公司) from July 1998 to October 2000. Mr. Zhao Xiaokai graduated from Jimei University and obtained a bachelor's degree in engineering in 1998.

Under the service agreement entered into between the Company and Mr. Zhao, Mr. Zhao's appointment will continue for a term of three years commencing from 25 August 2020, subject to the retirement and rotation provisions set out in the Articles of Association of the Company. The service agreement can be terminated by not less than one month's notice in writing served by either Mr. Zhao or the Company. Mr. Zhao will be entitled to receive remuneration, discretionary bonuses and other benefits as may be determined by the Remuneration Committee of the Company having regard to the Company's and his performance. Details of the remuneration of the directors of the Company are available in the Company's annual reports.

As at the Latest Practicable Date, Mr. Zhao has interests in 160,000 Shares within the meaning of Part XV of the SFO are set out below:

<b>Capacity/Nature of interest</b>	<b>Number of ordinary shares</b>	<b>Approximate percentage of shareholding in the total issued share capital (%)</b>
Beneficial owner	160,000	0.015

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## LETTER FROM THE BOARD

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Save as disclosed in this circular, Mr. Zhao (i) does not hold other positions in the Company or other members of the Group; (ii) does not hold any directorship in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years; (iii) does not have any relationship with any other Director, senior management, substantial shareholder or controlling shareholder (as defined in the Listing Rules) of the Company; (iv) does not have any interest in the securities within the meaning of Part XV of the SFO; and (v) has no information to disclose pursuant to any of the requirements of Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules; and there are no other matters that need to be brought to the attention of the shareholders of Company.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 28 December 2020 to Thursday, 31 December 2020, both days inclusive, in order to determine the eligibility of the shareholders to attend and vote at the Extraordinary General Meeting. The shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 24 December 2020 will be entitled to attend and vote at the Extraordinary General Meeting. In order to be eligible to attend and vote at the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Thursday, 24 December 2020.

### EXTRAORDINARY GENERAL MEETING

Set out on pages 105 to 108 of this circular is the notice of the Extraordinary General Meeting at which, inter alia, ordinary resolutions will be proposed to the Shareholders to consider and approve (i) the sale of Haidilao Customized Products, Haidilao Retail Products and Convenient Ready-to-eat Food Products to the Haidilao Group pursuant to the Haidilao Master Sales Agreement (including the proposed annual caps), (ii) the sale of Shuhai Customized Products and Shuhai Retail Products by the Group to Shuhai Supply Chain Group pursuant to the Shuhai Sales Agreement (including the proposed annual caps), (iii) the purchase of Shuhai Ingredients from Shuhai Supply Chain pursuant to the Shuhai Purchase Agreement, (iv) the sale of condiment products to the Joint Venture and the purchase of Convenient Ready-to-eat Food Products from the Joint Venture under the Joint Venture Framework Sales and Purchase Agreements (including the proposed annual caps), and (v) proposed re-election of Mr. Zhao Xiaokai as an executive Director.

A form of proxy is enclosed for use at the Extraordinary General Meeting. Such form of proxy is also published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for the holding of the Extraordinary General Meeting or any

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## LETTER FROM THE BOARD

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adjournment thereof. Completion and return of the form of proxy shall not preclude Shareholders from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting thereof should they so wish.

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

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

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

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

### **RECOMMENDATION OF THE BOARD**

The Directors are of the opinion that the terms of the Non-exempt Framework Agreements (including the proposed caps under the Yihai Continuing Connected Transactions) are fair and reasonable, on normal commercial terms or better, and the Yihai Continuing Connected Transactions are carried out in the ordinary and usual course of business. They are also of the opinion that the Yihai Continuing Connected Transactions and the proposed re-election of an executive Director are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of all the relevant ordinary resolutions to be proposed at the Extraordinary General Meeting.

### **RECOMMENDATION OF THE INDEPENDENT FINANCIAL ADVISER AND THE INDEPENDENT BOARD COMMITTEE**

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Yihai Continuing Connected Transactions (including the proposed annual caps), and First Shanghai has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders.

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## LETTER FROM THE BOARD

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The Independent Financial Adviser considers the Non-exempt Framework Agreements (including the proposed annual caps) are on normal commercial terms and in the ordinary and usual course of business of the Group. The Independent Financial Adviser also considers that the Non-exempt Framework Agreements (including the proposed annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The full text of the letter from the Independent Financial Adviser issued by First Shanghai containing its recommendation in respect of the Non-exempt Framework Agreements (including the proposed annual caps) is set out on pages 45 to 97 of this circular.

The Independent Board Committee, having taken into account the advice of First Shanghai, considers the terms of the Non-exempt Framework Agreements (including the proposed annual caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the Extraordinary General Meeting to approve the Non-exempt Framework Agreements (including the proposed annual caps). The full text of the letter from the Independent Board Committee is set out on pages 43 to 44 of this circular.

Yours faithfully,  
For and on behalf of the Board  
**Yihai International Holding Ltd.**  
**Shi Yonghong**  
*Chairman*



**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)**

15 December 2020

*To the Independent Shareholders*

**(1) RENEWAL OF ANNUAL CAPS FOR CONTINUING CONNECTED  
TRANSACTIONS IN RESPECT OF 2021 TO 2023  
(2) RE-ELECTION OF EXECUTIVE DIRECTOR  
AND  
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Dear Sir or Madam,

We have been appointed as the Independent Board Committee to advise you in connection with the Yihai Continuing Connected Transactions (including the proposed annual caps), details of which are set out in the letter from the Board contained in the circular issued by the Company to the Shareholders dated 15 December 2020, of which this letter forms part. We wish to draw your attention to the letter from the Independent Financial Adviser as set out on pages 45 to 97 of the circular. Terms defined in the circular shall have the same meanings when used herein, unless the context otherwise requires.

Having considered the information set out in the letter from the Board, the terms of the Non-exempt Framework Agreements and the advice of First Shanghai in relation thereto as set out on pages 45 to 97 of the circular, we are of the view that the Non-exempt Framework Agreements (including the proposed annual caps) are on normal commercial terms and conducted in the ordinary and usual course of the business of the Group. We are also of the view that the Non-exempt Framework Agreements (including the proposed annual caps) are in the interests of the Company and the Shareholders as a whole, and are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the Extraordinary General Meeting to approve (i) the Haidilao Master Sales Agreement (including the proposed annual caps), (ii) the Shuhai Sales Agreement (including the proposed annual caps), (iii) Shuhai Purchase Agreement (including the proposed annual caps); and (iv) the Joint Venture Framework Sales and Purchase Agreements (including the proposed annual caps).

Yours faithfully,

**Yihai International Holding Ltd.**

**YAU Ka Chi      QIAN Mingxing      YE Shujun**

*Independent Non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter to the Independent Board Committee and the Independent Shareholders received from the Independent Financial Adviser setting out its opinion regarding the Yihai Continuing Connected Transactions (including the respective proposed annual caps) contemplated under each of the Non-exempt Framework Agreements, for the purpose of inclusion in this circular.*



**First Shanghai Capital Limited**

19th Floor

Wing On House

71 Des Voeux Road Central

Hong Kong

15 December 2020

*To the Independent Board Committee and  
the Independent Shareholders*

Yihai International Holding Ltd.  
Room 1810  
No. 2500 Zhenbei Road  
Putuo District  
Shanghai  
China

Dear Sirs,

### **RENEWAL OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF 2021 TO 2023**

#### **INTRODUCTION**

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Yihai Continuing Connected Transactions (including the respective proposed annual caps) contemplated under each of the Haidilao Master Sales Agreement, Shuhai Sales Agreement, Shuhai Purchase Agreement and the Joint Venture Framework Sales and Purchase Agreements (collectively, the “**Non-exempt Framework Agreements**”), details of which are contained in the circular to the Shareholders dated 15 December 2020 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter shall have the same meanings as those ascribed in the Circular.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Group has entered into, among others, the following various agreements with its connected persons over the years, which will expire on 31 December 2020: (i) Existing Haidilao Master Sales Agreement, (ii) Existing Shuhai Sales Agreement, (iii) Existing Shuhai Purchase Agreement and (iv) Existing Joint Venture Framework Sales and Purchase Agreement.

The Company intends to continue to enter into the transactions of similar nature after 31 December 2020. Therefore, on 7 December 2020, the Group entered into each of the (i) Haidilao Master Sales Agreement, (ii) Shuhai Sales Agreement, (iii) Shuhai Purchase Agreement and (iv) Joint Venture Framework Sales and Purchase Agreement, the nature of which is similar to that of the transactions under the Existing Agreements, for a term of three years from 2021 to 2023.

### LISTING RULES IMPLICATIONS

#### Haidilao Master Sales Agreement

Mr. Zhang Yong and his wife Ms. Shu Ping, the non-executive Director and executive Director, together hold approximately 35.63% of the total issued shares of the Company and are therefore controlling shareholders of the Company. Mr. Shi Yonghong, the Chairman, holds approximately 16.97% of the total issued shares of the Company and is therefore a substantial shareholder of the Company.

Haidilao is held as to approximately 68.16% by the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, and 15.95% by Mr. Shi Yonghong and his wife.

Haidilao is therefore a connected person of the Company by virtue of being an associate of the controlling shareholders of the Company, and the sales transactions between the Group and the Haidilao Group constitute continuing connected transactions of the Company under the Listing Rules.

Since (i) the nature of products to be sold under the Haidilao Master Sales Agreement and Shuhai Sales Agreement is similar and (ii) both Haidilao and Shuhai Supply Chain are associates of the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, the transactions contemplated under the Haidilao Master Sales Agreement and Shuhai Sales Agreement will be aggregated pursuant to Rule 14A.82(1) and Rule 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of the Haidilao Master Sales Agreement and the Shuhai Sales Agreement are aggregated.

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 annual caps under the Haidilao Master Sales Agreement are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.



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### **Shuhai Sales Agreement**

Mr. Zhang Yong and his wife Ms. Shu Ping, a non-executive Director and executive Director respectively of the Company, together hold approximately 35.63% of the total issued shares of the Company and are therefore controlling shareholders of the Company. Mr. Shi Yonghong, the Chairman, holds approximately 16.97% of the total issued shares of the Company and is therefore a substantial shareholder of the Company.

Shuhai Supply Chain is held as to approximately 45% by Leda Haisheng and 27.56% by Jinghai Investment.

Shuhai Supply Chain is, therefore, a connected person of the Company by virtue of being an associate of the controlling shareholders (Mr. Zhang Yong and Ms. Shu Ping) of the Company, and the transactions contemplated under the Shuhai Sales Agreement constitute continuing connected transactions of the Company under the Listing Rules.

Since (i) the nature of products to be sold under the Haidilao Master Sales Agreement and Shuhai Sales Agreement is similar and (ii) both Haidilao and Shuhai Supply Chain are associates of the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, the transactions contemplated under the Haidilao Master Sales Agreement and Shuhai Sales Agreement will be aggregated pursuant to Rule 14A.82(1) and Rule 14A.83 of the Listing Rules. Accordingly, the annual caps in respect of the Haidilao Master Sales Agreement and the Shuhai Sales Agreement are aggregated.

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 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.

### **Shuhai Purchase Agreement**

Mr. Zhang Yong and his wife Ms. Shu Ping, a non-executive Director and executive Director respectively of the Company, together hold approximately 35.63% of the total issued shares of the Company and are therefore controlling shareholders of the Company. Mr. Shi Yonghong, the Chairman, holds approximately 16.97% of the total issued shares of the Company and is therefore a substantial shareholder of the Company.

Shuhai Supply Chain is held as to approximately 45% by Leda Haisheng and 27.56% by Jinghai Investment.

Shuhai Supply Chain is, therefore, a connected person of the Company by virtue of being an associate of the controlling shareholders (Mr. Zhang Yong and Ms. Shu Ping) of the Company, and the transactions contemplated under the Shuhai Purchase Agreement constitute continuing connected transactions of the Company under the Listing Rules.

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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.

### **Joint Venture Framework Sales and Purchase Agreements**

The Joint Venture is currently a 60% held non wholly-owned subsidiary of the Company. As the Joint Venture is owned as to 40% by Xinpai Shanghai, which is 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 Joint Venture Framework Sales and Purchase Agreements constitute continuing connected transactions of the Company for the purpose of the Listing Rules.

Since the sales of condiment products to the Joint Venture as raw materials for the manufacture of Convenient Ready-to-eat Food Products and the subsequent purchase of Convenient Ready-to-eat Food Products are related, the sales and purchase transactions as contemplated under the Joint Venture 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 condiment products; and (ii) purchase of Convenient Ready-to-eat Food Products are aggregated.

Since the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) are more than 5%, the proposed annual caps under the Joint Venture 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.

The Extraordinary General Meeting is now convened to consider and, if thought fit, to approve the Yihai Continuing Connected Transactions (including the respective proposed annual caps).

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 the Haidilao Master Sales Agreement, the Shuhai Sales Agreement, the Shuhai Purchase Agreement and the Joint Venture Framework Sales and Purchase Agreements will abstain from voting on the ordinary resolutions to approve the aforesaid agreements at the Extraordinary General Meeting.

### **THE INDEPENDENT BOARD COMMITTEE**

An Independent Board Committee comprising Mr. Yau Ka Chi, Mr. Qian Mingxing and Ms. Ye Shujun, being all the three independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Yihai Continuing Connected Transactions (including the respective proposed annual caps) pursuant to each of the Non-exempt Framework Agreements.

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As the Independent Financial Adviser, we have been appointed to advise the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Yihai Continuing Connected Transactions (including the respective proposed annual caps) pursuant to each of the Non-exempt Framework Agreements are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in relation to the ordinary resolutions to be proposed for approving the Yihai Continuing Connected Transactions (including the respective proposed annual caps) pursuant to each of the Non-exempt Framework Agreements at the Extraordinary General Meeting.

### OUR INDEPENDENCE

Independent Shareholders should note that, within the past two years from the Latest Practicable Date, we were engaged as the independent financial advisers to the then independent board committees of each of the Company and Haidilao for the provision of independent financial advice for the following two occasions:

- (i) continuing connected transactions in respect of (1) purchase of Shuhai Ingredients from Shuhai Supply Chain and (2) revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements in respect of 2019 and 2020, as detailed in the circular of the Company dated 14 June 2019; and
- (ii) the new continuing connected transactions and proposed renewal of annual caps under the Shuyun Dongfang Agreements in respect of 2019 and 2020, as detailed in the circular of Haidilao dated 28 October 2019.

We are currently also the Independent Financial Advisers acting for both the Company and Haidilao at the same time, for which, we firmly declare that our independence would never be jeopardized on the following grounds.

Given (i) our independent roles in the previous two engagements; (ii) none of the members of our parent group is a direct party to or has any material interest in each of the Non-exempt Framework Agreements; and (iii) our independent financial advisory fees for these two current engagements in addition to the previous two engagements represented an insignificant percentage of revenue of our parent group, we consider that the previous two engagements and the two current engagements by the Company and Haidilao would not affect our independence to form our opinion this time in respect of the Yihai Continuing Connected Transactions (including the respective proposed annual caps) pursuant to each of the Non-exempt Framework Agreements.

### BASIS OF OUR ADVICE

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

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Directors and management of the Company (the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

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

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion and recommendation regarding the Yihai Continuing Connected Transactions (including the respective proposed annual caps) pursuant to each of the Non-exempt Framework Agreements, we have taken into consideration the following principal factors and reasons:

#### **A. Haidilao Master Sales Agreement**

##### ***1. Background information of the Group***

The Group is principally engaged in the manufacture and sale of hot pot condiment products, Chinese-style compound condiment products and Convenient Ready-to-eat Food Products (primarily consisting of Small Hot Pot Products) in the PRC; and major sales channels for third-party sales included distributors, e-commerce and other special channels such as train stations, tour attractions etc.. The Group has been a leading and fast-growing compound condiment manufacturer in the PRC, and the major supplier of condiment products for the Haidilao Group in the PRC, and its products have been significantly contributing to the successful growth of the Haidilao Group. As at 30 June 2020, the Group had a total of 51 hot pot condiment products, 43 Chinese-style compound condiment products, and 22 Convenient Ready-to-eat Food Products.

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

The Group has entered into a number of agreements with the Haidilao Group that, together, constitute the framework for its continued long-term, stable and mutually beneficial business relationship. These agreements, made on arms' length basis, cover both the provision of certain services by the Haidilao Group to the Group, and the sales of the Group's condiment products to the Haidilao Group. As a result of these contractual arrangements, the Haidilao Group continues to be the Group's largest customer since its establishment, and the Group continues to be the major supplier of condiment products to the Haidilao Group in the PRC. This strong alignment of interests enables the Group to grow alongside the Haidilao Group's persistent expansion, while the Group maintains and extends its diversified customer base through new and broadened distribution channels, geographical expansion and the development and launching of new products. At the same time, the Group has also provided cooking condiment solutions to Chinese family cooking customers, catering service providers and companies in the food industry.

In terms of operating performance, under the macro environment of continuously rising growth rate and percentage of online retail sales, the catering and retail industries achieved stable growth, and the growth trend of the condiment industry has been continuously rising, the Group has continued to maintain a leading position in the Chinese-style mid to high end compound condiment market. Leveraging with such favourable factors, the Group had achieved a high growth in its business operation during the past seven financial years ended 31 December (the "Year(s)") 2019. For the Year 2019, the Group recorded revenue of approximately RMB4,282.5 million, representing a year-on-year increase of approximately 59.7% when compared to that of RMB2,681.4 million in the Year 2018; while its net profit hit a record high at approximately RMB718.6 million for the Year 2019, representing a year-on-year increase of approximately 38.8% when compared to that of RMB517.8 million in the Year 2018.

### **2. *Background information of the Haidilao Group***

The Haidilao Group comprises Haidilao (stock code: 6862) and its subsidiaries, and is principally engaged in the operation of hot pot restaurant chain in the PRC and oversea countries with its well-known trademark of "Haidilao (海底捞)".

Over the past two decades, the Haidilao Group has developed into the largest Chinese hot pot restaurant chain and the No. 1 Chinese cuisine restaurant company in China in terms of revenue in the Years 2015 to 2019. In the Year 2019, Haidilao Group's hot pot restaurants served more than 244 million guests, with an average annual table turnover rate of 4.8 times

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per day, and Haidilao's members increased to 54.73 million as at 31 December 2019. Haidilao Group ranked first among major Chinese cuisine brands in terms of certain key performance indices, including but not limited to, table turnover rate, annual sales per restaurant and annual guest traffic.

In the Year 2019, the Haidilao Group achieved stable growth in the same store sales and rapid expansion in the number of hot pot restaurants, benefiting from the growth in the PRC catering industry and the hot pot catering consumption market. The Group's revenue from sales of condiment products to the Haidilao Group amounted to approximately RMB1,625.6 million for the Year 2019, representing an increase by approximately 39.7% as compared to that of approximately RMB1,163.8 million in the Year 2018, mainly due to the steady growth in the same store revenue of Haidilao hot pot restaurants and the rapidly increased number of new Haidilao hot pot restaurants widespread across different cities in the PRC. The Group's revenue from sales of condiment products to the Haidilao Group has always accounted for a significant proportion of the Group's total revenue over the past seven Years from 2013 to 2019.

### ***3. Principal terms of the Haidilao Master Sales Agreement***

The Group and Haidilao Group had entered into the Existing Haidilao Master Sales Agreement dated 6 July 2018 to regulate the sale of Haidilao Customized Products, Haidilao Retail Products and Convenient Ready-to-eat Food Products by the Group to the Haidilao Group. As the Existing Haidilao Master Sales Agreement commencing from 6 July 2018 is going to expire by 31 December 2020, the Company intends to continue to enter into transactions of similar nature after 31 December 2020. Therefore, on 7 December 2020, the Group entered into new Haidilao Master Sales Agreement, the nature of which is similar to that of the transactions under the Existing Haidilao Master Sales Agreement, for a term of three Years from 2021 to 2023.

The Group sells condiment 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 Existing Haidilao Master Sales Agreement and its two supplemental agreements 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. The principal terms of the Haidilao Master Sales Agreement are summarized below:

#### *Term*

The Haidilao Master Sales Agreement has an initial term of three years from 1 January 2021 to 31 December 2023. Subject to compliance with the Listing Rules and applicable laws and regulations, the Haidilao Master Sales Agreement may be renewed for a further term of three years from time to time, unless the parties agree in writing to terminate the Haidilao Master Sales Agreement during its term; or the Haidilao Master Sales Agreement is terminated as required by applicable laws, regulations, requirements

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of the securities regulatory authorities, or judgment or decision of any competent court. Upon renewal of the Haidilao Master Sales Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

### *Nature of transactions*

#### (a) Sale of Haidilao Customized Products

Pursuant to the terms of the Haidilao Master Sales Agreement, the Group is the major supplier of Haidilao Customized Products to the Haidilao Group for use in its hot pot restaurants in the PRC. Upon fulfillment of certain requirements relating to mass production and standardization, the Group is also the supplier of the Haidilao Customized Products to the Haidilao Group for use in its hot pot restaurants in Hong Kong, Macau, Taiwan and overseas. However, if the Group is unable to satisfy the quantity of the products demanded, or the quality of the Haidilao Customized Products supplied by the Group does not fulfil the specifications of the Haidilao Group, and the matter cannot be resolved within a reasonable period (not longer than 30 days) after consultation with the Group, the Haidilao Group may engage other suppliers. Under the Haidilao Master Sales Agreement, the Group may engage contract manufacturers to produce Haidilao Customized Products.

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

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 are 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 Haidilao 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.

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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 Haidilao 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.

(b) Sale of Haidilao Retail Products

Pursuant to the terms of the Haidilao Master Sales Agreement, the Group is the sole supplier of the Haidilao Retail Products to the Haidilao Group for display and sales to customers on the online platforms of the Haidilao Group and in the hot pot restaurant of the Haidilao Group. Haidilao Retail Products are manufactured with the Group's own formulas. Haidilao Group is not permitted to sell the Group's products to any third party distributor.

Sale of Haidilao Retail Products will be made on the basis of individual orders specifying the type of product, purchase volume, delivery date etc. The sales price for the Haidilao Retail Products by cities shall be provided to the Haidilao Group semi-annually.

(c) Sale of Convenient Ready-to-Eat Food Products

Pursuant to the terms of the Haidilao Master Sales Agreement, the Group is the sole supplier of the Convenient Ready-to-eat Food Products to the Haidilao Group for display and sales to customers in the hot pot restaurants of the Haidilao Group and on the online platforms of the Haidilao Group. The Convenient Ready-to-eat Food Products are manufactured with the Joint Venture's own formulas. Haidilao Group is not permitted to sell the Group's products to any third party distributor. The quantity of the Convenient Ready-to-eat Food Products for sales is not fixed but is to be determined and agreed between the parties.

*Pricing basis*

The sale prices of Haidilao Customized Products, Haidilao Retail Products and Convenient Ready-to-eat Food Products are determined by the parties with reference to a number of factors as stated below. 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 Haidilao Customized Products

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



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(the “**Independent 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 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 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.

(b) Sale of Haidilao Retail Products

The sale price of Haidilao Retail Products shall be consistent with the pricing policy for similar products that the Group offers to Independent Distributors and shall be determined by the parties after arm’s length negotiations with reference to (i) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Haidilao Retail Products, and (ii) the prevailing market price of similar products. The independent non-executive Directors will regularly review and re-assess the sales prices of the Haidilao Retail Products semi-annually and make adjustments if there is any significant change in the production cost.

(c) Sale of Convenient Ready-to-eat Food Products

The sales price of Convenient Ready-to-eat Food 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 Convenient Ready-to-eat Food Products; and (ii) the prevailing market price of similar products. The independent non-executive Directors will regularly review and re-assess the sales prices of Convenient Ready-to-eat Food Products semi-annually and make adjustments if there is any significant change in the production cost.

*Payment terms*

Fees payable under the Haidilao Master Sales Agreement will be billed in a timely and appropriate manner according to the terms agreed by both parties.

(a) Sale of Haidilao Customized Products

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. According to the Management, the actual payment schedule for sales to overseas hot pot restaurants has usually been similar to those in the PRC.

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(b) Sale of Haidilao Retail Products

Payment shall be made on a monthly basis, following the delivery of products and issuance of invoices by the Group.

(c) Sale of Convenient Ready-to-eat Food Products

Payment shall be made on a monthly basis, following the delivery of products and issuance of invoices by the Group.

According to the annual reports of the Company (the “**Yihai Annual Report(s)**”) for the two Years 2018 and 2019, the majority of the Group’s third party sales are conducted through receiving advances from customers before delivering the goods to customers, with only a few customers who are granted with credit periods from 30 to 90 days, and its related party customers, such as Haidilao Group and Shuhai Supply Chain Group, are granted with 30 days credit period; whilst the Group’s respective trade receivable balances as at 31 December 2018 and 2019 with ageing within three months accounted for over 98% thereof. Based on this observation, we consider that the payment terms on a monthly (i.e. 30 days) basis for the supply of Haidilao Customized Products, Haidilao Retail Products and Convenient Ready-to-eat Food Products to the Haidilao Group pursuant to the Haidilao Master Sales Agreement are usual, typical and on normal commercial terms, and therefore are fair and reasonable.

#### ***4. Assessment of the principal terms of the Haidilao Master Sales Agreement***

Based on our independent review of the prospectus of the Company dated 30 June 2016 (the “**Yihai Prospectus**”), we understand that the Group and the Haidilao Group have established a long-term and close business relationship. Over the past two decades of development, although the Group has gradually expanded into other condiment product segments, such as hot pot dipping sauce and Chinese-style compound condiment products, and has developed a nationwide distribution network for its retail condiment products targeting retail customers as a result of its business growth, the Haidilao Group has still been remaining as the Group’s single largest customer, accounting for a considerable proportion of its revenue and sales volume. In order to retain the Haidilao Group as one of the key customers and nurture a long-term business relationship with it, the Group had offered a significant bulk purchase discount to the Haidilao Group by pricing its products sold to the Haidilao Group under the cost-plus pricing formula that primarily consists of the cost of production and selling and administrative expenses of the supplied condiment products. As the internal supplier of the Haidilao Group prior to the listing of the Shares in July 2016, the Group intended to expand its business by leveraging the well-recognized reputation of Haidilao brand and to accumulate industry knowledge through serving the Haidilao Group.

Since August 2014, the Group has adopted a new pricing policy for its sales of Haidilao Customized Products, which allows it to retain commercially acceptable net profit margins that are the same as the net profit margins arising from sales to the independent third party

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customers (the “**Independent Customers**”); whilst still fostering a mutually beneficial, fair and equitable and long-term working relationship with the Haidilao Group and its affiliates. However, the Group’s pricing for its sales to the Haidilao Group and its affiliates was still different from the pricing for its sales to Independent Customers, mainly because the sales to the Haidilao Group and its affiliates do not require material packaging costs or selling and distribution expenses (the “**PSD Expenses**”) as attractive packaging and marketing efforts are totally unnecessary for Haidilao Customized Products, which constitute a major part of the Group’s cost structure with respect to sales to Independent Customers.

Based on this new pricing policy, which applies to both Sichuan Haidilao and Singapore Haidilao as well as their affiliates, prices are determined with reference to (i) the historical sales price, (ii) the Group’s estimated overall net profit margin through sales to Independent Distributors in accordance with the pricing formula, (iii) the Group’s production costs including the cost of raw materials, selling and administrative expenses incurred in connection with the production of Haidilao Customized Products, and (iv) the market price of similar products sold by comparable companies to Independent Distributors. Primarily as a result of the new pricing policy as well as the increased sales volume to the related parties, the Group’s revenue from sales to related parties, including the Haidilao Group, have rapidly increased, which in turn also contributed to the rapid growth of its overall revenue and profit since then. Taking into account historical data and forecasts, the independent non-executive Directors regularly review and reassess the prices of the Group’s sales to the Haidilao Group on a semi-annual basis and adjust the prices as appropriate to maintain a net profit margin similar to its sales to other Independent Distributors. We have independently reviewed the Group’s four records of such relevant reviewing reports for the two Years 2019 and 2020, and noted that its pricing policies for maintaining a consistent, fair and equitable treatment between related parties and other Independent Distributors/Independent Customers had been followed.

We have further reviewed the Yihai Annual Reports for the two Years 2018 and 2019, and understand that the average selling price per kilogram of the Haidilao Customized Products to the Haidilao Group had been slightly lower than the condiment products sold to Independent Customers for the past three Years from 2017 to 2019; while the respective gross profit margins (i.e. before deducting the PSD Expenses) of the condiment products sold to them separately in different production formulas, packaging and tastes had deviated very largely at approximately 27.9% versus 53.0% in the Year 2017, 27.4% versus 56.1% in the Year 2018, and 27.5% versus 55.6% in the Year 2019, even though the net profit margins (i.e. after deducting the PSD Expenses) between the Haidilao Customized Products and condiment products to be supplied by the Group to the Haidilao Group and Independent Customers were basically comparable with each other at an average net profit margins (i.e. after deducting the PSD Expenses) of around 16%, 19% and 17% for the past three Years from 2017 to 2019, respectively.

Based on our clarification with the Management regarding the large deviation of gross profit margins (i.e. before deducting the PSD Expenses) there between, we were advised that condiment products are compound condiments used for cooking hot pot soup in restaurants or at home. The Group has been manufacturing condiment products with various high-quality raw materials, which mainly include vegetable or animal oil, chili peppers, prickly ash and other

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spices and ingredients, according to specific formulas and processing techniques. The formulas of the Group's condiment products have been well tested and endorsed by hundreds of millions of the Haidilao Group's customers. Through the Group's continuous efforts in developing and upgrading formulas, by optimizing its production processes and implementing stringent quality control measures, it has been supplying Haidilao hot pot restaurants with customized condiment products and offer the retail market a comprehensive range of high-quality condiment products appealing to consumers' ever-changing expectations and enhanced food safety consciousness, with a focus on mid-to high-end market. The Group's retail condiment products are distinguished from customized products supplied to the Haidilao Group in the following ways:

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

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

Since the establishment of the Group many years ago, although the Group has gradually expanded into other condiment product segments, such as hot pot dipping sauce and Chinese-style compound condiment products, and has developed a nationwide distribution network for its retail condiment products targeting retail customers as a result of its business growth, the Haidilao Group has still been remaining as the Group's single largest customer, accounting for a substantial part of its revenue and sales volume. However, with the very

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exceptional event of COVID-19 pandemic all over the world since February 2020, which has been leading to stringent pandemic prevention measures and consequential restrictions on consumption premises to be imposed around the world to battle against COVID-19 pandemic, and in turn a significant impact on all restaurant operations operated by the Haidilao Group across the nation. As a consequence, the Group had recorded revenue of approximately RMB499.0 million from sales to the Haidilao Group together with the Shuhai Supply Chain Group, representing a year-on-year decrease by approximately 29.6% and their contribution to the Group's total revenue only accounted for approximately 22.5% for the six months ended 30 June 2020. According to the Haidilao's interim report for the six months ended 30 June 2020, it had firstly recorded a net loss of approximately RMB964.6 million for the six months ended 30 June 2020, as compared to a net profit of approximately RMB911.0 million for the six months ended 30 June 2019.

Based on our independent review of the Yihai Prospectus and Yihai Annual Reports, we noted that the Group's overall gross profit margins (i.e. before deducting the PSD Expenses) had increased steadily at approximately 22.0% in the Year 2013, 24.0% in the Year 2014, 34.7% in the Year 2015, to around 37% to 38% in the four Years from 2016 to 2019, despite of a slight drop by about 1.1% in the Year 2017; while its overall net profit margins (i.e. after deducting the PSD Expenses) had also increased persistently with the similar trend over the same periods, even though there have been relatively lower average selling price, and hence much lower overall gross profit margins (i.e. before deducting the PSD Expenses) of the Haidilao Customized Products to be supplied to the Haidilao Group when compared to the retail condiment products to be sold to Independent Customers, and accordingly, we consider it to be commercially justifiable without prejudicial or detrimental to the interests of the Independent Shareholders.

Further in terms of actual profitability, the Group's gross profits had been continuously increasing from approximately RMB69.4 million in the Year 2013 to RMB1,641.4 million over the past seven Years from 2013 to 2019 respectively, representing a CAGR of approximately 69.4% over the period; while its net profit attributable to owners of the Company had also been increasing rapidly from merely RMB22.1 million in the Year 2013 to approximately RMB718.6 million over the seven Years from 2013 to 2019, representing a larger CAGR of approximately 78.7% during the same period. Based on such scenario, it further demonstrated that the different pricing arrangements between the Group and the Haidilao Group and other Independent Customers did not adversely affect the overall profitability of the Group and are commercially justifiable without prejudicial or detrimental to the interests of the Independent Shareholders, and therefore fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

We have reviewed 20 sample invoices for the two Years 2019 and 2020 in relation to the sale of Haidilao Retail Products and Convenient Ready-to-eat Food Products by the Group to each of the Haidilao Group and Independent Customers, and have noted that the selling price of such similar products are comparable among each other and no less favourable to the Group than the terms for similar transactions between the Haidilao Group and such Independent Customers.

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Having considered the above mechanism for setting the selling price for supply of Haidilao Customized Products, Haidilao Retail Products and Convenient Ready-to-eat Food Products from the Group to the Haidilao Group as well as the payment terms thereunder, we are of the view that the sale of Haidilao Customized Products, Haidilao Retail Products and Small Hot Pot Products to the Haidilao Group pursuant to the Existing Haidilao Master Sales Agreement are on normal commercial terms, have been and will be conducted in the ordinary and usual course of business of the Group, and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

### 5. *The historical transaction amounts, existing annual caps and the proposed annual caps for the Haidilao Master Sales Agreement*

#### *Historical transaction amounts*

The table below sets out the historical transaction amounts in relation to the sales of Haidilao Customized Products, Haidilao Retail Products and Small Hot Pot Products pursuant to the Existing Haidilao Master Sales Agreement during the periods indicated below:

	For the year ended/ending 31 December					
	Increase/ (decrease)		Increase/ (decrease)		Increase/ (decrease)	
	2018	from 2017	2019	from 2018	2020	from 2019
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Existing annual caps</b>	1,569,700	57.8	2,337,900	48.9	3,567,300	52.6
Haidilao Customized Products	1,526,000	57.6	2,269,600	48.7	3,462,700	52.6
Haidilao Retail Products	30,000	25.0	45,000	50.0	65,000	44.4
Small Hot Pot Products ( <i>Note 1</i> )	13,700	389.3	23,300	70.1	39,600	70.0
<b>Actual/estimated transaction amounts</b>	1,163,828	28.6	1,625,628	39.7	970,858	N/A
Haidilao Customized Products	1,145,717	28.5	1,574,464	37.4	914,881	N/A
Haidilao Retail Products	13,422	(1.3)	30,686	128.6	29,273	N/A
Small Hot Pot Products	4,689	4,636.4	20,478	336.7	26,704	N/A
					<i>(Note 2)</i>	
<b>Utilisation rate of the existing annual caps</b>	74.1%		69.5%		27.2%	
Haidilao Customized Products	75.1%		69.4%		26.4%	
Haidilao Retail Products	44.7%		68.2%		45.0%	
Small Hot Pot Products	34.2%		87.9%		67.4%	
Total revenue of the Group	2,681,373	62.8	4,282,488	59.7	N/A	N/A
					<i>(Note 3)</i>	
Proportion of revenue from the Haidilao Group to the total revenue of the Group	43.4%		38.0%		N/A	

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*Notes:*

1. Small Hot Pot Products are part of the Group's four key categories of Convenient Ready-to-eat Food Products, namely instant silk noodles, instant rice, self-serving rice and Small Hot Pot Products manufactured and sold by the Joint Venture. As at 30 June 2020, the Group had a total of 22 Convenient Ready-to-eat Food Products.
2. The actual transaction amounts for the Year 2020 of Haidilao Customized Products, Haidilao Retail Products and Small Hot Pot Products sold by the Group to the Haidilao Group were for the nine months ended 30 September 2020. Since there has been significant impact on the restaurant operations and revenue of the Haidilao Group by the outbreak of COVID-19 pandemic in first half of the Year 2020, the Management considers that it shall not be appropriate to project the estimated transaction amounts on annualized basis for Haidilao Customized Products, Haidilao Retail Products and Small Hot Pot Products for comparison based on the actual transaction amounts thereof for the nine months ended 30 September 2020.
3. The Directors consider that it may not be appropriate to make forecast for the total revenue of the Group for the full year ending 31 December 2020. The Group's total revenue for the Year 2020 was up to the nine months ended 30 September 2020.

*The proposed annual caps*

	<b>For the year ending 31 December</b>					
			<b>Increase</b>			<b>Increase</b>
	<b>2021</b>	<b>2022</b>	<b>from 2021</b>	<b>2023</b>	<b>from 2022</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	%	<i>RMB'000</i>	%	
<b>Proposed annual caps</b>	3,916,000	5,693,000	45.4	7,540,000	26.4	
Haidilao Customized Products	3,580,000	5,060,000	41.3	6,580,000	30.0	
Haidilao Retail Products	150,000	271,000	80.7	408,000	50.6	
Convenient Ready-to-eat Food Products	186,000	362,000	94.6	552,000	52.5	

*Basis of determination of the proposed annual caps*

Based on the Group's latest unaudited management accounts for the nine months ended 30 September 2020, the actual transaction amount of the sale of Haidilao Customized Products to the Haidilao Group under the Existing Haidilao Master Sales Agreement for the period from 1 January 2020 to 30 September 2020 was approximately RMB914.9 million, representing approximately 26.4% of the existing annual cap for the Year 2020, which had not yet been exceeded.

We understand from the Management that in determining the above proposed annual caps in respect of the Haidilao Customized Products, Haidilao Retail Products and Convenient Ready-to-eat Food Products contemplated under the Haidilao Master Sales Agreement, the Company has taken into account the following factors:

- (i) the historical transaction amounts with the Haidilao Group;

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- (ii) Haidilao Group's rapid expansion in recent years, as demonstrated by the number of stores of the Haidilao Group as at 31 December 2017, 2018 and 2019 and 30 June 2020, being 273, 466, 768 and 935 respectively;
- (iii) substantial increase in revenue of the Group for the Years from 2013 to 2019, which has been partly attributable to the sales to the Haidilao Group; and
- (iv) the growth of the PRC catering industry.

The Directors are of the view that the proposed annual caps under the Haidilao Master Sales Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and Shareholders as a whole.

### *The Haidilao Group's business plan for the coming three Years from 2021 to 2023*

We are currently also the Independent Financial Advisers acting for both the Company and the Haidilao Group at the same time, so we have chances to discuss with the management of the Haidilao Group (the "**Haidilao Management**") regarding the business plan for the coming three Years from 2021 to 2023. It has been the Haidilao Group's business plan and strategy to continuously increase its market share and achieve continued revenue growth by opening new hot pot restaurants. Details of its business expansion plan are as follows:

The Haidilao Management believes that there is significant potential to increase the Haidilao Group's penetration and solidify its market presence in tier 1 cities, such as Beijing, Shanghai, Guangzhou and Shenzhen, as well as other tier 2 and tier 3 cities where its hot pot restaurants are currently located. To that end, the Group plans to concentrate its efforts in metropolitan areas where its existing restaurants have high table turnover rates or long waiting time in order to divert guest traffic to new hot pot restaurants in the vicinity and enhance guest experience.

Notwithstanding to the above, Haidilao Group has also increased, and will further expand geographical coverage by increased urbanization and consumption upgrades in the PRC, which the Haidilao Management has noted that such move presents opportunities for the hot pot restaurant business in tier 2 cities, such as all municipalities and provincial capitals and Qingdao, Xiamen, Ningbo, Dalian, Zhuhai, Suzhou, Wuxi and etc., and other tier 3 cities and below. By using the Haidilao Group's existing restaurants in major cities as hubs, it will formulate growth strategies to expand coverage into neighbouring areas based on the performance of the existing hot pot restaurants. The Haidilao Group will also explore opening of new hot pot restaurants in new regional markets.



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The Haidilao Group has a qualified restaurant manager candidate pool of over 1,000 persons. Most of the Haidilao Group's new hot pot restaurants are located in or near regions, where it has existing restaurants as its restaurant managers generally submit proposals for new restaurants in the same and nearby regions of their restaurants. In addition to the Haidilao Group's bottom-up growth, the Haidilao Group strategically expand its hot pot restaurant network in new regions and countries in the coming years. In general, the Haidilao Group's actual number of existing hot pot restaurants was on a rough proportion of 90% and 10% in the PRC domestic market and overseas countries, respectively. We have independently reviewed the interim report of Haidilao Group for the six months ended 30 June 2020 and understood that the Haidilao Group's distribution of existing hot pot restaurants as at 30 June 2020 were in proportion of 22.0%, 41.5%, 26.7% and 9.8% in PRC's tier 1 cities, tier 2 cities, tier 3 cities and below and overseas countries, respectively; whilst the average spending per guest in Mainland China was ranging from RMB101.8 to RMB118.1 with an average of RMB108.0.

However, in order to better capture the possible increasing business opportunities that may likely arise from the "internal circulation" concept as discussed in details below, the Haidilao Group now plans to open new hot pot restaurants in the PRC in a faster pace domestically. The Haidilao Management believes that it is a very good chance for the Haidilao Group to domestically expand in a faster pace at comparatively lower rental costs of leasing rental areas for new hot pot restaurants, and currently anticipates that the Haidilao Group's implementation of future business development plan will basically in line with its successful track over the years. The Haidilao Group's historical restaurant growth accommodates the huge hot pot market demands in China, which was not directly proportional to the historical growth rate of the PRC hot pot market in the corresponding periods.

In fact, we have reviewed and understood from Haidilao Annual Reports that the Haidilao Group had 273, 466 and 768 hot pot restaurants located nationwide of the PRC and overseas countries as at December 31, 2017, 2018 and 2019, respectively, representing a CAGR of approximately 67.7% over the past three Years from 2017 to 2019.

According to the industry report (the "**Industry Report**") regarding China's catering service market prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. (the "**Industry Consultant**") in December 2020, the revenue generated from hot pot market in China in the corresponding periods had increased from approximately RMB355.3 billion in 2015, to RMB473.8 billion in 2018 and further to RMB518.8 billion in 2019, representing a CAGR of approximately 9.9% over the five Years from 2015 to 2019. Therefore, the future annual growth rate of the PRC hot pot market is not expected to be directly proportional to the estimated annual growth rate of the Haidilao Group's restaurants to be opened in the next three Years, and which shall not be a benchmark when considering the reasonableness of its business expansion plan in the coming years.

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Based on our independent review of the Industry Report, we understand that the local hot pot markets in China, covering tier-one and lower tier cities as well as rural areas, have huge consumption base and great growth potential with its large-scale dining demands, all of which support the Haidilao Group's expansion plan. According to the Industry Report, the hot pot market in terms of revenue in tier-one cities in China had increased from approximately RMB32.8 billion in 2015 to RMB47.3 billion in 2019 and further to RMB67.9 billion in 2024, while the hot pot market in lower tier cities and rural areas in China had increased from RMB322.5 billion in 2015 to RMB471.5 billion in 2019 and is expected to further increase to RMB687.6 billion in 2024. As disclosed in the Haidilao Annual Report, the Haidilao Group's overall average same store table turnover rate has remained almost saturated at 5.2 times/day in Years 2018 and 2019, whilst its overall same store sales had increased from approximately RMB11,880 million in Year 2018 to RMB12,066 million in Year 2019, representing a slight growth of approximately 1.6% over the two Years. Therefore, the Management believes that the hot pot market size and its significant growth potential lay a solid foundation for the Haidilao Group to further increase its penetration by solidifying its market presence in tier-one cities and enlarging its market shares in lower tier cities and rural areas. According to the Haidilao Group's current business plan, its business development will be more focusing on tier 3 cities and below in the coming three Years from 2021 to 2023 with around 47% new restaurant openings in these rural areas when compared to that of around 25% as at the December 31, 2018 and 2019. Based on our review of the Annual Report, the Haidilao Group's same store sales growth in tier 3 cities and below had been out-performed with annual growth rate of 8.3% in Year 2019 when compared to that of the overall average of merely 1.6%, whilst its overall average same store table turnover rate in those tier 3 cities and below increased from 4.9 times/day in Year 2018 to 5.2 times/day in Year 2019. On such basis, it is strategically wise for the Haidilao Group's current business plans to concentrate its efforts in metropolitan areas where its existing restaurants have high table turnover rates or long waiting times in order to divert guest traffic to new restaurants in the vicinity and enhance guest experience. In the meanwhile, the Haidilao Group will expand coverage in neighbouring areas and lower tier cities as well as rural areas to cater for the great hot pot market potential in China.

The increasing market concentration in the PRC hot pot market indicates that the Haidilao Group, as a leading market player, is expected to enlarge its market shares and therefore further support the Haidilao Group's expansion plan in China. According to the Industry Report, as the PRC hot pot market is highly fragmented, it is estimated that top market players like the Haidilao Group in the PRC hot pot industry will have the capacity to increase its market shares substantially with its well established brand, high food quality and consistency, value of money, ambiance, well-known service reputation, desirable location and reliable supply chain as well as availability of trained employees. According to the Industry Consultant, the PRC hot pot market is expected to increase from approximately RMB355.3 billion in 2015 to RMB518.8 billion in 2019, and will further reach approximately RMB732.3 billion in 2024 at a compound annual growth rate of approximately 7.1% from 2019 to 2024. The five largest players in the hot pot restaurant market in China only held an aggregate market share of 7.8% in terms of

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revenue in 2019, among which Haidilao ranked first in the hot pot restaurant market in China in 2019 with a 4.5% market share in terms of revenue in 2019 when compared to its market share of 2.2% in 2017 (as disclosed in the Prospectus). According to the Industry Report, the Haidilao Group is currently the largest hot pot restaurant group in terms of revenue in the world. On such basis, leveraging with the Haidilao Group's available financial and human resources as well as expertise in the hot pot catering market, the Haidilao Group's leading position in the hot pot catering market, available financial and human resources, expertise in the hot pot catering market and the expected market concentration form the basis of its future expansion at the rate as it has planned, having considered that the COVID-19 pandemic has been gradually brought under control in China since March 2020 and the Haidilao Group has begun to reopen its restaurants in China with strict measures in place to comply with the local disease prevention and control regulations. As of the Latest Practicable Date, the Haidilao Group has reopened all of its restaurants in China and has continued to open new hot pot restaurants. The COVID-19 pandemic is not expected to have a long-term adverse impact on the Haidilao Group's business operation in China. Based on the above, we concur with the Haidilao Management's view that the Haidilao Group's current expansion plan is reasonable.

Based on our independent researches from the public websites, according to the statistical information as extracted from the official websites of 中華人民共和國國家統計局 (The National Bureau of Statistics of China), we noted that all of the PRC residents' per capita average disposable income (居民人均可支配收入) and consumer consumption (居民人均消費支出) in cities, urban and rural areas had been increasing over the past seven years from 2013 to 2019 with CAGRs ranging from approximately 7.2% to 10.1%.

We have further discussed with and are advised by the Haidilao Management that the prospects of the Haidilao Group is driven by the people's domestic spending power in the PRC coupled with the anticipated increasing demand for hot pot dining services at its Haidilao restaurants. As such, we have reviewed, among other things, the economic information in the report titled *World Economic Outlook Update* dated October 2020 (the "IMF Report") published by the International Monetary Fund (國際貨幣基金組織), which is an organisation of 189 countries. With reference to the IMF Report, we note that the global macro-economy was adversely impacted in year 2020 by COVID-19 pandemic all over the world, but is expected to recover afterwards. According to the IMF Report, (i) during May and June 2020, many economies tentatively reopened from the lockdown and the global economy started to climb from the depths to which it had plunged in April 2020; and (ii) following the contraction in year 2020 and recovery in year 2021, the level of global GDP in year 2021 is expected to be 0.6% above that of year 2019. In respect of the PRC, it is shown in the IMF Report that the IMF has forecasted that the GDP of the PRC will be growing by approximately 8.7%, 5.8% and 5.7% in the coming three years from 2021 to 2023, despite of the obvious economic recession in the first half of year 2020. We understand that the macro-economic environment is expected to be recovering, and the Haidilao Group has made and will continue to make efforts in the continuous development of its businesses.

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Based on our independent review of the 2020 中國餐飲業年度報告 (2020 China Restaurant Industry Survey Report) published by 中國飯店協會 (China Restaurant Association), the overall operating environment in the catering industry in the PRC has been recovering, the operating revenue and customer turnover rate have been increasing by approximately 55.9% and 42.8%, respectively, in the second quarter of 2020 when compared to that of the first quarter of 2020.

According to the Haidilao Group's latest unaudited management accounts for the nine months ended 30 September 2020, the actual transaction amounts for the three months from 1 July 2020 up to 30 September 2020 accounted for almost 50% of the total amounts for the nine months ended 30 September 2020, which demonstrated that the Group's scale of business operation in the third quarter (with three months) of Year 2020 was comparable to that the first half (with six months) of Year 2020, and implied signs of recovery following the PRC Government's tight control over the COVID-19 pandemic but yet it was not operating in its full scale of operation. This scenario has been consistent with the overall business environment in the PRC catering market as a whole during the period. As such, the Management reiterates that it would not be meaningful, or even misleading, for comparing the actual transaction amount in Year 2020 with the proposed annual caps for the coming three Years from 2021 to 2023 as the COVID-19 pandemic has a great impact on the catering industry.

It can be seen from information released by the National Bureau of Statistics for the period from January to October 2020 that although domestic consumer marketing is recovering, the prevention of external infection cases and resurgence of domestic outbreak still cause great pressure to the domestic environment and the accumulated decline of service consumption in lodging and catering industries remains obvious. More efforts are needed to promote further domestic consumption. Due to the sporadic occurrence of domestic pandemic cases, various localities have adopted active prevention and control measures in order to prevent the spread of the pandemic, such as closing public business activities and prohibiting gatherings. Consumer psychology of consumer groups has yet to be built up and restored. In relation to the future, despite there is a trend of a second wave of the pandemic overseas, the Company considers that domestic situation is doing fine currently in terms of prevention and control, and therefore in the following years, as the catering industry further recovers, the transaction amounts with the Haidilao Group, the Shuhai Supply Chain Group and the Joint Venture will be increased.

More recently, as one of the most important policy framework laid out in the 14th Five-Year Plan (第十四個五年計劃) in the PRC, the new concept of “dual circulation (雙循環) (i.e. domestic/internal circulation (內循環) plus international/external circulation (外循環))” development pattern has been highly promulgated by the China Government to address the current economic dilemma. Putting internal circulation first can break China's dependence on overseas markets that arises from international division of labour and minimise the impact of external risks on China's economy. China has worked to cut its dependence on foreign trade by reducing its export dependence through promoting

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domestic consumption. As a consequence, the China Government strongly encourages domestic consumer spending and industrial production by China herself so as achieving the goal of self-sustaining growth and building a moderately prosperous society, instead of heavily relying on external economic momentum by export-related business activities. It is widely anticipated that domestic consumer spending in China would be considerably improved/enhanced in a greater extent than those of the past years. On such basis, the Haidilao Management has estimated that the Haidilao Group's business scale in terms of revenue, customer turnover rate as well as consumer spending would also increase accordingly so as leading to greater demand for its hot pot dining services.

In consideration of the above policy changes, it is commonly expected that the "internal circulation" concept would bring in additional business opportunities to the domestic catering market in China in the coming years, in particular consideration of the outbreak of COVID-19 pandemic which could not be effectively controlled by, or even out of control of, governments of certain western countries. Most of the Chinese people are unwilling to travel abroad to such western countries with harsher restricted measures. As a consequence, it is currently anticipated that much stronger demand for catering services, including but not limited to hot pot dining services, would likely arise in the China's domestic catering market. Based on the above observation and understanding, we are of the view that the Haidilao Group's business forecasts of opening many more hot pot restaurants by a CAGR of around 58.8% between the Years 2019 to 2023, are not unreasonably aggressive/excessive, in particular consideration of market demand for hot pot dining services as well as its internally available financial and human resources.

### *Assessment of the proposed annual caps*

In assessing the fairness and reasonableness of the proposed annual caps under the Haidilao Master Sales Agreement for the coming three Years from 2021 to 2023, we have reviewed the schedule of forecasted sales of Haidilao Customized Products, Haidilao Retail Products and Convenient Ready-to-eat Food Products to the Haidilao Group prepared and provided by the Company for each of the coming three Years from 2021 to 2023.

#### (a) Haidilao Customized Products

Haidilao Customized Products are those condiment products manufactured by the Group using the Haidilao Group Formulas owned by the Haidilao Group for use in the Haidilao hot pot restaurants in the PRC and oversea countries.

Based on our discussion with the Management, we understand that the proposed annual caps of RMB3,580 million, RMB5,060 million and RMB6,580 million for the sale of Haidilao Customized Products to the Haidilao Group for each of the coming three Years from 2021 to 2023 respectively, which are determined based on (i) the Group's actual sales amount for the Year 2019 (i.e. instead of the Year 2020 as the Haidilao Group's actual operating performance was significantly distorted by the outbreak of

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COVID-19 pandemic across the nation which had been leading to temporary suspension of all the Haidilao hot pot restaurants for almost one and a half months in the Year 2020); (ii) the Management's past experience in hot pot restaurant operations in the PRC; and the forecasted number of Haidilao hot pot restaurants already in operations and new hot pot restaurants to be opened in the coming three Years from 2021 to 2023, such estimates had been communicated and discussed in details between the Management and the Haidilao Group. Benefiting from the improvement in the PRC food service industry and the hot pot catering market, the Haidilao Group achieved not only the stable same store sales growth, but also the rapid expansion in terms of the number of Haidilao hot pot restaurants in the PRC, therefore the Haidilao Group has tremendously increased its demand for Haidilao Customized Products, and the Group currently anticipates that transaction amounts for the sale of Haidilao Customized Products and Haidilao Retail Products will further be growing for each of the coming three Years from 2021 to 2023. According to the Haidilao Group's announcement published on 6 July 2020, Haidilao Group has still actively opened new hot pot restaurants and continued to promote the expansion of Haidilao's restaurant network, despite of the outbreak of COVID-19 pandemic, because which should have been under control and there has been improvement in consumer consumption in the PRC overall catering market. In fact, the Haidilao Group has gradually reopened most of its hot pot restaurants since 12 March 2020, and has been resuming normal operation; while the overall operation of the Haidilao Group's hot pot restaurants has also been continuously improving on a monthly basis.

Based on our independent review of the Yihai Prospectus and Yihai Annual Reports for the two Years 2018 and 2019, we noted that the Group's revenue had been increasing rapidly from approximately RMB315.9 million in the Year 2013, to RMB2,681.4 million and RMB4,282.5 million for the two Years 2018 and 2019 respectively, representing a CAGR of approximately 54.4% over the seven Years from 2013 to 2019. Having taken into account the facts that (i) the Group's continuous increase in sale of Haidilao Customized Products to the Haidilao Group of approximately RMB1,574.5 million in the Year 2019 and forecasted revenue up to RMB6,580 million in the Year 2023 with a CAGR of approximately 43.0% for the five Years from 2019 to 2023; and (ii) there will be many more new Haidilao hot pot restaurants to be opened by a CAGR of around 58.8% in the coming three Years from 2021 to 2023 and thereafter in a faster growing pace than that of the Year 2019 based on the communication and detailed discussion between the Management and the Haidilao Group, the Management currently anticipates that the considerable increase in the proposed annual caps for sale of Haidilao Customized Products for the coming three Years from 2021 to 2023 will basically be commensurate with the anticipated maximum increase in the number of opening new Haidilao hot pot restaurants by a CAGR of around 58.8% between the Years 2019 and 2023. Independent Shareholders should note that the maximum number of opening new hot pot restaurants is usually spread over each month of a Year, so the percentage of increase in projected revenue from sale of Haidilao Customized Products shall be lower than that of the maximum number of opening new hot pot restaurants in each of the coming three Years.

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The proposed annual caps for the sale of Haidilao Customized Products of approximately RMB3,580 million, RMB5,060 million and RMB6,580 million for each of the coming three Years from 2021 to 2023, respectively, represent a CAGR of approximately 35.6% over the coming three Years from 2021 to 2023. If we re-compute the CAGR in terms of the Group's revenue derived from sale of Haidilao Customized Products by linking up the historical transaction amount for the Year 2019 with the proposed annual caps for the coming three Years from 2021 and 2023, the projected CAGR would account for approximately 43.0% for the five Years from 2019 to 2023, which would be higher than the CAGR of approximately 35.6% for the coming three Years from 2021 to 2023 by 7.4 percentage points mainly because of the lower base actual transaction amount in the Year 2019. We have compared the Haidilao Group's consumption of Haidilao Customized Products in the Year 2019 and the coming three Years from 2021 to 2023 on per hot pot restaurant basis, and noted that the average consumption thereof by each hot pot restaurant would be within a narrow range between RMB1.4 million and RMB1.9 million. On such basis, we are of the view that the proposed annual caps for the sale of Haidilao Customized Products up to approximately RMB3,580 million, RMB5,060 million and RMB6,580 million for the coming three Years from 2021 to 2023, respectively, shall be justifiable and realistic, and therefore are fair and reasonable.

In assessing the Haidilao Group's such an aggressive business expansion plan of opening new hot pot restaurants by a CAGR of around 58.8% in the coming three Years from 2021 to 2023, we shall look into factors whether (a) the Haidilao Group has adequate resources to implement it; and (b) the overall hot pot catering market has enough room to accommodate its expansion efforts/results. According to the Haidilao Group's business strategy and plan as disclosed in the prospectus of Haidilao Group dated 12 September 2018 (the "**Haidilao Prospectus**"), by leveraging with the net proceeds of approximately HK\$7,269 million from the listing of its shares on the Main Board of the Stock Exchange in September 2018 (the "**Haidilao Listing**"), it will continue to expand its restaurant network by increasing restaurant density and further expanding geographical coverage etc. following the Haidilao Listing. Based on our independent review of the Haidilao Group's consolidated cash flow statements as disclosed in the Haidilao Prospectus and its annual reports for the Years 2018 and 2019 (the "**Haidilao Annual Report(s)**"), it had very strong capability to generate operating cash inflows before movements in working capital of approximately RMB799 million, RMB1,635 million, RMB1,978 million, 2,907 million and RMB5,087 million for each of past five Years from 2015 to 2019, respectively. In addition to the considerable sum of net cash proceeds of approximately HK\$7,269 million obtained from the Haidilao Listing, we are of the view that the Haidilao Group's business forecasts of opening many more hot pot restaurants by a CAGR of around 58.8% in the coming three Years from 2021 to 2023 shall not be unattainable and unreliable, in particular consideration of its available financial and human resources. In fact, according to the Haidilao Prospectus and Haidilao Annual Reports, Haidilao Group had 273, 466 and 768 hot pot restaurants located nationwide of the PRC and overseas countries as at 31 December 2017, 2018 and 2019, respectively, representing a CAGR of approximately 67.7% over the past three Years 2017 to 2019. As at 30 June 2020, there were 935 Haidilao hot pot restaurants located in PRC and overseas.

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As at 31 December 2019, the Haidilao Group had 768 hot pot restaurants, among which 712 were located in 216 cities in the PRC and 56 were located in Taiwan, Hong Kong and other overseas countries; while its overall same store sales slightly increased by about 1.6% from RMB11,880 million to RMB12,066 million for the Year 2019, and the average spending per guest slightly increased from RMB101.1 in the Year 2018, to RMB105.2 in the Year 2019 and RMB112.8 for the six months ended 30 June 2020. The Management also considers that as the per capita annual disposable income of urban households in the PRC increase, consumers are expected to enhance their lifestyle and upgrade consumption, which will promote dining-out culture and increase demand for mid-to high-end restaurants with better services, like Haidilao. On such scenario, it may demonstrate that there shall be still significant potential to increase the Haidilao Group's penetration and solidify its market presence in wider geographical locations in the PRC and overseas countries, and it shall be a reasonable business consideration for the Haidilao Group to continue to open new hot pot restaurants in a faster pace in the coming years.

(b) Haidilao Retail Products

Haidilao Retail Products are those condiment products manufactured using formulas owned by the Group itself (i.e. instead of the Haidilao Group Formulas) for display and sale to customers in Haidilao hot pot restaurants, which are the same products as those sold by the Group through Independent Distributors.

According to the Group's past sales data, the Group's sale of Haidilao Retail Products to the Haidilao Group has been in their limited scale with historical transaction amounts of approximately RMB13.6 million, RMB13.4 million and RMB30.7 million for each of the past three Years from 2017 to 2019, respectively, representing a CAGR of approximately 50.2% over the past three Years. Based on our understanding from the Management, the Haidilao Retail Products have mainly been for display and sale at Haidilao hot pot restaurants, the sale of which is random and incidental to customers having their hot pot meals at such restaurants and therefore have not been the key income stream of either the Group or the Haidilao Group in any way. The Management was not aware of any particular reasons for the slight decrease in the sale of Haidilao Retail Products in the Year 2018; whilst the CAGR of sales of Haidilao Retail Products for the past three Years from 2017 to 2019 has basically been in line with the Group's overall increasing revenue trends over the past three Years from 2017 to 2019, even though the revenue base amount has been comparatively limited.

The proposed annual caps for Haidilao Retail Products will amount to approximately RMB150 million, RMB271 million and RMB408 million for each of the coming three Years from 2021 to 2023, respectively, representing a CAGR of approximately 91.0% over the five Years from 2019 to 2023. The Management currently anticipates that the considerable increase in the proposed annual caps for the sale of Haidilao Retail Products for the coming three Years from 2021 to 2023, because the base historical transaction amount in Year 2019 was relatively smaller and they believe that there would be greater



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demand for such condiment products by retail customers having hot pot meals at home after the COVID-19 pandemic. Based on the observation and such understanding from the Management, we are of the view the basis for determining the proposed annual caps for the Haidilao Retail Products for the coming three Years from 2021 to 2023 is fair and reasonable.

(c) Convenient Ready-to-eat Food Products

Convenient Ready-to-eat Food Products are the instant silk noodles, instant rice, self-serving rice and Small Hot Pot Products mainly manufactured by the Joint Venture, though the revenue amounts involved were still relatively limited, which can enrich the existing product scope and expand the existing business of the Group, and is expected to create a new source of profit growth for the Group. Convenient Ready-to-eat Food 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 off-line sales channels, and has firstly become a new line of business for the Group in the Year 2017.

The Group's total revenue from this business line of Convenient Ready-to-eat Food Products (primarily consisting of Small Hot Pot Products) to the Haidilao Group amounted to approximately RMB61.4 million, RMB444.6 million and RMB999.0 million for each of the past three Years from 2017 to 2019 respectively, representing an explosive CAGR of approximately 4.03 times; but the sale of such Small Hot Pot Products to the Haidilao Group only amounted to approximately RMB98,500, RMB4.7 million and RMB20.5 million for the past three Years from 2017 to 2019, respectively, representing annual growth rate of about 4.36 times between the two Years 2018 and 2019, perhaps the actual base transaction amount involved in the Year 2017 was very minimal so that we exclude it from our computation of annual growth.

In assessing the fairness and reasonableness of the proposed annual caps for the sale of Convenient Ready-to-eat Food Products pursuant to the Haidilao Master Sales Agreement, we have reviewed the schedule of forecasted sales of Convenient Ready-to-eat Food Products to the Haidilao Group prepared and provided by the Company for each of the coming three Years 2021 and 2023.

Based on our understanding from the Management, the Joint Venture was just start-up and commenced operation in September 2017 to test the market demand for the self-serving Small Hot Pot Products in the PRC, which have been gradually and widely accepted by the market, so the Management sets the proposed annual caps of RMB186 million, RMB362 million and RMB552 million for the coming three Years from 2021 to 2023, respectively, which seems to be aggressive when compared to the relatively limited historical transaction amounts for the past three Years from 2017 to 2019. As this product line was newly commenced in September 2017 and the base actual transaction amount achieved by the Haidilao Group was still very limited, the Directors currently anticipates that there will be an aggressive increase in sale of Convenient Ready-to-eat Food Products in the Year 2021 up to RMB186 million when compared to that of approximately

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RMB20.5 million in the Year 2019, representing a CAGR of approximately 2.28 times; whilst the forecasted sales amounts would slow down at a comparatively stable level of RMB362 million and RMB552 million for each of coming two Years 2022 and 2023, representing annual growth rate of approximately 94.6% and 52.5% during the same periods. The Management currently anticipates that the considerable increase in the proposed annual caps for sale of Convenient Ready-to-eat Food Products for the coming three Years from 2021 to 2023, because the base historical transaction amount in Year 2019 was relatively smaller and they believe that there would be greater demand for such Convenient Ready-to-eat Food Products by retail customers having convenient meals at home/office after the COVID-19 pandemic. If we re-compute the CAGR in terms of the Group's revenue derived from sale of Convenient Ready-to-eat Food Products (including the Small Hot Pot Products) by linking up the historical transaction amount for the Year 2019 with the proposed annual caps for the coming three Years from 2021 and 2023, the projected CAGR would account for approximately 127.9% for the five Years from 2019 to 2023, which would still be conservative when compared to the historical annual growth rate of approximately 4.36 times in respect of its total revenue from Convenient Ready-to-eat Food Products between the past two Years 2018 and 2019. On such basis, we are of the view that the proposed annual caps for the sale of Convenient Ready-to-eat Food Products up to approximately RMB186 million, RMB362 million and RMB552 million for the coming three Years from 2021 to 2023, respectively, shall not be unrealistic, and therefore are fair and reasonable.

Having considered the above factors and analysis, we are of the view that the rationale behind and basis adopted by the Management in determining the proposed annual caps for Haidilao Customized Products, Haidilao Retail Products and Convenient Ready-to-eat Food Products are justifiable, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

However, the Independent Shareholders should note that the above proposed annual caps for Haidilao Customized Products, Haidilao Retail Products and Convenient Ready-to-eat Food Products relate to future events and do not represent a forecast of transaction amounts to be incurred as a result of the Yihai Continuing Connected Transactions.

### **B. Shuhai Sales Agreement**

#### ***1. Principal terms of the Shuhai Sales Agreement***

On 7 December 2020, the Company and Shuhai Supply Chain entered into the Shuhai Sales Agreement, pursuant to which the Group agreed to supply condiment products, hot pot dipping sauce products and other compound condiment products to the Shuhai Supply Chain Group.

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### *Term*

The Shuhai Sales Agreement has an initial term of three years from 1 January 2021 to 31 December 2023. 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 the Company 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 Shuhai Retail Products to the Shuhai Supply Chain Group. Shuhai Customized Products and Shuhai Retail Products will be sold and distributed by Shuhai Supply Chain Group to its customers who are catering service providers. Shuhai Supply Chain Group is not permitted to sell 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 Distributors in accordance with the pricing formula, (iii) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Shuhai Customized Products, and (iv) the market price of similar products sold by comparable companies to Independent Distributors.

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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 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.

Based on our understanding from the Management, the price determination mechanism currently in force for the sale of the Haidilao Customized Products is also applicable to the sale of Shuhai Customized Products, because both of them are governed by the Group's internal control and sales policies for connected persons of the Company. According to our independent review and analysis as detailed in the above, the net profit margins (i.e. after deducting the PSD Expenses) among the Haidilao Customized Products, the Shuhai Customized Products and those condiment products to be supplied by the Group to the Haidilao Group, the Shuhai Supply Chain Group and the Independent Customers, respectively, were basically comparable with each other at an average net profit margins (i.e. after deducting the PSD Expenses) of around 15%, 19% and 17% for the past three Years from 2017 to 2019, respectively. Accordingly, we consider that the basis for determining the sales price of Shuhai Customized Products is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

### (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 Distributors and shall be determined by the parties after arm's length negotiations with reference to (i) the production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of the Shuhai Retail Products, and (ii) the prevailing market price of similar products. The independent non-executive Directors regularly 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.

### *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.

According to the Yihai Annual Report for the Year 2019, the majority of the Group's third party sales are conducted through receiving advances from customers before delivering the goods to customers, with only a few customers who are granted with credit periods from 30 to 90 days, and its related party customers, such as the Haidilao Group and the Shuhai Supply Chain Group, are granted with 30 days credit period; whilst the Group's respective trade receivable balances as at 31 December 2018 and 2019 with ageing within three months accounted for over 98% thereof. Based on this observation, we consider that the payment terms on a monthly (i.e. 30 days) basis for the supply of Shuhai Customized Products and Shuhai Retail Products to the Shuhai Supply Chain Group pursuant to the Shuhai Sales Agreement are usual, typical and on normal commercial terms, and therefore are fair and reasonable.

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### 2. *Reasons for entering into the Shuhai Sales Agreement*

The Group supplies condiment products to a number of third-party catering service providers, and plans to further expand its customized services and sales to a greater number of catering service clients. Shuhai Supply Chain Group is primarily engaged in the supply of food ingredients and provision of storage and logistics services to catering service providers. Its extensive client network gives the Group access to potential catering service clients, and increases consumer exposure to the Group's products and promote the brand image of the Group.

### 3. *The historical amounts, existing annual caps and the proposed annual caps for the Shuhai Sales Agreement*

#### *Historical transaction amounts*

The table below sets out the historical transaction amounts in relation to the sales of Shuhai Customized Products and Shuhai Retail Products pursuant to the Existing Shuhai Sales Agreement during the periods indicated below:

	For the year ended/ending 31 December					
	Increase		Increase		Increase	
	2018	from 2017	2019	from 2018	2020	from 2019
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Existing annual caps</b>	12,680	31.7	80,860	537.7	131,660	62.8
Shuhai Customized Products	12,000	31.9	79,800	565.0	130,060	63.0
Shuhai Retail Products	680	28.3	1,060	55.9	1,600	50.9
<b>Actual/estimated transaction amounts</b>	12,233	39.4	37,410	205.8	18,269	N/A
Shuhai Customized Products	11,913	40.7	36,870	209.5	17,406	N/A
Shuhai Retail Products	320	5.3	540	68.8	863	N/A
					<i>(Note 1)</i>	<i>(Note 1)</i>
<b>Utilisation rate of the existing annual caps</b>	96.5%		46.2%		13.9%	
Shuhai Customized Products	99.3%		46.2%		13.4%	
Shuhai Retail Products	47.0%		50.9%		53.9%	
Total revenue of the Group	2,681,373	62.9	4,282,488	59.7	N/A	N/A
					<i>(Note 2)</i>	
Proportion of revenue from the Shuhai Supply Chain to the total revenue of the Group	0.46%		0.87%		N/A	

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*Notes:*

1. The transaction amounts for the Year 2020 are the historical transaction amounts of approximately RMB19,145,000 and RMB796,000 incurred for the sale of Shuhai Customized Products and Shuhai Retail Products, respectively, for the nine months ended 30 September 2020, which have not been annualised on a full Year basis for comparison.
2. The Directors consider that it may not be appropriate to make forecast for the total revenue of the Group for the full year ending 31 December 2020. The Group's total revenue for the Year 2020 was up to the nine months ended 30 September 2020.

*The proposed annual caps*

	For the year ending 31 December				
	2021	2022	Increase from 2021	2023	Increase from 2022
	<i>RMB'000</i>	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Proposed annual caps</b>	84,400	113,360	34.3	154,200	36.0
Shuhai Customized Products	82,000	110,000	34.1	150,000	36.4
Shuhai Retail Products	2,400	3,360	40.0	4,200	25.0

*Basis of determination of the proposed annual caps*

Based on the Group's latest unaudited management accounts for the nine months ended 30 September 2020, the historical transaction amounts of the sale of Shuhai Customized Products and Shuhai Retail Products to the Shuhai Supply Chain Group under the Existing Shuhai Sales Agreement for the period from 1 January 2020 to 30 September 2020 amounted to approximately RMB17.4 million and RMB0.9 million, respectively, representing approximately 13.4% and 53.9% of the existing annual caps for the Year 2020, which had not yet been exceeded.

We understand from the Management that in determining the above proposed annual caps in respect of the Shuhai Customized Products under the Shuhai Sales Agreement, 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) there is a slight decrease in the proposed annual cap from Year 2020 to 2021 because of the anticipated impact of COVID-19 pandemic on small to medium sized catering service clients;
- (iii) the estimated overall net profit margin through sales to Independent Distributors in accordance with the pricing formula;

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- (iv) the prevailing production cost and expenses incurred by the Group in connection with the production of Shuhai Customized Products; and
- (v) the estimated increase in demand for Shuhai Customized Products. 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.

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

- (i) historical sales volume of Shuhai Retail Products by the Group to Shuhai Supply Chain Group;
- (ii) the prevailing market price of similar products sold by the Group to Independent Distributors;
- (iii) the prevailing production cost and expenses incurred by the Group in connection with the production of Shuhai Retail Products; and
- (iv) the estimated demand for Shuhai Retail Products. Shuhai Supply Chain has been broadening its client base, which is expected to lead to an increase in demand for Shuhai Retail Products from the Group.

There are currently 20 companies under the Shuhai Supply Chain which services their business in 15 key cities in the PRC and caters to around 6,500 retail clients. The Company's understanding of Shuhai Supply Chain's future business plans is to expand both within the PRC and overseas by increasing their customer base and offering a wider variety of food and beverage.

The Directors anticipate that customized catering business will gradually recover in 2021 and based on the business plan of Shuhai Supply Chain Group, the Company estimates that the transaction amount from 2021 to 2023 will have an increase of approximately 30% annually.

The Directors are of the view that the proposed annual caps under the Shuhai Sales Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and Shareholders as a whole.

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### *Assessment of the proposed annual caps*

#### (a) Sale of Shuhai Customized Products

Shuhai Customized Products are those condiment products manufactured using formulas owned by the Group itself (i.e. instead of the Haidilao Group Formulas) for supplying to Shuhai Supply Chain Group's customers who are third-party catering service providers.

According to the above table, the Group's sale of Shuhai Customized Products has been in limited scale with historical transaction amounts of approximately RMB8.5 million, RMB11.9 million and RMB36.9 million for each of the past three Years from 2017 to 2019, respectively, representing a CAGR of approximately 2.08 times over the past three Years. Based on our understanding from the Management, the supply of Shuhai Customized Products to a number of third-party catering service providers has not been the key income stream of the Group in any way, but such an additional sales and distribution channel will help the Group gaining access to potential catering service clients, and increase consumer exposure to the Group's condiment products and promote the brand image of the Group. The Directors believe that the Group's historical overall sales trend of condiment products to all customers would mirror on the sales growth in respect of the sales to Shuhai Supply Chain Group in the coming Years, even though the actual and estimated sales transaction amounts involved have been and will be comparatively smaller.

Based on our discussion and understanding from the Management, while the Group has in the past directly supplied customized condiment products to a number of Independent Distributors and/or catering service clients, being 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 customized services will be provided by the Shuhai Supply Chain Group, because it has a more extensive client network and it currently provides food ingredients to various famous enterprises in the PRC. 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 Distributors or re-establishing such service by the Group.

The growth of the third-party customized catering business of the Group had remained sluggish. For the Year 2018, the Group's 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 the then total revenue from Independent Customers



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in Year 2018. As the revenue from third-party customized catering clients is relatively insignificant, it would be cost-ineffective 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 relationship 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 Independent 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 The Group's increased consumer exposure and heightened brand recognition 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 in the catering market and corporate consumers in the hot pot, barbecue, Chinese food, fast food, retail, delivery and other businesses. As such, it was in the best interests of the Group to conduct the internal business restructuring plan given it was not cost effective for the Group to maintain a team for the catering service clients and engage Independent Distributors for the third-party customized catering business.

Based on our independent review of the Yihai Annual Reports, we noted that the Group's sale of condiment products (mainly for retail products) to the Independent Distributors amounted to approximately RMB587.1 million, RMB1,263.2 million and RMB2,304.3 million, representing a CAGR of approximately 1.98 times over the past three Years from 2017 to 2019. The CAGR of sale of Shuhai Customized Products to Shuhai Supply Chain Group of approximately 2.08 times has basically been in line with that of the Group's sales of condiment products to the Independent Distributors of about 1.98 times during the past three Years from 2017 to 2019, but the scale of revenue was far distinct from each other. This may imply that the Shuhai Supply Chain Group has helped a lot in expanding the Group's business network and enhancing sales revenue over the Years, and therefore the entering into of the Shuhai Sales Agreement is in the interests of the Group and the Shareholders as a whole.

As advised by the Management, since the historical transaction amounts involved for the sale of Shuhai Customized Products were relatively limited, the past sales trend in a CAGR of approximately 2.08 times over the three Years from 2017 to 2019 shall not be reliable for projecting the proposed annual caps for the coming three Years from 2021 to 2023. The Management believe that with significant enhancement of sales personnel by 20 times (10 under the Group vs 200 under the Shuhai Supply Chain Group) whilst Shuhai Supply Chain Group has its business coverage in 15 key cities in the PRC and caters to around 6,500 retail clients, it currently anticipates that the sale of Shuhai Customized

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Products could be greatly increased. In view of the overall tremendous increase in sale of condiment products to the Independent Distributors, the Group now plans to further expand its sale of Shuhai Customized Products to the Shuhai Supply Chain Group in the coming Years at about 42.0% for the five Years from 2019 to 2023; whilst the annual growth rates in each of the two Years 2022 and 2023 would slow down to approximately 34.1% and 36.4%, respectively, after its aggressive growth in the Year 2021. We note that the proposed annual cap of Shuhai Customised Products for the Year 2021 of RMB82 million would represent an annual growth rate of approximately 122.2% when compared to the Group's historical actual transaction amount of RMB36.9 million in Year 2019. Having considered the Group's sale of condiment products to the Independent Distributors accounted for a CAGR of approximately 1.98 times over the past three Years from 2017 to 2019 and the foreseeable huge room for further growth and acceptance by the market, we would consider that the proposed annual caps for sale of Shuhai Customized Products at RMB82 million, RMB110 million and RMB150 million for each of the coming three Years from 2021 to 2023 shall be prudent, realistic, fair and reasonable.

### (b) Sale of Shuhai Retail Products

Shuhai Retail Products are those condiment products manufactured using formulas owned by the Group itself for targeting at the retail market.

According to the above table, the Group's sale of Shuhai Retail Products has been in very limited scale with historical transaction amounts of merely RMB304,550, RMB320,000 and RMB540,000 for each of the past three Years from 2017 to 2019, respectively, representing a CAGR of approximately 33.2%. Based on our clarification with the Management, the supply of Shuhai Retail Products to the retail markets and the sale of which is random, and has not been the key income stream of the Group in any way. As advised by the Directors, since the historical transaction amounts involved for the sale of Shuhai Retail Products are comparatively very limited, the past revenue trend over the past three Years from 2017 to 2019 shall not be reliable for projecting the proposed annual caps for the coming three Years from 2021 to 2023.

The proposed annual caps for Shuhai Retail Products will amount to approximately RMB2.4 million, RMB3.4 million and RMB4.2 million for each of the coming three Years 2021 to 2023, respectively, representing a CAGR of approximately 32.3% over the periods. The Directors have simply applied the similar sales growth pattern as that of the Shuhai Customized Products for setting the relevant proposed annual caps for Shuhai Retail Products for the coming three Years from 2021 to 2023, but fixed the starting Year for projection from the Year 2021 instead of the Year 2019 as usual because the historical base transaction amounts from 2017 to 2019 were still very limited. Based on our analysis as discussed above in relation to the Shuhai Customized Products, we are of the view the basis for determining the proposed annual caps for sale of Shuhai Retail Products is also fair and reasonable with reference to the Group's historical transaction amounts of Shuhai Customized Products in the past few Years.

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Having considered the above factors and analysis, we are of the view that the rationale behind and basis adopted by the Management in determining the proposed annual caps for Shuhai Customized Products and Shuhai Retail Products are justifiable, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

### **C. Shuhai Purchase Agreement**

#### ***1. Principal terms of the Shuhai Purchase Agreement***

On 7 December 2020, 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 three years from 1 January 2021 to 31 December 2023. The principal terms of the Shuhai Purchase Agreement are summarized below.

##### *Term*

The Shuhai Purchase Agreement has an initial term of three years from 1 January 2021 to 31 December 2023. 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 Convenient Ready-to-eat Food 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.

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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.

We have independently reviewed 20 sample invoices for the two Years 2019 and 2020 in relation to the sale of ingredients similar to the Shuhai Ingredients by the Shuhai Supply Chain Group to each of its Independent Customers and the Group, we note that the unit selling price thereof was comparable among each other and no less favourable to the Group than the terms for similar transactions between such Independent Customers and the Group.

### *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.

According to the Yihai Annual Report for the Year 2019, the credit terms granted by the Group's vendors are usually 30 to 90 days; whilst its respective trade payable balances as at 31 December 2018 and 2019 with ageing with three months accounted for approximately 91.4% and 95.8%, respectively. Based on this observation, we consider that the payment terms on a monthly (i.e. 30 days) basis for the purchase of Shuhai Ingredients pursuant to the Shuhai Purchase Agreement is usual, typical and on normal commercial terms, and therefore are fair and reasonable.

## **2. *Reasons for 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 Group 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.

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### 3. *The historical amounts, existing annual caps and the proposed annual caps for the Shuhai Purchase Agreement*

#### *Historical transaction amounts*

The table below sets out the historical transaction amounts in relation to the purchase of Shuhai Ingredients pursuant to the Existing Shuhai Purchase Agreement during the periods indicated below:

	For the year ended/ending 31 December			
	2019	Increase from 2018	2020	Increase from 2019
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Existing annual caps	–	–	228,037	N/A
Actual transaction amounts	22,266	N/A	40,756 <i>(Note 1)</i>	N/A <i>(Note 1)</i>
Utilisation rate of the existing annual caps	N/A		17.9%	N/A

*Note:*

- The transaction amount for the Year 2020 was the historical transaction amount of approximately RMB40.8 million incurred for the purchase of Shuhai Ingredients for the nine months ended 30 September 2020, which have not been annualised on a full Year basis for comparison.

#### *The proposed annual caps*

	For the year ending 31 December				
	2021	2022	Increase from 2021	2023	Increase from 2022
	<i>RMB'000</i>	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Shuhai Ingredients	215,000	300,000	39.5	375,000	25.0

#### *Basis of determination of the proposed annual caps*

Based on the Group's latest unaudited management accounts for the nine months ended 30 September 2020, the historical transaction amount of purchase of Shuhai Ingredients from the Shuhai Supply Chain Group under the Existing Shuhai Purchase Agreement for the period from 1 January 2020 to 30 September 2020 amounted to approximately RMB40.8 million, representing 17.9% of the existing annual caps for the Year 2020, which had not yet been exceeded.

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We understand from the Management that in determining the above proposed annual caps in respect of the Shuhai Ingredients under the Shuhai Purchase Agreement, the Group has taken into account the following factors:

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

- (i) the historical transaction amounts with the Shuhai Supply Chain Group;
- (ii) 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 2019 amounted to approximately RMB999.0 million, representing a tremendous increase by over 16.3 times when compared of that of approximately RMB61.4 million for 2017;
- (iii) there is a slight decrease in the annual cap from 2020 to 2021 because of (a) the Group's need to secure third-party suppliers to ensure a stable supply of ingredients and (b) in consideration of costs of procurement and logistics, the Group places order with other local third-party suppliers after the addition of assembly plants in Bazhou, Zhengzhou and Chengdu for manufacturing Convenient Ready-to-eat Food Products of the Group;
- (iv) the historical purchase of similar food ingredients from independent third parties. For the year ended 31 December 2019, the Group purchased packs of beef or beef offal in the total amount of approximately RMB276.7 million; and
- (v) the market price for similar ingredients sold by comparable companies.

The Directors are of the view that the proposed annual caps under the Shuhai Purchase Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and Shareholders as a whole.

### *Assessment of the proposed annual caps*

In assessing the fairness and reasonableness of the proposed annual caps for the Group's purchase of Shuhai Ingredients from the Shuhai Supply Chain Group for the Joint Venture to produce Convenient Ready-to-eat Food Products pursuant to the Shuhai Purchase Agreement, we have reviewed the schedule including calculation formulas, bases and assumptions for setting purchase amount of Shuhai Ingredients provided by the Company for three Years from 2021 to 2023.

As mentioned in the previous circular dated 14 June 2019, the Joint Venture was newly set-up in September 2020 to test the market demand for the self-serving Small Hot Pot Products in the PRC, the Management had limited experience to accurately predict the

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acceptance level by the market. The Group firstly introduced and launched its Convenient Ready-to-eat Food Products (mainly consist of Small Hot Pot Products) in the second half of Year 2017, and further expanded from online to offline sales channels during the first half of Year 2018. In addition to replenishing inventories through the increasingly mature existing condiment sales channels, the Group had also focused on the convenient ready-to-eat characteristics of self-serving products to open new channels at convenience stores, highway service stations and new retail outlets which were not previously available for various condiments. As a result, the Group's revenue generated from the sale of Convenient Ready-to-eat Food Products (mainly consisting the Small Hot Pot Products) amounted to approximately RMB999.0 million (or in sales volume of 23,336 tons) for the Year 2019, representing a tremendous CAGR by 4.03 times when compared to that of approximately RMB61.4 million (or in sales volume of 1,361 tons) for the Year 2017, of which, almost 98% was derived from Independent Customers. The Group's revenue generated from the sale of Convenient Ready-to-eat Food Products accounted for approximately 16.8% and 23.3% of its total revenue for each of the two Years 2018 and 2019, respectively. In view of these unpredictable brilliant sales results, the Group plans to increase additional sources of stable and reliable quality ingredients to meet the production requirements for capturing the rapidly increasing demand for Convenient Ready-to-eat Food Products in the coming three Years from 2021 to 2023.

The proposed annual caps under the Shuhai Purchase Agreement of RMB215 million, RMB300 million and RMB375 million for the coming three Years from 2021 to 2023 is based on the Management's past experience in the hot pot catering market in the PRC and their best estimates of consumption of beef and bovine offal during the period. Such beef and bovine offal ingredients are to be packed with other hot pot ingredients, such as meat, vegetables, assorted mushrooms and fish/beef balls etc., to become a complete pack of ready-to-eat Small Hot Pot Product for sale to the market. As advised by the Management, since the historical transaction amount involved for the purchase of Shuhai Ingredients was relatively limited arising from a very short period of time, the past purchase trend with the two Years of 2018 and 2019 shall not be reliable for projecting the proposed annual caps for the coming three Years from 2021 to 2023.

Based on our independent review of the Group's historical operating data, the business segment of sales of "Convenient Ready-to-eat Food Products" (mainly consisting Small Hot Pot Products) was commenced in September 2017 with fewer revenue of approximately RMB61.4 million (or in sales volume of 1,361 tons), but it had significantly increased to approximately RMB449.3 million (or in sales volume of 10,838 tons) and RMB999.0 (or in sales volume of 23,336 tons) million in each of the two Years 2018 and 2019, respectively, representing a tremendous CAGR of 4.03 times over the three Years from 2017 to 2019 or increase by over 16.3 times in revenue amounts between the three Years 2017 and 2019, mainly because the base amount in the Year 2017 only accounted for less than four months so as causing a more drastic increase in revenue in the Year 2018.

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Based on our understanding from the Management, Shuhai Supply Chain Group has been a key supplier of beef, bovine offal, prawn paste and other meats etc. to the Haidilao hot pot restaurants over the years, whose product quality, stable supply and healthy standard have been well accepted by Haidilao Group and its ultimate end-customers having hot pot dining thereat. The Group has firstly tried to commence procurement of such Shuhai Ingredients since the second half of Year 2019, so the historical transaction for purchasing Shuhai Ingredients merely amounted RMB22.3 million for the period. Upon satisfaction of the product quality and healthy standard of such Shuhai Ingredients, the Group has been increasing its procurement volume and amount from Shuhai Supply Chain Group, and will significantly switch its original procurement sources from other Independent Suppliers to Shuhai Supply Chain Group in the coming years. The Group had purchased similar hot pot ingredients of beef and bovine offal from the Independent Suppliers amounting to approximately RMB276.7 million for the Year 2019, which was between the proposed annual caps of RMB215 million and RMB300 million under the Shuhai Purchase Agreement for each of the two Years 2021 and 2022. The Group now plans to further expand its manufacture and sale of Convenient Ready-to-eat Food Products by sourcing much larger volume of ingredients from Shuhai Supply Chain Group in each of the three Years 2021 and 2023. Having considered the Group's tremendous increase in sale of Convenient Ready-to-eat Food Products by almost 16.3 times over the three Years from 2017 and 2019 and its aggressive business expansion plan for innovating, developing and producing many more categories and selections of Convenient Ready-to-eat Food Products in the coming years, which may demonstrate that the proposed annual caps for purchase of Shuhai Ingredients for further producing Convenient Ready-to-eat Food Products for the three Years 2021 and 2023 are not unrealistic or too aggressive.

We have noted that the Group had a tremendous increasing trend in historical revenue over the past six Years from 2013 to 2019 with a CAGR of approximately 54.4% over the period. More recently, the Group had recorded revenue of approximately RMB2,681 million and RMB4,282 million for each of the two Years 2018 and 2019, respectively, representing a strong growth of approximately 59.7% there between. Based on our understanding from the Management's experience in the PRC's hot pot catering market, as food ingredients are freshly cooked at the diners' tables, hot pot is a healthy option among Chinese cuisines, and often preferred as PRC customers increasingly value food quality and nutrition. The ultimate customers in the hot pot catering market shall be substantially the same among those having their hot pot meals at physical hot pot restaurants or enjoying the self-serving Small Hot Pot Products at home; while people having hot pot meals in the PRC has been growing popular over the years and is expected to keep this trend in the near future. According to the 中國產業信息網 (China Industry Information Website) at [www.chyxx.com](http://www.chyxx.com) regarding the PRC's hot pot dining market condition and development prospects, revenue generated from hot pot dining has become the largest sector among various dining forms/styles in the PRC's catering industry, which amounted to approximately RMB543.1 billion and RMB875.7 billion for the two Years 2017 and 2018, respectively, representing an annual growth rate of about 61.2% over the two-year period. In terms of market share, hot pot dining had accounted for approximately 13.7% and 20.5% of the PRC's overall catering market for each of the two



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Years 2017 and 2018, respectively, with an obvious increase by 6.8 percentage points during the Year 2018. On such basis, we consider that the Group's historical operating performance may provide a reliable reference or comparable basis for forecasting the future pace of business development in the coming few years. On such basis, we consider that the Group's past revenue may provide a reliable reference or comparable basis for forecasting the sale of Convenient Ready-to-eat Food Products in the coming years. Having considered the Group's historical outstanding revenue trend, we concur with the Directors' production forecasts for the coming three Years from 2021 to 2023, and therefore are of the view that the proposed annual caps for purchase of Shuhai Ingredients for producing many more Convenient Ready-to-eat Food Products pursuant to the Shuhai Purchase Agreement shall be prudent, realistic, fair and reasonable.

Having considered the above factors and analysis, we are of the view that the rationale behind and basis adopted by the Management in determining the proposed annual caps for the purchase of Shuhai Ingredients under the Shuhai Purchase Agreement are justifiable, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

### **D. Joint Venture Framework Sales and Purchase Agreements**

#### ***1. Principal terms of the Joint Venture Framework Sales and Purchase Agreements***

On 7 December 2020, the Company and the Joint Venture entered into the Joint Venture Framework Sales and Purchase Agreements for (i) the sales of condiment products from the Company and its subsidiaries to the Joint Venture; and (ii) the sales of Convenient Ready-to-eat Food Products by the Joint Venture to the Company and its subsidiaries.

#### *Term*

The Joint Venture Framework Sales and Purchase Agreements are for an initial term of three years from 1 January 2021 to 31 December 2023. Subject to compliance with the Listing Rules and applicable laws and regulations, the Joint Venture Framework Sales and Purchase Agreements may be renewed for a further term of three years from time to time, unless the Company 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 Joint Venture Framework Sales and Purchase Agreements, the parties may amend the terms of the agreement based on the then prevailing circumstances.

#### *Nature of transaction*

Pursuant to the Joint Venture Framework Sales and Purchase Agreements, (a) the Company (for itself and on behalf of its subsidiaries, other than the Joint Venture) agreed to sell condiment products to the Joint Venture as raw materials for the manufacture of Convenient Ready-to-eat Food Products; and (b) the Joint Venture agreed to sell Convenient Ready-to-eat Food Products to the Company and its subsidiaries (excluding the Joint Venture).

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The quantity of (a) the condiment products to be sold to the Joint Venture; and (b) the Convenient Ready-to-eat Food Products to be sold to the Company, respectively, are not fixed under the Joint Venture 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 Joint Venture Framework Sales and Purchase Agreements, the Company and the Joint Venture may enter into separate agreements from time to time in respect of the sale and purchase of the condiment products and the Convenient Ready-to-eat Food Products upon and subject to the terms and conditions in compliance with the Joint Venture Framework Sales and Purchase Agreements.

### *Pricing basis*

The sales prices of condiment products and the purchase price of the Convenient Ready-to-eat Food 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 condiment products

The sales price of condiment 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.

We have independently reviewed 20 sample invoices for the two Years 2019 and 2020 in relation to the sale of condiment products by the Group to each of the Joint Venture and Independent Customers of the Group, we note that the selling price of similar condiment products are comparable among each other and no less favourable to the Group than the terms for similar transactions between the Joint Venture and such Independent Customers.

#### (b) Purchase of Convenient Ready-to-eat Food Products

The purchase price of Convenient Ready-to-eat Food 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 Convenient Ready-to-eat Food Products, and (ii) the prevailing market price of similar products.

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We have independently reviewed 20 sample invoices for the two Years 2019 and 2020 in relation to the sale of Convenient Ready-to-eat Food Products by the Joint Venture to each of the Group and Independent Customers of the Joint Venture, we note that the unit selling price thereof was comparable among each other and no less favourable to the Group than the terms for similar transactions between the Group and such Independent Customers.

### *Payment terms*

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

According to the Yihai Annual Report for the Year 2019, the majority of the Group's third party sales are conducted through receiving advances from customers before delivering the goods to customers, with only a few customers who are granted with credit periods from 30 to 90 days, and its related party customers are granted with 30 days credit period; whilst the Group's respective trade receivable balances as at 31 December 2018 and 2019 with ageing within three months accounted for over 98% thereof. On the other hand, the credit terms granted by the Group's vendors are usually 30 to 90 days; whilst its respective trade payable balances as at 31 December 2018 and 2019 with ageing with three months accounted for approximately 91.4% and 95.8%, respectively. Based on this observation, we consider that the payment terms on a monthly (i.e. 30 days) basis for the (i) sale of condiment products; and (ii) purchase of Convenient Ready-to-eat Food Products pursuant to the Joint Venture Framework Sales and Purchase Agreements are usual, typical and on normal commercial terms, and therefore are fair and reasonable.

## ***2. Reasons for entering into the Joint Venture Framework Sales and Purchase Agreements***

Self-serving Convenient Ready-to-eat Food 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 off-line sales channels, and has become a new line of business for the Group.

By selling condiment products to the Joint Venture, the Company can further ensure that the Convenient Ready-to-eat Food Products to be manufactured by the Joint Venture are of satisfactory quality.

The Group's sale of the products of the Joint Venture to the clients through its specific channels such as the Group's Tmall flagship can further boost the sale of the Convenient Ready-to-eat Food Products, and thus increase the profitability of the Company.

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### 3. *The historical transaction amounts, existing annual caps and the proposed annual caps for the Joint Venture Framework Sales and Purchase Agreements*

#### *Historical transaction amounts*

Based on the Group's latest unaudited management accounts for the nine months ended 30 September 2020, the historical transaction amount for the sale of condiment products to the Joint Venture pursuant to the Existing Framework Sales and Purchase Agreements for the period from 1 January 2020 to 30 September 2020 amounted to approximately RMB59.8 million, representing approximately 49.3% of the existing annual caps for the Year 2020, which had not yet been exceeded.

Based on the Group's latest unaudited management accounts for the nine months ended 30 September 2020, the historical transaction amount of the purchase of Small Hot Pot Products from the Joint Venture pursuant to the Existing Framework Sales and Purchase Agreements for the period from 1 January 2020 to 30 September 2020 amounted to approximately RMB69.8 million, representing approximately 21.1% of the existing annual caps for the Year 2020, which had not yet been exceeded.

#### *The existing and proposed annual caps and the basis of determination*

The table below sets forth the existing annual caps for the sales of condiment products to the Joint Venture, and the purchase of Small Hot Pot Products for the three Years from 2018 to 2020:

	For the year ended/ending 31 December					
	Increase		Increase		Increase	
	2018	from 2017	2019	from 2018	2020	from 2019
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Existing annual caps</b>	141,300	178.7	258,362	82.8	452,317	75.1
Sale of condiment products	9,500	295.8	67,362	609.1	121,251	80.0
Purchase of Small Hot Pot Products	131,800	172.9	191,000	44.9	331,066	73.3
<b>Actual transaction amounts</b>	104,668	3,988.6	185,615	77.3	129,557	N/A
Sale of condiment products <i>(Note 1)</i>	7,918	N/A	58,396	637.5	59,793	N/A
Purchase of Small Hot Pot Products	96,750	3,679.3	127,219	31.5	69,764	N/A
					<i>(Note 2)</i>	<i>(Note 2)</i>
<b>Utilisation rate of the existing annual caps</b>	74.1%		71.8%		28.6%	
Sale of condiment products	83.3%		86.7%		49.3%	
Purchase of Small Hot Pot Products	73.4%		66.6%		21.1%	

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*Notes:*

1. There was no historical transaction amount incurred for sale of condiment products in the Year 2017.
2. The transaction amounts for the Year 2020 are the actual transaction amounts of approximately RMB59.8 million and RMB69.8 million incurred for the sale of condiment products and the purchase of Small Hot Pot Products, respectively, for the nine months ended 30 September 2020, which have not been annualised on a full Year basis for comparison.

*The proposed annual caps*

	<b>For the year ending 31 December</b>				
	<b>2021</b>	<b>2022</b>	<b>Increase from 2021</b>	<b>2023</b>	<b>Increase from 2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
<b>Proposed annual caps</b>					
Sale of condiment products	530,000	833,000	57.2	1,250,000	50.1
Purchase of Convenient Ready-to-eat Food Products	356,000	534,000	50.0	748,000	40.1

*Basis of determination of the proposed annual caps*

We understand from the Management that in determining the proposed annual caps for the Joint Venture Framework Sales and Purchase Agreements, the Board has taken into account the following factors:

(a) Sale of condiment products

The annual cap in relation to the sale of condiment products is determined based on the expected demand for the Convenient Ready-to-eat Food Products. As the condiment products will be used as raw materials in producing the Convenient Ready-to-eat Food Products, the demand for the former is directly proportionate to the market demand for the latter, as described below.

(b) Purchase of Convenient Ready-to-eat Food Products

In arriving at the above proposed annual caps for the purchase of Convenient Ready-to-eat Food Products, the Group has taken into account the following factors:

- (i) the prevailing market price of similar products;
- (ii) the Group's launch of new Convenient Ready-to eat Products, such as 冲泡粉 (instant silk noodles) and 乾拌飯 (instant rice);

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- (iii) current production costs and expenses incurred in connection with the production of Convenient Ready-to-eat Food Products by the Joint Venture; and
- (iv) the strong growth and extensive market potential of the PRC catering industry and the self-serving Convenient Ready-to-eat Food Products market.

### *Assessment of the proposed annual caps*

The Group has been providing condiment products to the Joint Venture for production of Convenient Ready-to-eat Food Products since its establishment in September 2017. The Group generally procures beef and bovine offal from Shuhai Supply Chain Group, and other food ingredients from other Independent Suppliers. The Joint Venture has mainly assembled all food ingredients and condiments into packs of Convenient Ready-to-eat Food Products for sale to the Group and other Independent Distributors as well as Independent Customers. As the Joint Venture has continuously been innovating, developing and producing new Convenient Ready-to-eat Food Products for sale to the market, it has to increase procurement of condiment products from the Group and also food ingredients from Shuhai Supply Chain Group and/or other Independent Suppliers. As the quality and healthy standard of such Shuhai Ingredients have been satisfactory after the past two years' experience, the Group has been increasing its procurement volume and amount from Shuhai Supply Chain Group, and will significantly switch its original procurement sources from other Independent Suppliers to Shuhai Supply Chain Group in the coming years.

#### (a) Sale of condiment products

In assessing the fairness and reasonableness of the proposed annual caps for the Group's sale of condiment products to the Joint Venture pursuant to the Joint Venture Framework Sales and Purchase Agreements, we have reviewed the business plan and schedule including calculation formulas, bases and assumptions for setting the sales amounts of condiment products to the Joint Venture prepared and provided by the Company for coming three Years from 2021 to 2023.

As advised by the Management and already disclosed in the interim report of the Company for the six months ended 30 June 2020 (the "**Interim Report**"), the Group has been placing great efforts to innovate and develop new condiment products/Convenient Ready-to-eat Food Products from time to time; and it had newly developed and added a total of, among others, nine hot pot condiment products and 11 Convenient Ready-to-eat Food Products during the first half of the Year 2020, of which, three new products namely 沖泡粉 (instant silk noodles), 乾拌飯 (instant rice) and 自熱米飯 (self-serving rice) are expected to be widely accepted and consumed by the market in the coming years. The Management currently anticipates that such three new Convenient Ready-to-eat food Products may generate total revenue up to RMB2.1 billion in Year 2021, as a

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consequence, the Group has to provide many more condiment products to the Joint Venture for the production of the existing Small Hot Pot Products and such additional new Convenient Ready-to-eat Food Products.

The Group currently has adopted a research and development strategy, namely “project-based system for products”, for implementing new products. This is an incentive-based mechanism, which has been relying on the Group’s strong research and development platform and supporting channels, its staff may form a team to propose innovative new products, and the development project of such new products would be completed by the team throughout the whole process from proposal to market launch. After the project was launched into the market and received earnings, the project team would immediately receive the corresponding rewards. This policy has provided opportunities for all staff to develop new products, enhanced the development efficiency of new products and the motivation of staff in exploring the markets. At present, the mechanism has been operating well, and the number of new products launched to the market have been increasing in 5, 7, 12 and 22 Convenient Ready-to-eat Food Products on hand as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively, which had generated revenue of RMB61.4 million, RMB449.3 million, RMB999.0 million and RMB668.2 million for each of the three Years from 2017 to 2019 and the six months ended 30 June 2020. Each Convenient Ready-to-eat Food Product can increasingly generate average revenue from RMB12.3 million, RMB64.2 million to RMB83.2 million from Years 2017 to 2019, respectively. As the Group will continue to innovate, development and produce many more categories of Convenient Ready-to-eat Food Products in the foreseeable future, the proposed annual cap of RMB530 million for the Year 2021 represents about 9.1 times of the historical transaction amount of RMB58.4 million in Year 2019 shall not be too aggressive and unjustifiable.

In order to cope with the anticipated tremendous increasing demand for its wider product range and selection of Convenient Ready-to-eat Food Products in the coming future, the Group has concrete plan for construction of at least six new production bases in the PRC and overseas countries, four of which domestically locates at Bazhou of Hebei Province, Maanshan of Anhui Province, Luohe of Henan Province and Jianyang of Sichuan Province, the PRC whilst the other two production sites will be in Malaysia and Thailand. Construction works at various stages of all such six new production bases have been/will be commenced in Years 2020 and/or 2021. The Management believes that the construction of such new production bases are expected to greatly alleviate the demand for rapid domestic and overseas business expansion and optimize the supply cost of overseas business. On such basis, the Management has confirmed that the Joint Venture will have sufficient production capacity in fulfilling the orders in manufacturing the Convenient Ready-to-eat Food Products for the three Years from 2021 to 2023.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As a result of the above continuing innovation and development efforts, the proposed annual caps for sale of condiment products to the Joint Venture for production of Convenient Ready-to-eat Food Products will amount to RMB530 million, RMB833 million and RMB1,250 million for the coming three Years from 2021 to 2023, respectively, to cope with the anticipated tremendous increase in market demand therefor. Since the historical transaction amounts involved for the sale of condiment products to the Joint Venture of approximately RMB7.9 million and RMB58.4 million for each of the two Years of 2018 and 2019, respectively, were relatively limited arising from a short period of time without including the said three new Convenient Ready-to-eat Food Products to be launched, the past sales trend of which was not relevant and reliable for projecting the proposed annual caps for sale of condiment products to the Joint Venture for the coming three Years from 2021 to 2023.

In consideration of the above sales forecasts, the Management currently anticipates that there will be a more aggressive increase in the sale of condiment products to the Joint Venture for production of Convenient Ready-to-eat Food Products in the Year 2021 up to RMB530 million when compared to that of approximately RMB54.1 million in the Year 2019, representing a CAGR of approximately 3.1 times; whilst the forecasted sales amounts would increase at relatively steady paces at RMB833 million and RMB1,250 million for each of two Years 2022 and 2023, representing respective annual growth rates of approximately 57.2% and 50.1% therefor. According to the Interim Report, the Group's revenue generated from sale of Convenient Ready-to-eat Food Products amounted to approximately RMB668.2 million for the six months ended 30 June 2020 when compared to that RMB341.1 million in the corresponding period in the Year 2019, representing an increase of about 95.9% over the periods. The Group considers that although the sales trend of condiment products and Convenient Ready-to-eat Food Products amid the COVID-19 pandemic was positive, the impact on the overall catering sector cannot be neglected, and the Group's revenue growth slowed down in the first half of Year 2020. If we look back at the Group's total revenue growth in terms of a CAGR in respect of Convenient Ready-to-eat Food Products (i.e. primarily consisting of Small Hot Pot Products) of about 4.03 times for the past three Years from 2017 to 2019, we would rather consider that the proposed annual caps for the sale of condiment products to the Joint Venture for the coming three Years from 2021 to 2023 shall not be unrealistic, and therefore are fair and reasonable.

### (b) Purchase of Convenient Ready-to-eat Food Products

In assessing the fairness and reasonableness of the proposed annual caps for the Group's purchase of Convenient Ready-to-eat Food Products from the Joint Venture pursuant to the Joint Venture Framework Sales and Purchase Agreements, we have reviewed the business plan and schedule including calculation formulas, bases and assumptions for setting the purchase amount of Convenient Ready-to-eat Food Products (including Small Hot Pot Products) from the Joint Venture prepared and provided by the Company for coming three Years from 2021 to 2023.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Similar to the sale of condiment products as analysed in the above, as the Joint Venture was newly established in September 2017 and the actual base transaction amount resulting from the Group's purchase of Small Hot Pot Products was still limited, the Management currently anticipates that there will be an aggressive increase in the purchase of condiment products from the Joint Venture for sale to the market in the Year 2021 up to RMB356 million when compared to that of approximately RMB127.2 million in the Year 2019, representing a CAGR of approximately 1.67 times when compared to the annual growth rate of approximately 31.5% between the past two Years 2018 and 2019 as there are three new products, namely 冲泡粉 (instant silk noodles), 乾拌飯 (instant rice) and 自熱米飯 (self-serving rice), are expected to be widely accepted and consumed by the market in the coming years; whilst the forecasted sales amounts will increase at relatively steady paces at RMB534 million and RMB748 million for each of two Years 2022 and 2023, representing annual growth rate of approximately 50.0% and 40.1% respectively. As discussed in the above, the sale of condiment products will be used as raw materials in producing the Convenient Ready-to-eat Food Products, the demand for the former is directly proportionate to the market demand for the latter. Based on our observation, we note that the proposed annual caps for the coming three Years from 2021 to 2023 in respect of the purchase of Convenient Ready-to-eat Food Products would be stable at around 60% to 67% of that of the sale of condiment products. As such, the CAGR of sale of condiment products for the three Years from 2021 to 2023 would be approximately 53.6%, which is roughly comparable to that of the purchase of Convenient Ready-to-eat Food Products (including the Small Hot Pot Products) of approximately 45.0% for the same period. Based on such consideration, we are of the view that the projected sales trend for the coming three Years from 2021 to 2023 will be consistent in material respects, and therefore is logical, prudent, fair and reasonable.

Having considered the above analysis and reasons behind, we are of the view that the sale of condiment products to, and purchase of Convenient Ready-to-eat Food Products from, the Joint Venture pursuant to the Joint Venture Framework Sales and Purchase Agreements (including the respective proposed annual caps) are on normal commercial terms, will be conducted in the ordinary and usual course of business of the Group, and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

#### ***4. Internal control measures to govern the Yihai Continuing Connected Transactions***

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

In view of the above, the Board considers that sufficient and effective internal control measures are in place to ensure that the Yihai Continuing Connected Transactions contemplated under each of the Non-exempt Framework Agreements have been and will be conducted on normal commercial terms or better, and at prices not more favourable to the relevant members of the Haidilao Group, the Shuhai Supply Chain Group and the Joint Venture than transactions entered into with independent third parties, and hence will not prejudicial to the interests of the Group and the Shareholders as a whole.

As disclosed in the Yihai Annual Report, the independent non-executive Directors have confirmed that the above Yihai Continuing Connected Transactions for the Year 2019 were entered into by the Group: (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreement (including the pricing principles and guidelines set out therein) governing them and on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In addition, the auditors of the Group had reviewed the Yihai Continuing Connected Transactions for the Year 2019 and confirmed to the Board that the Yihai Continuing Connected Transactions: (i) have received the approval of the Board; (ii) were in accordance with the pricing policies of the Group; (iii) were entered into in accordance with the relevant agreement governing the transaction; and (iv) have not exceeded the relevant annual caps.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that the Yihai Continuing Connected Transactions (including the respective proposed annual caps) contemplated under each of the Non-exempt Framework Agreements are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting to approve the Yihai Continuing Connected Transactions (including the respective proposed annual caps) pursuant to each of the Non-exempt Framework Agreements and the transactions contemplated thereunder.

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

*Note:*

Mr. Nicholas Cheng has been the Responsible Officer of Type 6 (advising on corporate finance) regulated activity under the SFO and has extensive experience in corporate finance industry. He has participated in the provision of independent financial advisory services for and completed numerous connected transactions involving companies listed in Hong Kong.

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

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

Name of Director	Capacity/nature of interest	Number of Ordinary Shares	Approximate percentage of shareholding in the total issued share capital (%)
Mr. Shi Yonghong <sup>(1)</sup>	Founder of a discretionary trust, interest of controlled corporation, interest of spouse, beneficial owner and beneficiary of a trust	177,703,492 (L)	16.97% (L)
Ms. Shu Ping <sup>(2)</sup>	Founder of a discretionary trust, interest of controlled corporation, interest of spouse, beneficial owner and beneficiary of a trust	373,007,021 (L)	35.63% (L)

Name of Director	Capacity/nature of interest	Number of Ordinary Shares	Approximate percentage of shareholding in the total issued share capital (%)
Mr. Zhang Yong <sup>(2)</sup>	Founder of a discretionary trust, interest of controlled corporation, interest of spouse, beneficial owner and beneficiary of a trust	373,007,021 (L)	35.63% (L)
Mr. Sun Shengfeng	Beneficial owner	200,000 (L)	0.019% (L)
Mr. Guo Qiang	Interest of spouse and beneficial owner	400,000 (L)	0.04% (L)
Mr. Zhao Xiaokai	Beneficial owner	160,000 (L)	0.015% (L)

(L) denotes a long position

*Notes:*

- (1) Mr. Shi Yonghong and Ms. Li Haiyan, as the settlors and protectors, established for their own benefit the SL Trust, which indirectly holds the entire share capital of SYH YIHAI Ltd and LHY YIHAI Ltd, which in turn holds a total of 177,243,492 Shares. For the purpose of the SFO, Mr. Shi Yonghong and Ms. Li Haiyan are deemed to be interested in the Shares in which SYH YIHAI Ltd and LHY YIHAI Ltd are interested.

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

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

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

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

deemed to have taken under such provisions of the SFO); or which will be required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

### 3. SUBSTANTIAL SHAREHOLDERS

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

Name of substantial Shareholder	Capacity/nature of interest	Number of Ordinary Shares	Approximate percentage of shareholding in the total issued share capital (%)
UBS Trustees (B.V.I.) Limited <sup>(1)</sup>	Trustee (other than a bare trustee)	372,547,021 (L)	35.59% (L)
ZYSP YIHAI Ltd <sup>(1)</sup>	Beneficial owner	372,547,021 (L)	35.59% (L)
Cititrust Private Trust (Cayman) Limited <sup>(2)</sup>	Trustee (other than a bare trustee)	177,243,492 (L)	16.93% (L)
Li Haiyan <sup>(2)</sup>	Founder of a discretionary trust, interest of controlled corporation and interest of spouse	177,703,492 (L)	16.97% (L)
Twice Happiness Limited <sup>(2)</sup>	Interest of controlled corporation	177,243,492 (L)	16.93% (L)
LHY YIHAI Ltd <sup>(2)</sup>	Beneficial owner	88,621,746 (L)	8.47% (L)
SYH YIHAI Ltd <sup>(2)</sup>	Beneficial owner	88,621,746 (L)	8.47% (L)
UBS Group AG <sup>(3)</sup>	Interest of controlled corporation	77,917,411 (L)	7.44% (L)
JLJH YIHAI Ltd <sup>(4)</sup>	Beneficial owner and nominee for another person	66,568,000 (L)	6.36% (L)
Vistra Trust (HK) Limited <sup>(4)</sup>	Trustee (other than a bare trustee)	66,568,000 (L)	6.36% (L)

(L) denotes a long position

*Notes:*

- (1) ZYSP Trust is a discretionary trust set up by Mr. Zhang Yong and Ms. Shu Ping as the settlors and protectors on 1 June 2016 for their own benefit. The entire share capital of ZYSP YIHAI Ltd is wholly owned by UBS Trustees (B.V.I.) Limited as the trustee of the ZYSP Trust. Mr. Zhang Yong and Ms. Shu Ping (as founders of the ZYSP Trust) and UBS Trustees (B.V.I.) Limited are taken to be interested in the Shares held by ZYSP YIHAI Ltd for the purpose of the SFO.
- (2) SL Trust is a discretionary trust set up by Mr. Shi Yonghong and Ms. Li Haiyan as the settlors and protectors on 2 June 2016 for their own benefit. The entire share capital of SYH YIHAI Ltd and LHY YIHAI Ltd is wholly owned by Twice Happiness Limited and ultimately owned by Cititrust Private Trust (Cayman) Limited as the trustee of the SL Trust. Mr. Shi Yonghong and Ms. Li Haiyan (as founders of the SL Trust), Twice Happiness Limited and Cititrust Private Trust (Cayman) Limited are taken to be interested in the Shares held by SYH YIHAI Ltd and LHY YIHAI Ltd for the purpose of the SFO. Mr. Shi Yonghong is the spouse of Ms. Li Haiyan and is deemed to be interested in the same number of Shares in which Ms. Li Haiyan is interested for the purpose of the SFO. Ms. Li Haiyan is the spouse of Mr. Shi Yonghong and is deemed to be interested in the same number of Shares in which Mr. Shi Yonghong is interested for the purpose of the SFO.
- (3) UBS Group AG is interested in 77,917,411 Shares as interest of corporation controlled by it via wholly owned subsidiaries.
- (4) Vistra Trust (HK) Limited is the trustee and JLJH YIHAI Ltd is the nominee to administer the RSU Scheme. JLJH YIHAI Ltd holds the Shares underlying the RSU granted by us for the benefit of eligible participants pursuant to the RSU Scheme.

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

#### 4. QUALIFICATIONS AND CONSENT

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

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

- (a) As at the Latest Practicable Date, First Shanghai had not had any beneficial interest in the share capital of any member of the Group, did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and did not have any interest, either directly or indirectly, in any assets which had been, since 31 December 2019, being the date of the latest published audited accounts of the Company, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

- (b) First Shanghai has given and has not withdrawn its written consent to the issue of this circular with inclusion of its opinion and letter, as the case may be, and the references to its name included herein in the form and context in which they respectively appear.

## **5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirmed that there has been no material adverse change in the financial or trading positions of the Company since 31 December 2019, being the date to which the latest published audited financial statement of the Company have been made up.

## **6. LITIGATION**

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

## **7. SERVICE CONTRACT OF THE DIRECTORS**

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

## **8. INTERESTS OF DIRECTORS**

- (a) The Directors are not aware of any Director or his respective associates having, as at the Latest Practicable Date, any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would be required to be disclosed under the Listing Rules.
- (b) Save as disclosed in the section headed “Directors’ Report – Connected and Continuing Connected Transactions” of the Company’s 2019 Annual Report, the announcement of the Company dated 7 December 2020 and this circular, no Director was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant to the business of the Group taken as a whole.
- (c) Since 31 December 2019, being the date of the latest published audited consolidated accounts of the Company, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or which are proposed to be acquired, disposed of by or leased to, any member of the Group.



**9. GENERAL**

- (a) The registered office of the Company is P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands.
- (b) The corporate headquarters of the Company in the PRC is Room 1810, No. 2500 Zhenbei Road, Putuo District, Shanghai, PRC.
- (c) The principal place of business of the Company in Hong Kong is 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong.
- (d) The Company's principal share registrar and transfer agent in the Cayman Islands is Royal Bank House, 3rd Floor, 24 Shedden Road, Grand Cayman, KY1-1110, Cayman Islands.
- (e) The Company's Hong Kong branch share registrar is Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (f) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text in the case of any inconsistency.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on Monday to Friday (other than public holidays) at the offices of Davis Polk & Wardwell at 18th Floor, The Hong Kong Club Building, 3A Chater Road, Hong Kong, from the date of this circular up to and including 30 December 2020:

- (a) the Haidilao Master Sales Agreement entered into between the Company and Haidilao;
- (b) the Shuhai Sales Agreement entered into between the Company and Shuhai Supply Chain;
- (c) the Shuhai Purchase Agreement entered into between the Company and the Joint Venture;
- (d) the JV Condiment Products Sales Agreement entered into between the Company and the Joint Venture;
- (e) the JV Convenient Ready-to-eat Food Products Sales Agreement entered into between the Company and the Joint Venture;

- (f) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 43 to 44 of this circular;
- (g) the letter of advice issued by First Shanghai, being the Independent Financial Adviser, the text of which is set out on pages 45 to 97 of this circular; and
- (h) the written consent referred to in paragraph 4 of this Appendix I.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting (“**Extraordinary General Meeting**”) of Yihai International Holding Ltd. (“**the Company**”) will be held at Room 609, No. 5 Building of Jiuting Center, No. 65 Huting North Road, Songjiang District, Shanghai, PRC on Thursday, 31 December 2020 at 10:00 a.m. for the following purposes:

#### AS ORDINARY RESOLUTIONS

**1. “THAT**

- (i) the master sales agreement (the “**Haidilao Master Sales Agreement**”) dated 7 December 2020 entered into between the Company and Haidilao International Holding Ltd. (“**Haidilao**” and together with its subsidiaries, the “**Haidilao Group**”) in relation to (a) the sale of hotpot soup flavouring and Chinese-style compound condiment products manufactured using formulas owned by the Haidilao Group for use in its hot pot restaurants; (b) the sale of retail hotpot soup flavouring, hotpot dipping sauce and Chinese-style compound condiment products manufactured using formulas owned by the Company for display and sale to consumers on the online platforms of the Haidilao Group and in hot pot restaurants of the Haidilao Group; and (c) the sale of the convenient ready-to-eat food products to the Haidilao Group, and the transactions contemplated thereunder be and are hereby approved,
- (ii) the proposed annual caps in relation to the transactions contemplated under the Haidilao Master Sales Agreement as specified below be and are hereby approved, ratified and confirmed:

<b>For the year ending 31 December 2021</b>	<b>For the year ending 31 December 2022</b>	<b>For the year ending 31 December 2023</b>
RMB3,916,000,000	RMB5,693,000,000	RMB7,540,000,000

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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

### 2. “THAT

- (i) the sales agreement (the “**Shuhai Sales Agreement**”) dated 7 December 2020 entered into between the Company and Shuhai (Beijing) Supply Chain Management Co., Ltd. (“**Shuhai Supply Chain**”, and together with its subsidiaries, the “**Shuhai Supply Chain Group**”) in relation to the sale of products customized for Shuhai Supply Chain Group’s customers who are catering service clients and products targeting at the retail market, and the transactions contemplated thereunder be and are hereby approved;
- (ii) the proposed annual caps in relation to the transactions contemplated under the Shuhai Sales Agreement below be and are hereby approved, ratified and confirmed:

<b>For the year ending 31 December 2021</b>	<b>For the year ending 31 December 2022</b>	<b>For the year ending 31 December 2023</b>
RMB84,400,000	RMB113,360,000	RMB154,200,000

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

### 3. “THAT

- (i) The purchase agreement (the “**Shuhai Purchase Agreement**”) dated 7 December 2020 entered into between the Company and Shuhai Supply Chain in relation to the purchase of ingredients, and the transactions contemplated thereunder be and are hereby approved;

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (ii) the proposed annual caps in relation to the transactions contemplated under the Shuhai Purchase Agreement below be and are hereby approved, ratified and confirmed:

<b>For the year ending 31 December 2021</b>	<b>For the year ending 31 December 2022</b>	<b>For the year ending 31 December 2023</b>
RMB215,000,000	RMB300,000,000	RMB375,000,000

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

#### 4. “THAT

- (i) the condiment products sales agreement (the “**JV Condiment Products Sales Agreement**”) dated 7 December 2020 entered into between the Company and Fuhai (Shanghai) Food Technology Co., Ltd. (the “**Joint Venture**”) in relation to the sale of condiment products by the Company and its subsidiaries to the Joint Venture, and the convenient ready-to-eat food products sales agreement (the “**JV Convenient Ready-to-eat Food Products Sales Agreement**”) dated 7 December 2020 entered into between the Joint Venture and the Company in relation to the sales of convenient ready-to-eat food products by the Joint Venture to the Company and its subsidiaries (the JV Condiment Products Sales Agreement and the JV Convenient Ready-to-eat Food Products Sales Agreement are collectively referred to as the “**Joint Venture Framework Sales and Purchase Agreements**”), and the transactions contemplated thereunder be and are hereby approved;
- (ii) the proposed annual caps in relation to the transactions contemplated under the Joint Venture Framework Sales and Purchase Agreements below be and are hereby approved, ratified and confirmed:

<b>For the year ending 31 December 2021</b>	<b>For the year ending 31 December 2022</b>	<b>For the year ending 31 December 2023</b>
RMB886,000,000	RMB1,367,000,000	RMB1,998,000,000

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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

5. “**THAT** Mr. Zhao Xiaokai be re-elected as an executive director of the Company.”

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

Shanghai, China  
15 December 2020

*Notes:*

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies (if such member is the holder of two or more shares) to attend and to vote instead of them. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member of the Company from attending the Extraordinary General Meeting and vote in person. In such event, his form of proxy will be deemed to have been revoked.
- (2) Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- (3) A form of proxy for use at the meeting is enclosed.
- (4) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, must be deposited at the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.
- (5) The voting at the Extraordinary General Meeting will be taken by poll.
- (6) The register of members of the Company will be closed from Monday, 28 December 2020 to Thursday, 31 December 2020, both days inclusive, in order to determine the eligibility of the shareholders to attend and vote at the Extraordinary General Meeting. The shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 24 December 2020 will be entitled to attend and vote at the Extraordinary General Meeting. In order to be eligible to attend and vote at the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong before 4:30 p.m. on Thursday, 24 December 2020.