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

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



YIHAI INTERNATIONAL HOLDING LTD.

頤海國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1579)

CONTINUING CONNECTED TRANSACTIONS

- (1) PURCHASE OF SHUHAI INGREDIENTS FROM THE SHUHAI SUPPLY CHAIN**
- (2) REVISION OF ANNUAL CAPS UNDER THE SHUHAI SALES AGREEMENT AND THE FRAMEWORK SALES AND PURCHASE AGREEMENTS IN RESPECT OF 2019 AND 2020**
- AND**
- (3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



A notice convening the Extraordinary General Meeting of the Company to be held at Conference Room 206, 2nd Floor, Building 6, Songlei Office Building, Heng Song Yuan, Middle Road of South 3rd Ring Road, Fengtai District, Beijing, PRC at 10:00 a.m. on Thursday, 4 July 2019 is set out on pages 68 to 71 of this circular.

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

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

14 June 2019

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DEFINITIONS

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

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

DEFINITIONS

“Director(s)”	director(s) of the Company
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held on 4 July 2019 to consider and if thought fit, approve the Shuhai Purchase Agreement and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements in respect of 2019 and 2020, or any adjournment thereof
“Framework Sales and Purchase Agreements”	collectively, the 2017 Hot Pot Soup Flavouring Products Sales Agreement, 2018 Hot Pot Soup Flavouring Products Sales Agreement, 2017 Small Hot Pot Products Sales Agreement and 2018 Small Hot Pot Products Sales Agreement
“Group”	the Company and its subsidiaries
“Haidilao”	Haidilao International Holding Ltd., whose shares are listed on the Stock Exchange (stock code: 6862)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Yau Ka Chi, Mr. Qian Mingxing and Ms. Ye Shujun, established to advise the Independent Shareholders on the Shuhai Purchase Agreement and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements in respect of 2019 and 2020
“Independent Financial Adviser” 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 Shuhai Purchase Agreement and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements in respect of 2019 and 2020
“Independent Shareholders”	has the meaning ascribed to it under the Listing Rules; and in relation to approving (i) the Shuhai Purchase Agreement at the Extraordinary General Meeting, means the Shareholders other than Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong, and their respective associates, and (ii) the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements in respect of 2019 and 2020 at the Extraordinary General Meeting, means the Shareholders other than Mr. Zhang Yong, Ms. Shu Ping, Mr. Shi Yonghong and their respective associates

DEFINITIONS

“independent third party(ies)”	party(ies) not connected with any of the Directors, chief executive, substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“Joint Venture”	Fuhai (Shanghai) Food Technology Co., Ltd.* (馥海(上海)食品科技有限公司), a company established in the PRC and a 60% owned subsidiary of the Company
“Latest Practicable Date”	10 June 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“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
“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
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	ordinary share(s) in the share capital of the Company with nominal value of US\$0.00001 each
“Shuhai Ingredients”	the food ingredients sold by Shuhai Supply Chain Group to the Group pursuant to the Shuhai Purchase Agreement
“Shuhai Purchase Agreement”	the purchase agreement dated 10 June 2019 entered into between the Company and Shuhai Supply Chain in relation to the sale of Shuhai Ingredients by the Shuhai Supply Chain Group to the Group

DEFINITIONS

“Shuhai Sales Agreement”	the sales agreement dated 6 July 2018 entered into between Yihai Shanghai and Shuhai Supply Chain in relation to the sale of hot pot soup flavoring products, hot pot dipping sauce products and other compound condiment products by the Group to the Shuhai Supply Chain Group
“Shuhai Supply Chain”	Shuhai (Beijing) Supply Chain Management Co., Ltd.* (蜀海(北京)供應鏈管理有限責任公司), a limited liability company established in the PRC on 3 June 2014 and is indirectly held as to approximately 52.17% by the controlling shareholders, Mr. Zhang Yong and Ms. Shu Ping, and their associate and 24.65% by Mr. Shi Yonghong and his wife
“Shuhai Supply Chain Group”	Shuhai Supply Chain and its subsidiaries
“Small Hot Pot Products”	the self-serving small hot pot products manufactured and sold by the Joint Venture
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Xinpai Shanghai”	Xinpai (Shanghai) Catering Management Co., Ltd.* (新派(上海)餐飲管理有限公司), a company established in the PRC with limited liability and is a wholly-owned subsidiary of Haidilao
“Yihai Shanghai”	Yihai (Shanghai) Food Co., Ltd. (頤海(上海)食品有限公司), a foreign investment enterprise established in the PRC and an indirectly wholly owned subsidiary of the Company
“%”	per cent

* *for identification purpose only*

LETTER FROM THE BOARD



YIHAI INTERNATIONAL HOLDING LTD.

頤海國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1579)

Executive Directors:

Mr. Shi Yonghong (*Chairman*)

Ms. Dang Chunxiang

Mr. Sun Shengfeng

Ms. Shu Ping

Mr. Guo Qiang

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:

1st and 2nd Floors, Building 6

Songlei Office Building, Heng Song Yuan

Middle Road of South 3rd Ring Road

Fengtai District

Beijing, 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

14 June 2019

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

(1) PURCHASE OF SHUHAI INGREDIENTS FROM THE SHUHAI SUPPLY CHAIN

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

AND

(3) NOTICE OF EXTRAORDINARY GENERAL MEETING

LETTER FROM THE BOARD

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 purchase of Shuhai Ingredients from the Shuhai Supply Chain Group pursuant to the Shuhai Purchase Agreement, and (ii) the revision of annual caps for the sale of products to the Shuhai Supply Chain Group under the Shuhai Sales Agreement and for the sale of hot pot soup flavouring products to the Joint Venture under the Framework Sales and Purchase Agreements in respect of 2019 and 2020. 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 68 to 71 of this circular.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

A. 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 10 June 2019 in relation to, among others, the continuing connected transactions between the Group and the Shuhai Supply Chain Group for the purchase of Shuhai Ingredients in respect of 2019 and 2020.

Continuing Connected Transactions under the Shuhai Purchase Agreement

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

The Shuhai Purchase Agreement

Date

10 June 2019

Parties

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

LETTER FROM THE BOARD

Term

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

Nature of transactions

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

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

Pricing basis

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

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

Payment terms

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

LETTER FROM THE BOARD

Proposed annual caps and basis of determination

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

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

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

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

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

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

(III) INFORMATION OF THE PARTIES

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

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

LETTER FROM THE BOARD

(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 35.61% of the total issued shares of the Company and are therefore controlling shareholders of the Company. Mr. Shi Yonghong, the Chairman, holds approximately 16.95% of the total issued shares of the Company and is therefore a substantial shareholder of the Company.

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

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

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

(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. Mr. Zhang Yong, together with his wife Ms. Shu Ping, and their associate indirectly hold approximately 52.17% of Shuhai Supply Chain. Mr. Shi Yonghong, together with his wife, directly or indirectly, hold approximately 24.65% of Shuhai Supply Chain.

(VI) APPROVAL BY INDEPENDENT SHAREHOLDERS

Mr. Zhang Yong, together with his wife Ms. Shu Ping, and their associate indirectly hold approximately 52.17% of Shuhai Supply Chain. Mr. Shi Yonghong, together with his wife, directly or indirectly, hold approximately 24.65% of Shuhai Supply Chain. In accordance with the Listing Rules, Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong and their respective associates (which in aggregate hold 550,290,513 Shares, representing approximately 52.56% 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.

LETTER FROM THE BOARD

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.

B. SHUHAI SALES AGREEMENT

(I) REVISION OF ANNUAL CAPS FOR THE SALE OF PRODUCTS TO THE SHUHAI SUPPLY CHAIN GROUP UNDER THE SHUHAI SALES AGREEMENT IN RESPECT OF 2019 AND 2020

Background

Reference is made to the announcement of the Company dated 10 June 2019 in relation to, among others, the revision of annual caps for the sale of products to the Shuhai Supply Chain Group under the Shuhai Sales Agreement.

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

For the reasons detailed below, the Board proposes that the existing annual caps for the transactions in relation to the Shuhai Sales Agreement be revised for the two years ending 31 December 2019 and 2020.

As at the Latest Practicable Date, the actual transaction amounts for the transactions under the Shuhai Sales Agreement had not exceeded the annual cap for the year ending 31 December 2019, but are currently anticipated to exceed the existing annual cap by the end of 2019.

LETTER FROM THE BOARD

Continuing Connected Transactions under the Shuhai Sales Agreement

On 6 July 2018, Yihai Shanghai and Shuhai Supply Chain entered into the Shuhai Sales Agreement, pursuant to which the Group agreed to supply Shuhai Customized Products and products targeting at the retail market (“**Shuhai Retail Products**”) for a term of two years from 1 January 2019 to 31 December 2020.

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

The Shuhai Sales Agreement

Date

6 July 2018

Parties

- (1) Yihai Shanghai
- (2) Shuhai Supply Chain

Term

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

Nature of transactions

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

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

LETTER FROM THE BOARD

Pricing basis

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

(a) Sale of Shuhai Customized Products

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

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

(b) Sale of Shuhai Retail Products

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

Payment terms

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

LETTER FROM THE BOARD

Historical amounts and existing annual caps

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

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

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

As at the Latest Practicable Date, the actual transaction amount has not exceeded the annual cap for the year ending 31 December 2019.

Proposed revision of annual caps and basis of determination

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

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

LETTER FROM THE BOARD

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

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

(II) REASONS FOR AND BENEFITS OF THE SALE OF PRODUCTS TO THE SHUHAI SUPPLY CHAIN GROUP

While the Group has in the past directly supplied customized condiment products to a number of independent third party distributors and/or catering service clients, as part of its internal business restructuring plan, such customized services and sales to catering service clients will no longer be performed by the Group due to economies of scale. Instead, such services will be provided by the Shuhai Supply Chain Group as Shuhai Supply Chain has extensive client network and it currently provides food ingredients to various famous enterprises. Shuhai Supply Chain is primarily engaged in the supply of food ingredients and provision of storage and logistics services to catering service providers. Its extensive client network increases consumer exposure to the Group’s products and promotes the brand image of the Group. The Group will keep on monitoring the performance of Shuhai Supply Chain, in particular its performance in sourcing new catering service clients. In the event that the performance is unsatisfactory, the Group may consider engaging the service of other independent third parties or re-establishing such service by the Group.

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

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

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

(III) INFORMATION OF THE PARTIES

Yihai Shanghai is principally engaged in the sales of compound condiments 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 35.61% of the total issued shares of the Company and are therefore controlling shareholders of the Company. Mr. Shi Yonghong, the Chairman, holds approximately 16.95% of the total issued shares of the Company and is therefore a substantial shareholder of the Company.

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

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

Since the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the aggregated transactions are more than 5%, the proposed 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.

LETTER FROM THE BOARD

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

The proposed revision of annual caps of the Shuhai Sales Agreement have been negotiated and agreed on an arm's length basis by Yihai Shanghai and Shuhai Supply Chain. The Directors (including the independent non-executive Directors) are of the view that the proposed revised annual caps 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 resolution for approving the proposed revision of annual caps. Mr. Zhang Yong, together with his wife Ms. Shu Ping, and their associate indirectly hold approximately 52.17% of Shuhai Supply Chain. Mr. Shi Yonghong, together with his wife, directly or indirectly, hold approximately 24.65% of Shuhai Supply Chain.

(VI) APPROVAL BY INDEPENDENT SHAREHOLDERS

Mr. Zhang Yong, together with his wife Ms. Shu Ping, and their associate indirectly hold approximately 52.17% of Shuhai Supply Chain. Mr. Shi Yonghong, together with his wife, directly or indirectly, hold approximately 24.65% of Shuhai Supply Chain. In accordance with the Listing Rules, Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong and their respective associates (which in aggregate hold 550,290,513 Shares, representing approximately 52.56% of the issued Shares) will abstain from voting on the ordinary resolutions to approve the proposed revision of annual caps under the Shuhai Sales Agreement at the Extraordinary General Meeting.

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

1. the annual transaction amount of the Shuhai Sales Agreement shall not exceed the revised 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.

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

LETTER FROM THE BOARD

C. FRAMEWORK SALES AND PURCHASE AGREEMENTS

(I) REVISION OF ANNUAL CAPS FOR THE SALE OF HOT POT SOUP FLAVOURING PRODUCTS TO THE JOINT VENTURE UNDER THE FRAMEWORK SALES AND PURCHASE AGREEMENTS IN RESPECT OF 2019 AND 2020

Background

Reference is made to the announcement of the Company dated 10 June 2019 in relation to, among others, the revision of annual caps for the sale of hot pot soup flavouring products to the Joint Venture.

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

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

As at the Latest Practicable Date, the actual transaction amounts for the transactions under the 2017 Hot Pot Soup Flavouring Products Sales Agreement had not exceeded the annual cap for the year ending 31 December 2019, but are currently anticipated to exceed the existing annual cap by the end of 2019.

Continuing Connected Transactions under the Framework Sales and Purchase Agreements

On 18 September 2017, Yihai Shanghai and the Joint Venture entered into the 2017 Hot Pot Soup Flavouring Products Sales Agreement and 2017 Small Hot Pot Products Sales Agreement, pursuant to which (i) Yihai Shanghai (for itself and on behalf of its subsidiaries, other than the Joint Venture) agreed to sell hot pot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hot Pot Products under the 2017 Hot Pot Soup Flavouring Products Sales Agreement; and (ii) the Joint Venture agreed to sell Small Hot Pot Products to Yihai Shanghai and its subsidiaries (other than the Joint Venture) under the 2017 Small Hot Pot Products Sales Agreement for a term from 18 September 2017 to 31 August 2020.

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On 6 July 2018, Yihai Shanghai and the Joint Venture entered into the 2018 Hot Pot Soup Flavouring Products Sales Agreement and 2018 Small Hot Pot Products Sales Agreement, pursuant to which (i) Yihai Shanghai (for itself and on behalf of its subsidiaries, other than the Joint Venture) agreed to sell hot pot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hot Pot Products under the 2018 Hot Pot Soup Flavouring Products Sales Agreement; and (ii) the Joint Venture agreed to sell Small Hot Pot Products to Yihai Shanghai and its subsidiaries (other than the Joint Venture) under the 2018 Small Hot Pot Products Sales Agreement for a term of four months from 1 September 2020 to 31 December 2020.

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

The Framework Sales and Purchase Agreements

Date

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

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

Parties

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

Term

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

Nature of transactions

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

The quantity of (a) the hot pot soup flavouring products to be sold to the Joint Venture; and (b) the Small Hot Pot Products to be sold to Yihai Shanghai, respectively, are not fixed under the Framework Sales and Purchase Agreements but are to be determined and agreed between the relevant parties from time to time.

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

Pricing basis

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

(a) Sale of hot pot soup flavouring products

The sales price of hot pot soup flavouring products shall be determined by the parties after arm's length negotiations with reference to (i) the prevailing production cost and expenses incurred by the Group in connection with the production of the products, and (ii) the market price of similar products sold by comparable companies. The sales price of hot pot soup flavouring products to the Joint Venture shall not be less favourable than the sales price to independent third parties.

(b) Purchase of Small Hot Pot Products

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

Payment terms

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

Historical amounts and existing annual caps

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

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

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

As at the Latest Practicable Date, the actual transaction amount has not exceeded the annual cap for the year ending 31 December 2019.

Proposed revision of annual caps and basis of determination

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

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

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

- (i) the rapid growth in sales of Small Hot Pot Products since its launch in 2017; and
- (ii) the shifting away of the hot pot soup flavouring products business of the Group from mainly OEM (original equipment manufacturer) to self-manufacturing since 2018, and therefore substantially all of the hot pot soup flavouring products for the manufacture of the Small Hot Pot Products will be supplied by the Group instead of independent OEMs. Such shift from OEM to self-manufacturing improves efficiency and cost margins, and allows the Group to have better control over quality of products. In 2018, the Group had self-manufactured approximately 57,600 tons of hot pot soup flavouring products,

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representing approximately 80% of the production volume of hot pot soup flavoring products. The remaining 20% (approximately 14,400 tons) of the hot pot soup flavouring products were manufactured by OEMs. Such hot pot soup flavoring products were in turn sold to independent third party customers and related parties (including Haidilao) in 28,153 tons and 43,772 tons, respectively. In 2018, the Joint Venture had procured hot pot soup flavouring products in an aggregate amount of approximately RMB28.3 million, of which approximately RMB7.9 million was acquired from the Group and the remaining RMB20.4 million was procured from independent third party suppliers. In the first quarter of 2019, substantially all of the hot pot soup flavouring products were manufactured by the Group. The Company has the capacity to fulfil the planned production volume as (a) Phase I of Maanshan production base has commenced operation in first half of 2018, with production capacity of approximately 60,000 tons, (b) the factory plant of Phase I of Bazhou project was basically completed in 2018, the south workshop has commenced production in May 2019 and it is expected that the north workshop in Phase I of Bazhou project will commence mass production in September 2019, with expected production capacity of approximately 70,000 tons, (c) the existing production base in Zhengzhou has production capacity of approximately 30,000 tons, and (d) Phase II of Maanshan condiment production base is expected to commence production in 2021 with an addition of approximately 200,000 tons of production capacity.

(II) REASONS FOR AND BENEFITS OF THE SALE AND PURCHASE OF PRODUCTS WITH THE JOINT VENTURE

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

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

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

(III) INFORMATION OF THE PARTIES

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

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

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

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

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(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 Framework Sales and Purchase Agreements constitute continuing connected transactions of the Company for the purpose of the Listing Rules.

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

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

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

The proposed revision of annual caps of the 2017 Hot Pot Soup Flavouring Products Sales Agreement and 2018 Hot Pot Soup Flavouring Products Sales Agreement under the Framework Sales and Purchase Agreements have been negotiated and agreed on an arm's length basis by Yihai Shanghai and the Joint Venture. The Directors (including the independent non-executive Directors) are of the view that the proposed revised annual caps 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 resolution approving the proposed revised annual caps under the Framework Sales and Purchase Agreements. Except for Mr. Zhang Yong, Ms. Shu Ping and Mr. Shi Yonghong, no other Director has a material interest in the Framework Sales and Purchase Agreements and is required to abstain from voting on the board resolutions for approving the proposed revision of annual caps under the Framework Sales and Purchase Agreements.

(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 550,290,513 Shares, representing approximately 52.56% of the issued Shares) will abstain from voting on the ordinary resolutions to approve the proposed revision of annual caps under the Framework Sales and Purchase Agreements at the Extraordinary General Meeting.

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The Company will seek the Independent Shareholders' approval at the Extraordinary General Meeting for, among others, the proposed revisions of annual caps under the Framework Sales and Purchase Agreements on the condition that:

1. the annual transaction amount of the Framework Sales and Purchase Agreements shall not exceed the revised annual caps;
2. (i) the Framework Sales and Purchase Agreements 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 Framework Sales and Purchase Agreements and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

INTERNAL CONTROL MEASURES

The Group has a comprehensive internal control system to ensure that the terms of the Shuhai Purchase Agreement, the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements are fair and reasonable, and the Shuhai Purchase Agreement, the Shuhai Sales Agreement and the Framework Sales and Purchase 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

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- (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 caps.
- (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.
- (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 of the Company conducts review of the annual financial statements, annual report, interim financial statements and interim report which include the disclosure and analysis of the implementation of continuing connected transactions and opine on continuing connected transactions as disclosed in such financial statements and reports, including whether the terms of the continuing connected transactions are fair and reasonable and whether the transaction amounts are within the relevant annual caps.
- (ix) To assist the Company in complying with the applicable rules listed in chapter 14A of the Listing Rules, the external auditor of the Company performs work in accordance with the regulations in the "Hong Kong Standard on Assurance Engagements 3000 — "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to the "Practice Note 740 — Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of

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Certified Public Accountants, on the Company's continuing connected transactions and issue a letter in respect of the continuing connected transactions disclosed in the Company's annual report in accordance with the applicable accounting standards and the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 28 June 2019 to Thursday, 4 July 2019, 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, 27 June 2019 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, 27 June 2019.

EXTRAORDINARY GENERAL MEETING

Set out on pages 68 to 71 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 Shuhai Purchase Agreement (including the proposal annual caps), (ii) the proposed revision of annual caps under the Shuhai Sales Agreement, and (iii) the proposed revision of annual caps under the Framework Sales and Purchase Agreements.

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

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

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

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

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

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 Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements are carried out and determined in the ordinary and usual course of business, the terms are on normal commercial terms or better and are fair and reasonable. They are also of the opinion that the Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of all the relevant ordinary resolutions to be proposed at the Extraordinary General Meeting.

RECOMMENDATION OF THE INDEPENDENT FINANCIAL ADVISER AND THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the terms of the Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements, and First Shanghai has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders.

The Independent Financial Adviser considers the Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements 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 Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The full text of

LETTER FROM THE BOARD

the letter from the Independent Financial Adviser issued by First Shanghai containing its recommendation in respect of the Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements is set out on pages 30 to 61 of this circular.

The Independent Board Committee, having taken into account the advice of First Shanghai, considers the terms of the Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements 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 Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revised annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements. The full text of the letter from the Independent Board Committee is set out on page pages 28 to 29 of this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



YIHAI INTERNATIONAL HOLDING LTD.

頤海國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1579)

14 June 2019

To the Independent Shareholders

CONTINUING CONNECTED TRANSACTIONS

**(1) PURCHASE OF SHUHAI INGREDIENTS FROM THE 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**

Dear Sir or Madam,

We have been appointed as the Independent Board Committee to advise you in connection with the Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements, details of which are set out in the letter from the Board contained in the circular issued by the Company to the Shareholders dated 14 June 2019, 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 30 to 61 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 Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements and the advice of First Shanghai in relation thereto as set out on pages 30 to 61 of the circular, we are of the view that the Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements 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 Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements 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.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the Extraordinary General Meeting to approve the Shuhai Purchase Agreement (including the proposed annual caps) and the proposed revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements.

Yours faithfully,

Yihai International Holding Ltd.

YAU Ka Chi QIAN Mingxing YE Shujun

Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter to the Independent Board Committee and the Independent Shareholders received from the Independent Financial Adviser setting out its opinion regarding the continuing connected transactions (including their respective proposed or revised annual caps) contemplated under each of the Shuhai Purchase Agreement, the Shuhai Sales Agreement and the Framework Sales and Purchase 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

14 June 2019

*To the Independent Board Committee and
the Independent Shareholders*

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

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS
(1) PURCHASE OF SHUHAI INGREDIENTS FROM THE 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**

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions (including their respective proposed or revised annual caps) contemplated under each of the Shuhai Purchase Agreement, the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(collectively, the “**Continuing Connected Transactions**”), details of which are contained in the circular to the Shareholders dated 14 June 2019 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those ascribed in the Circular.

The Shuhai Purchase Agreement

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

The Shuhai Sales Agreement

The Company has closely monitored the progress of its continuing connected transactions under the Shuhai Sales Agreement. With respect to the annual caps for the transactions contemplated under the Shuhai Sales Agreement, the Board considers that the existing annual caps in respect of Years 2019 and 2020 for the sale of Shuhai Customized Products and Shuhai Retail Products (as defined hereinafter) will not be able to satisfy the business needs of the Group and the demands of Shuhai Supply Chain Group for the two years ending 31 December (the “**Year(s)**”) 2019 and 2020.

The Board proposes that the existing annual caps for the transactions in relation to the Shuhai Sales Agreement be revised for the two Years 2019 and 2020.

As at the Latest Practicable Date, the actual transaction amounts for the transactions under the Shuhai Sales Agreement had not exceeded the annual cap for the Year 2019, but are currently anticipated to exceed the existing annual cap of the Year 2019.

The Framework Sales and Purchase Agreements

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the actual transaction amounts for the transactions under the 2017 Hot Pot Soup Flavouring Products Sales Agreement had not exceeded the annual cap for the Year 2019, but are currently anticipated to exceed the existing annual cap by the end of the Year 2019.

LISTING RULES IMPLICATIONS

The 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 35.61% of the total issued shares of the Company and are therefore controlling shareholders of the Company. Mr. Shi Yonghong, the Chairman, holds approximately 16.95% of the total issued shares of the Company and is therefore a substantial shareholder of the Company.

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

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

Since the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the aggregated 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.

The Shuhai Sales Agreement

Also, the transactions contemplated under the Shuhai Sales Agreement constitute continuing connected transactions of the Company under the Listing Rules.

Since the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the aggregated transactions are more than 5%, the proposed 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.

The Framework Sales and Purchase Agreements

The Joint Venture is currently a 60% held non wholly-owned subsidiary of the Company. As the Joint Venture is owned as to 40% by Xinpai Shanghai, which is a wholly-owned subsidiary of Haidilao and Mr. Zhang Yong and Ms. Shu Ping are the controlling shareholders of Haidilao, the Joint Venture is therefore a connected subsidiary of the Company. Accordingly, the transactions contemplated under the Framework Sales and Purchase Agreements constitute continuing connected transactions of the Company for the purpose of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

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 Continuing Connected Transactions (including their respective proposed or revised annual caps).

As the independent financial adviser, we have been appointed to advise the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Continuing Connected Transactions (including their respective proposed or revised annual caps) are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in relation to the ordinary resolutions to be proposed for approving the Continuing Connected Transactions (including their respective proposed or revised annual caps) 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 adviser by the Company for three occasions (i.e. mainly in relation to the provision of independent financial advice to the then Independent Board Committee and Independent Shareholders for (a) certain new continuing connected transactions of the Company and revision of annual caps under the Existing Master Sales Agreement for the coming two years; (b) continuing connected transactions of the Company in respect of variation of terms of the Existing Master Sales Agreement; and (c) renewal of annual caps for continuing connected transactions in respect of 2019 and 2020 and sale and purchase of products with the Joint Venture) as detailed in the circulars of the Company dated 18 October 2017, 12 April 2018 and 19 July 2018, respectively.

Given (i) our independent roles in the previous three engagements; (ii) none of the members of our parent group is a direct party to each of the Shuhai Purchase Agreement, the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements; and (iii) our independent financial advisory fees for this present engagement in addition to the previous three engagements represented

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

an insignificant percentage of revenue of our parent group, we consider that the previous three engagements would not affect our independence to form our opinion in respect of this engagement to be contemplated under each of the Shuhai Purchase Agreement, the Shuhai Sales Agreement and the Framework Sales and Purchase 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 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 Shuhai Supply Chain Group and the Joint Venture.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Continuing Connected Transactions (including their respective proposed or revised annual caps) pursuant to the Shuhai Purchase Agreement, the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements, we have taken into consideration the following principal factors and reasons:

(1) PURCHASE OF SHUHAI INGREDIENTS FROM THE SHUHAI SUPPLY CHAIN

1. Background information of the Group

The Group is principally engaged in the production and sale of hot pot soup condiment, Chinese-style compound condiment, and convenient ready-to-eat food products in the PRC. The Group is a leading and fast-growing compound condiment manufacturer in the PRC, and its flavouring products have been significantly contributing to the successful growth of the Haidilao Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”), the Group continued to deepen the development of operating strategies for various business segments in the Year 2018, and recorded total revenue of approximately RMB2,681.4 million for the Year 2018, representing a year-on-year increase of about 62.9%; while its net profit amounted to approximately RMB547.9 million, representing a year-on-year increase of about 109.9%.

The Group has continued to develop lower-tier distribution channels and innovations, through effective incentives for internal sales staff, and the close cooperation with distributors, effective enhancement was achieved in the number of distributors, the density of points of sale and the scope of city coverage. As at 31 December 2018, the Group’s distributors had covered over a total of 31 provincial regions in China, the regions of Hong Kong, Macau and Taiwan, as well as 42 overseas countries and regions.

For sales through e-commerce, the Group’s self-operated online flagship store was also a major platform for brand dissemination, pilot sales of new products and display of products. Through various types of featured and thematic marketing and customer service activities, the Group’s brand awareness among consumers and brand reputation were enhanced. In the Year 2018, the Group continued to develop third-party e-commerce channels with dedicated efforts through other prominent online sales platforms with abundant traffic such as Tmall.com supermarket and JD.com self-operated stores, the overall online sales performance was encouraging. For the Year 2018, the Group’s revenue from online sales channels amounted to RMB217.4 million, representing a significant increase by approximately 105.2% when compared to that of RMB105.9 million in the Year 2017.

As at 31 December 2018, the Company had a total of 52 hot pot condiment products, 19 Chinese-style compound condiment products (including three ready-to-eat sauce) and seven convenient ready-to-eat food products.

The Group firstly introduced and launched its convenient ready-to-eat food 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.

In the convenient ready-to-eat food product category, the Group conducted many optimizations and upgrades on the packaging and condiments of all self-serving small hot pot products during the Year, and developed many self-serving products in many new flavours and forms. During the Year 2018, the Group’s revenue from sale of convenient ready-to-eat food products amounted to approximately RMB449.3 million, representing a tremendous increase by over 7.3 times when compared to that of approximately RMB61.4 million for the Year 2017, of which, almost 99% of revenue was derived from Independent Customers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Background information of Shuhai Supply Chain

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

3. Principal terms of the Shuhai Purchase Agreement

The Shuhai Purchase Agreement

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

Term

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

Nature of transactions

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

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

Pricing basis

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on our independent review of the sample procurement agreements entered into between the Group and the Independent Suppliers for the provision of similar hot pot ingredients, the pricing terms thereof are basically comparable to those of the Shuhai Purchase Agreement, which are not less favourable than the quotations obtained from the Independent Suppliers.

Payment terms

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

According to the 2018 Annual Report, the credit terms of trade payables granted by the vendors for periods of ranging from 30 days to 90 days from the invoice date. On average, the Group's turnover days of trade payables were approximately 37.0 days and 35.6 days for each of the two Years 2017 and 2018, respectively. We consider that the payment terms on a monthly (i.e. 30 days) basis for the supply of Shuhai Ingredients from the Shuhai Supply Chain Group to the Group pursuant to the Shuhai Purchase Agreement are usual, typical and on normal commercial terms, and therefore are fair and reasonable.

4. Reasons for and benefit of entering into the Shuhai Purchase Agreement

The Group manufactures Small Hot Pot Products and plans to further expand its manufacture and sales due to its increasingly popular demand.

Shuhai Supply Chain Group is primarily engaged in the supply of food ingredients and provision of storage and logistics services to catering service providers. Shuhai Supply Chain has eight production base in the PRC, and its products have obtained AIB and ISO22000 certification.

At present, Shuhai Supply Chain Group is one of the main food suppliers to Haidilao (海底捞) 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. The proposed annual caps for the Shuhai Purchase Agreement

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

The proposed annual caps

	2019	2020	Increase/ (decrease) from 2019
Proposed annual caps			
For late June 2019 only (RMB)	584,000	N/A	N/A
From July to December 2019 (RMB)	85,000,000	N/A	N/A
For full Year (RMB)	85,584,000	228,037,000	166.4%
Expected quantity of Shuhai Ingredients to be purchased (tons)	1,248	3,418	173.9%
Expected quantity of Shuhai Ingredients to be purchased (kg)	1,248,000	3,418,000	173.9%
Unit purchase price after VAT of 13% (RMB/kg)	68.58	66.72	(2.7)%
Unit purchase price before VAT of 13% (RMB/kg)	60.69	59.04	(2.7)%
Expected quantity of Shuhai Ingredients to be purchased (packs)	16,950,000	44,900,000	164.9%
Unit purchase price after VAT of 13% (RMB/pack with 80 g)	5.49	5.34	(2.7)%
Unit purchase price before VAT of 13% (RMB/pack with 80 g)	4.86	4.72	(2.7)%

Note: 1 ton = 1,000 kilograms = 1,000,000 grams

Basis of determination of the proposed annual caps

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

- the rapid growth in sales of the Small Hot Pot Products since its launch in Year 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 Year 2018 amounting to approximately RMB449.3 million, representing a tremendous increase by over 7.3 times when compared to that of approximately RMB61.4 million for Year 2017;
- the historical purchase of similar food ingredients from independent third parties. For the Year 2018, the Group purchased packs of beef or bovine offal in the total amount of approximately RMB81.3 million; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- 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 Small Hot Pot 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 two Years from 2019 (actually from late June to December 2019) to 2020.

As mentioned in the previous circular dated 19 July 2018, the Joint Venture was newly set-up 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 acceptance level by the Small Hot Pot Product market. As further discussed in the 2018 Annual Report, the Group firstly introduced and launched its convenient ready-to-eat food products (primarily consisting 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 (primarily consisting of Small Hot Pot Products) amounted to approximately RMB449.3 million (or in sales volume of 10,838 tons) for the Year 2018, representing a tremendous increase by over 7.3 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 99% was derived from Independent Customers. The Group's revenue generated from the sale of convenient ready-to-eat food products accounted for approximately 3.7% and 16.8% of its total revenue for each of the two Years 2017 and 2018, respectively. In view of these unpredictable brilliant sales results, the Group is now seeking additional sources of stable and reliable quality ingredients to meet the production requirements for capturing the rapidly increasing demand for Small Hot Pot Products in the two Years 2019 and 2020.

The proposed annual cap amounts under the Shuhai Purchase Agreement of approximately RMB85.6 million for the less than seven months from late June to December 2019 is based on the Management's past experience in the hot pot catering market in the PRC and their best estimates of approximately 1,248 tons (or 1,248,000 kg, or 16,950,000 packs) of Small Hot Pot Products to be produced at an average unit purchase cost at around RMB5.49 per pack with 80 g of beef or bovine offal during the same 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.

We have reviewed some sample invoices for procurement of the similar beef or bovine offal ingredients from the Independent Suppliers, and noted that the estimated purchase prices of Shuhai Ingredients from Shuhai Supply Chain are slightly more favourable to the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above similar basis for estimating the proposed annual cap amount for the full Year 2020, which would amount to approximately RMB228.0 million (or in purchase volume of 3,418 tons) when compared to that of approximately RMB85.6 million (or in purchase volume of 1,248 tons) for the shorter period of less than seven months from late June to December 2019. If we look into the proposed annual cap amounts on an annualised comparable basis, the annual increment between the two Years 2019 and 2020 would account for approximately 32.9%, which was roughly arrived at by a formulae of: $\text{RMB}228,040,000 \times 6/12 \text{ months} / \text{RMB}85,800,000 - 100\% = 32.9\%$.

Based on our independent review of the Group's historical operating data, the business segment of sales of "convenient ready-to-eat food products" (primarily consisting of 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 in the Year 2018 (or in sales volume of 10,838 tons), representing an increase of almost 7.3 times in revenue amounts between the two Years 2017 and 2018, mainly because the base amount in the Year 2017 only accounted for three to four months so as causing a more drastic increase in revenue in the Year 2018. The Group had purchased similar hot pot ingredients of beef and bovine offal from the Independent Suppliers in actual quantity and purchase amount of approximately 12.4 million packs and RMB81.3 million, respectively, for the Year 2018. The Group now plans to further expand its manufacture and sales of Small Hot Pot Products by sourcing additional ingredients from Shuhai Supply Chain Group with increased production volume of 1,248 tons (16,950,000 packs) and 3,418 tons (44,900,000 packs) in each of the two Years 2019 and 2020. By comparing the additional purchase volume of Shuhai Ingredients to the historical purchase volume of similar hot pot ingredients of beef and bovine offal from the Group's Independent Suppliers for the Year 2018 and 2020 (note: not to compare with Year 2019 because of its non-full year basis), the increased purchase volume would account for approximately 3.6 times (i.e. $44,900,000 \text{ packs} / 12,395,961 \text{ packs} = 3.6 \text{ times}$). Having considered the Group's tremendous increase in sale of Small Hot Pot Products by almost 7.3 times over the Years 2017 and 2018, which may demonstrate that the proposed annual caps for purchase of Shuhai Ingredients for further producing Small Hot Pot Products for the two Years 2019 and 2020 are not unrealistic or too aggressive. Based on our independent review and clarification with the Management, the proposed annual caps under the Shuhai Purchase Agreement for the two Years 2019 and 2020 to be increased by around 3.6 times was simply set with reference of around 50% to that 7.3 times over the past two Years 2017 and 2018, whilst the unit purchase cost for determining the proposed annual caps thereof is consistent with that offered by the Independent Suppliers, which we consider to be realistic, fair and reasonable.

We have noted that the Group had a tremendous increasing trend in historical revenue over the past six Years from 2013 to 2018 with a compound annual growth rate (the "CAGR") of approximately 53.4% over the period. More recently, the Group had recorded revenue of approximately RMB1,646.2 million and RMB2,681.4 million for each of the two Years 2017 and 2018, respectively, representing a strong growth of approximately 62.9% 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. Based on our independent review of the 2018 中國餐飲業年度報告 (2018 China Restaurant Industry Survey Report) published by 中國飯店協會 (China Restaurant Association), the total revenue generated from the hot pot catering market in the PRC had out-performed with annual growth rate of about 24% for the Year 2017 when compared to

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that of approximately 10.7% attributable to the catering industry in the PRC as a whole. 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, revenue generated from hot pot dining has become the largest sector among various dining forms/styles in the PRC's catering industry. On such basis, we consider that the Group's past revenue may provide a reliable reference or comparable basis for forecasting the sale of Small Hot Pot Products in the coming years. Having considered the Group's historical outstanding revenue trend, we concur with the Directors' production forecasts for the coming two Years up to 31 December 2020, and therefore are of the view that the proposed annual caps for purchase of Shuhai Ingredients for producing many more Small Hot Pot Products pursuant to the Shuhai Purchase Agreement shall be prudent, fair and reasonable.

Having considered the above factors and analysis, we are of the view that the rationale behind and basis adopted by the Management in determining the 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.

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

(i) SALE OF PRODUCTS TO THE SHUHAI SUPPLY CHAIN GROUP

On 6 July 2018, Yihai Shanghai and Shuhai Supply Chain entered into the Shuhai Sales Agreement, pursuant to which the Group agreed to supply products customized for Shuhai Supply Chain Group's customers who are catering service clients (the "**Shuhai Customized Products**") and products targeting at the retail market (the "**Shuhai Retail Products**") for a term of two years from 1 January 2019 to 31 December 2020.

With respect to the annual caps for the transactions contemplated under the Shuhai Sales Agreement, the Board considers that the existing annual caps in respect of Years 2019 and 2020 for the sale of Shuhai Customized Products will not be able to satisfy the business needs of the Group and the demands of Shuhai Supply Chain Group for the two Years 2019 and 2020. For the reasons detailed below, the Board proposes that the existing annual caps for the transactions in relation to the Shuhai Sales Agreement be revised for the two Years 2019 and 2020.

1. Principal terms of the Shuhai Sales Agreement

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

Term

The Shuhai Sales Agreement has an initial term of two years from 1 January 2019 to 31 December 2020. Subject to compliance with the Listing Rules and applicable laws and regulations, the

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Shuhai Sales Agreement may be renewed for a further term of three years from time to time, unless Yihai Shanghai notifies Shuhai Supply Chain to the contrary with one month's written notice prior to the expiry of the agreement's term. Upon renewal of the Shuhai Sales Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

Nature of transactions

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

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

Pricing basis

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

(a) Sale of Shuhai Customized Products

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

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

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Based on our understanding from the Management, the price determination mechanism currently in force for the sale of the Shuhai Customized Products are governed by the Group's internal control and sales policies for connected persons of the Company. According to our independent review of the 2018 Annual Report and the Group's selling price reconciliation schedule for the Year 2018, we noted that the average selling prices on per kilogram basis of all the Group's hot pot condiment products were about (i) RMB26.3 versus RMB27.3 for the Year 2017; and (ii) RMB28.9 versus RMB26.1 for the Year 2018, between the Group's independent third party customers (the "**Independent Customers**") and related party customers (including Haidilao) respectively, such slight deviation of average selling prices per kilogram was mainly attributable to the differences in production formulas and a wide variety of tastes of hot pot condiment products there between. The Group has always been ensuring the net profit margin for sale of hot pot condiment products on individual taste-by-taste basis not to be favourable to the related party customers. 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 third party distributors and shall be determined by the parties after arm's length negotiations with reference to (i) the production cost, including the cost of raw materials incurred in connection with the production of the Shuhai Retail Products, selling and administrative expenses, and (ii) the prevailing market price of similar products. The independent non-executive Directors 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. The sales prices of Shuhai Retail Products to Shuhai Supply Chain Group shall not be less favourable than the sales price to independent third party distributors.

Payment terms

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

According to the prospectus of the Company dated 30 June 2016 (the "**Prospectus**") and the 2018 Annual Report, the Group has provided trade credit to certain major distributors, who are independent third parties, for periods of ranging from 30 days to 60 days from the invoice date, depending on their financial positions, purchasing volume, track record and other factors. We consider that the payment terms on a monthly (i.e. 30 days) basis for the sale of 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. Background of the contracting parties

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

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

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

3. Reasons for and benefits of entering into the Shuhai Sales Agreement

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

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

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

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

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relationships with various types of restaurant and corporate consumers in the hotpot, barbecue, Chinese food, fastfood, retail, delivery and other businesses. As such, it is in the interests of the Company and the Shareholders as a whole to conduct the Restructuring Plan given it is not cost-effective for the Group to maintain a team for the catering service clients and engage third party distributors for the third-party customized catering business.

Given that the Restructuring Plan would save marketing and distribution cost of the Group, while the Group will determine and ensure the sales price of such Shuhai Customized Products not less favourable to similar products selling to Independent Customers through retailing sales channels, accordingly, we consider that the strategic move from direct sale to Independent Customers to the Shuhai Supply Chain Group would never prejudicial/ detrimental to the interests of the Group and the Shareholders as a whole, and fair and reasonable so far as the Independent Shareholders are concerned.

4. The historical amounts, existing annual caps and the revised 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/ (decrease)		Increase/ (decrease)		Increase/ (decrease)	
	2017	from 2016	2018	from 2017	2019	from 2018
Existing annual caps (RMB)	9,630,000	33.6%	12,680,000	31.7%	19,660,000	55.0%
Shuhai Customized Products (RMB)	9,100,000	33.8%	12,000,000	31.9%	18,600,000	55.0%
Shuhai Retail Products (RMB)	530,000	29.3%	680,000	28.3%	1,060,000	55.9%
Actual/estimated transaction amounts (RMB)	8,775,000	88.5%	12,232,000	39.4%	1,859,000	N/A
Shuhai Customized Products (RMB)	8,469,000	106.6%	11,912,000	40.7%	1,746,000	N/A
Shuhai Retail Products (RMB)	306,000	(44.9)%	320,000	4.6%	113,000	N/A
					<i>(Note 1)</i>	<i>(Note 1)</i>
Utilisation rate of the existing annual caps (%)	91.1%		96.5%		9.5%	
Shuhai Customized Products (%)	93.1%		99.3%		9.4%	
Shuhai Retail Products (%)	57.7%		47.1%		10.7%	

Note:

- The transaction amounts for the Year 2019 are the actual transaction amounts of approximately RMB1,746,000 and RMB113,000 incurred for sale of Shuhai Customized Products and Shuhai Retail Products, respectively, for the three months ended 31 March 2019, which have not been annualised on a full Year basis for comparison.

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There was a significant decrease in the sales of Shuhai Customized Products for the three months ended 31 March 2019, because Shuhai Supply Chain Group had already purchased sufficient amount of the Shuhai Customized Products in the fourth quarter of 2018 as inventory in anticipation of the demand for the Chinese New Year in 2019. A lower demand for Shuhai Customized Products in the first quarter of the Year 2019 compared to the fourth quarter of the Year 2018 is a recurring trend in the sales of Shuhai Customized Products, due to the seasonality of the demand for such products. The Company has taken this seasonal fluctuation into account when determining the revised annual caps for the Years 2019 and 2020, and expects the significance of variance in fluctuation to decrease in the future, due to the increase in the network of clients of the Shuhai Supply Chain Group and richness of their resources.

Based on our independent review of the Prospectus, the Group's business has been subject to seasonal fluctuations. Since a majority of the Group's revenue is derived from hotpot condiment products and there are seasonal patterns for hotpot consumption, so the Group has historically been experiencing higher sales of its hotpot condiment products during the winter months and lower sales during the summer months, resulting in its higher revenues in the second half of each financial year. Such seasonality may also vary across different regions in the PRC. According to the Annual Reports, the Group's revenue for the first six months of each of the four Years from 2015 and 2018 had accounted stably for around 37% for each of the four Years. On such basis, we consider such seasonal effect on the Group's sales revenue would have no impact on our assessment of the revised annual caps for the coming two Years 2019 and 2020 under the Shuhai Sales Agreement.

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The revised annual caps

	For the year ended/ending 31 December				Increase from 2019
	2018	2019	Increase from 2018	2020	
Shuhai Customized Products					
Existing annual caps for hot pot condiment products (RMB)	12,000,000	18,600,000	55.0%	27,900,000	50.0%
Quantity of Shuhai Customized Products to be sold (kg)	388,600	602,332	55.0%	903,497	50.0%
Selling price of Shuhai Customized Products per kg (RMB)	30.9	30.9		30.9	
Actual transaction amounts of sale of Shuhai Customized Products sold (RMB)	11,912,000	1,746,000	<i>(Note 1)</i>		
Utilisation rate of the existing annual caps (%)	99.3%	9.3%			
Proposed increase in annual caps for Chinese-style compound condiment products (RMB)		61,200,000	N/A	102,160,000	66.9%
Quantity of Shuhai Customized Products to be sold (kg)		2,614,558	N/A	4,357,596	66.7%
Selling price of Shuhai Customized Products per kg (RMB)		23.4		23.4	
Revised annual caps (RMB)		79,800,000	565.0%	130,060,000	63.0%
Shuhai Retail Products					
Existing annual caps (RMB)	680,000	1,060,000	55.9%	1,600,000	50.9%
Actual transaction amount of sale of Shuhai Customized Products (RMB)	320,000	113,000	<i>(Note 2)</i>		
Utilisation rate of the existing annual caps (%)	47.1%	10.7%			

Notes:

1. The actual transaction amount of Shuhai Customized Products of approximately RMB1,746,000 was up to the three months ended 31 March 2019.
2. The actual transaction amount of purchase of Shuhai Retail Products of approximately RMB113,000 was up to the three months ended 31 March 2019.

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Basis of determination of the revised and existing annual caps

Based on the Group's latest unaudited management accounts for the three months ended 31 March 2019, the actual 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 2019 to 31 March 2019 amounted to approximately RMB1,746,000 and RMB113,000, respectively, representing approximately 9.3% and 10.7% of the existing annual caps for the Year 2019, which had not been exceeded.

We understand from the Management that in determining the above revised annual caps in respect of the Shuhai Customized Products under the Shuhai Sales Agreement, the Group has taken into account the following factors:

- historical sales of Shuhai Customized Products by the Group to Shuhai Supply Chain Group, including sales volumes and sales prices;
- the prevailing production cost and expenses incurred by the Group in connection with the production of Shuhai Customized Products; and
- the estimated increase in demand for Shuhai Customized Products due to the Restructuring Plan. Prior to the Restructuring Plan, the products supplied to the Shuhai Supply Chain are hot pot condiment products. After the Restructuring Plan, it is anticipated that the amount of hot pot condiment products to be supplied to the Shuhai Supply Chain for the two Years 2019 and 2020 will remain unchanged. The revision of annual caps shall solely be attributable to the supply of Chinese style compound condiment products in various tastes for grilled/roasted food purposes. Shuhai Supply Chain has been broadening its client base, which is expected to lead to an increase in demand for Shuhai Customized Products from the Group.

The Shuhai Customized Products are mainly comprising hot pot condiment products and Chinese-style compound condiment products.

(i) Hot pot condiment products

Hot pot condiment products are compound condiments used for cooking hot pot soup in restaurants or at home. The Group manufactures hot pot condiment products with various high-quality raw materials, which mainly include vegetables or animal oil, chili peppers, prickly ash and other spices and ingredients, according to specific formulas and processing techniques. The formulas of the Group's hot pot condiment products have been well tested and endorsed by hundreds of millions of Haidilao's customers. Through the Group's continuous efforts in developing and upgrading formulas, optimizing its production process and implementing stringent quality control measures, the Group's supplies Haidilao as well as other catering service clients/ restaurants with customized condiment products and offer the retail market a comprehensive range of high-quality hot pot condiment products appealing to consumers' ever-changing expectations and enhanced food safety consciousness, with a focus on mid- to high-end market.

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The existing annual caps for hot pot condiment products only at RMB18.6 million and RMB27.9 million for each of the two Years 2019 and 2020, respectively, will remain unchanged.

(ii) Chinese-style compound condiment products

Chinese-style compound condiment products are consumer products used widely in home cooking, catering services and in the food industry. In recent years, an increasing number of consumers have expressed preference for home-made dishes with restaurant-like tastes that are convenient to prepare. By leveraging the Group's strengths in manufacturing home-cooking hot pot condiments with restaurant-like tastes, it has expanded into this business/ market segment by developing and offering numerous types of user-friendly Chinese-style compound condiment products, by which consumers can easily cook a complete dish following the recipes and instructions and prepare other dishes, for example, the Group's pickles and fish stew condiment can be used to cook noodles. As at 31 December 2018, the Group had a total of 19 Chinese-style compound condiment products (including three ready-to-eat sauce).

In addition to manufacturing compound condiment products targeting the retail market, the Group also manufactures customized Chinese-style compound condiment products for catering service clients primarily including hot pot restaurants, spicy stir-fry pot restaurants and barbecue restaurants. The specifications and prices of such customized Chinese-style compound condiment products vary in accordance with the agreements with the relevant customers on case-by-case basis. The Directors believe that this business/ market segment has significant growth potential given the increasing demand for standardized and customized products by third-party catering service clients.

The Group now proposes to increase in the annual caps for Chinese-style compound condiment products only at approximately RMB61.2 million and RMB102.2 million for each of the two Years 2019 and 2020, respectively.

The existing annual caps for sale of the Shuhai Retail Products under the Shuhai Sales Agreement at RMB1.06 million and RMB1.60 million for each of the two Years 2019 and 2020, respectively, will remain unchanged. In arriving at the existing annual caps for the Shuhai Retail Products, the Group had taken into account the following factors:

- (i) historical sales volume of the 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.

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The Directors are of the view that the revised and existing 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.

Assessment of the revised annual caps

(a) Sale of Shuhai Customized Products

Shuhai Customized Products are those (i) hot pot 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, instead of Haidilao; and (ii) Chinese-style compound condiment products targeting the end-customers in the catering industry, such as hot pot restaurants, spicy stir-fry restaurants and barbecue restaurants.

The Group's sale of Shuhai Customized Products in relation to hot pot condiment products for hot pot dining have been in their limited scale with historical actual revenue amounts of approximately RMB4.1 million, RMB8.5 million and RMB11.9 million for each of the three Years from 2016 to 2018, respectively, representing a CAGR of approximately 70.4% over the past three Years. The existing annual caps for hot pot condiment products only at RMB18.6 million and RMB27.9 million for each of the two Years 2019 and 2020, respectively, will remain unchanged. Based on our understanding from the Management, the sale of Shuhai Customized Products relating to hot pot condiment 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 hot pot condiment products and promote the brand image of the Group.

The Company now proposes to increase in the annual caps for Chinese-style compound condiment products only at approximately RMB61.2 million and RMB102.2 million for each of the two Years 2019 and 2020. The historical actual transaction amounts in relation to these Chinese-style compound condiment products originally performed by the Group's existing sales team amounted to approximately RMB23.4 and RMB21.6 million for each of the two Years 2017 and 2018, respectively, were related to those condiment products in various tastes for grilled/ roasted food purposes, which would be largely different from those existing hot pot condiment products, so the proposed increased portion of annual caps for taking over the Group's existing sales team's function of selling the same condiment products would amount to approximately RMB61.2 million (2,614,558 kg x RMB23.4 per kg) and RMB102.2 million (4,357,596 kg x RMB23.4 per kg) for each of the two Years 2019 and 2020, respectively, representing an annual growth rate of approximately 67.0% in the coming between the two Years 2019 and 2020. As advised by the Management, the Shuhai Supply Chain Group currently has accumulated over 20 years of experience in the catering industry with over 200 sales personnel and 800 existing catering service clients when compared to the Group's own sales team of around ten sales staff, it is roughly anticipated that the Group's business segment of such customised condiment products would greatly increase by almost twice (actually 183.3%) in the Year 2019 over that of the Year 2018, and almost 67.0% in the Year 2020.

The Group currently sells (a) its customized condiments products to its distributors and catering service clients, and (b) its retail products to its distributors and/or retail channels. After the

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implementation of the Restructuring Plan, the customized condiments products will be sold to the Shuhai Supply Chain Group. The retail products will remain to be sold to the Group's distributors and/or retail channels. Accordingly, the Restructuring Plan will not limit the Group's customer base for the sale of the customized condiment products by solely relying on Shuhai Supply Chain Group's client network. Shuhai Supply Chain Group has very extensive client network, and it currently provides food ingredients to various famous enterprises. The Group can therefore tap into the client network of the Shuhai Supply Chain Group such that consumer exposure to the Group's products can be increased and the brand image of the Group can be promoted. Notwithstanding the aforesaid, the Group will keep on monitoring the performance of Shuhai Supply Chain, in particular its performance in sourcing new catering service clients. In the event that the performance is unsatisfactory, the Group may consider engaging the service of other independent third party distributors or re-establishing such service by the Group itself. Based on such understanding, we are of the view that the Restructuring Plan is in the interests of the Company and the Shareholders as a whole.

In consideration of the Group's Restructuring Plan that Shuhai Supply Chain is now going to take over a part of the Group's existing sales functions for direct sale of customized condiment products to those Independent Customers, as a consequence, such customized services and sales to catering service clients will no longer be performed by the Group itself, but will be replaced by the Shuhai Supply Chain Group instead. In such consideration, we should look into the historical overall sales revenue trend in respect of selling Chinese-style compound condiment products to those Independent Customers (comprising both customized and retail clients) over the Years, which had been increasing tremendously from merely RMB38.4 million in Year 2013, to approximately RMB142.9 million in Year 2017 and RMB228.7 million in Year 2018, representing almost 6.0 times or a CAGR of approximately 42.9% between the two Years of 2013 and 2018, or approximately 60.1% between the two Years of 2017 and 2018. This may demonstrate that the Group's Chinese-style compound condiment products have been widely and increasingly accepted by the market over the Years, but its own sales team had not performed satisfactorily to well-capture the market demand. The Management currently expects that leveraging on the Shuhai Supply Chain Group's much stronger sales workforce and distribution capability and network of (i) over 200 sales personnel when compared to the Group's own sales team of around ten sales staff; and (ii) over 800 existing catering service clients versus the Group's merely 94 customized catering customers, the Group's sale of Chinese-style compound condiment products through Shuhai Supply Chain Group would perform much better with increased sales revenue by about 183.3% up to RMB61.2 million in the Year 2019 over that of merely RMB21.6 million for the Year 2018, and almost 67.0% in the Year 2020 when compared to that of Year 2019, following the significant increase in sales manpower and target clients of over eight times after implementation of the Restructuring Plan. In view of this scenario and rationale behind, we consider that the revised annual caps for sale of Shuhai Customized Products to the Shuhai Supply Chain Group at approximately RMB79.8 million and RMB130.1 million, representing an overall annual growth rate of about 63.9% between the two Years 2019 and 2020, respectively, shall not be unjustifiable or too aggressive, and therefore fair and reasonable. Based on the Management's current estimate, there would not be material impact to be contributed by the Restructuring Plan and the organic growth of the business itself, on the basis that the proposed increase in annual caps relating to Chinese-style compound condiment products only under the Shuhai Sales Agreement in the maximum amount of RMB102.2 million for the Year 2020 would merely account for less than 4% of the Group's total revenue of the Year 2018.

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(b) *Sale of Shuhai Retail Products*

Shuhai Retail Products are those hot pot 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 their very limited scale with historical actual revenue amounts of merely RMB555,000, RMB306,000 and RMB320,000 for each of the three Years from 2016 to 2018, respectively, which had been fluctuating considerably over the past three Years. Based on our clarification with the Management, the sale of Shuhai Retail Products to the retail markets is random, and has not been the key income stream of the Group in any way. The Management was not aware of any particular reason(s) for the decrease in the sale of Shuhai Retail Products in the Year 2017. As advised by the Management, since the historical transaction base amounts involved for the sale of Shuhai Retail Products were very minimal, the past revenue trend with material fluctuation within the past three Years from 2016 to 2018 shall not be reliable for projecting the existing annual caps for the coming two Years from 2019 and 2020.

The existing annual caps for sale of Shuhai Retail Products under the Shuhai Sales Agreement will remain unchanged.

Having considered the above factors and analysis, we are of the view that the rationale behind and basis adopted by the Management in determining the revised and existing annual caps for Shuhai Customized Products and Shuhai Retail Products respectively 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.

(ii) SALE OF HOT POT SOUP FLAVOURING PRODUCTS TO THE JOINT VENTURE

On 18 September 2017, Yihai Shanghai and the Joint Venture entered into the 2017 Hot Pot Soup Flavouring Products Sales Agreement and 2017 Small Hot Pot Products Sales Agreement, pursuant to which (i) Yihai Shanghai (for itself and on behalf of its subsidiaries, other than the Joint Venture) agreed to sell hot pot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hot Pot Products under the 2017 Hot Pot Soup Flavouring Products Sales Agreement; and (ii) the Joint Venture agreed to sell Small Hot Pot Products to Yihai Shanghai and its subsidiaries (other than the Joint Venture) under the 2017 Small Hot Pot Products Sales Agreement for a term from 18 September 2017 to 31 August 2020.

On 6 July 2018, Yihai Shanghai and the Joint Venture entered into the 2018 Hot Pot Soup Flavouring Products Sales Agreement and 2018 Small Hot Pot Products Sales Agreement, pursuant to which (i) Yihai Shanghai (for itself and on behalf of its subsidiaries, other than the Joint Venture) agreed to sell hot pot soup flavouring products to the Joint Venture as raw materials for the manufacture of Small Hot Pot Products under the 2018 Hot Pot Soup Flavouring Products Sales Agreement; and (ii) the Joint Venture agreed to sell Small Hot Pot Products to Yihai Shanghai and its subsidiaries (other than the Joint Venture) under the 2018 Small Hot Pot Products Sales Agreement for a term of four months from 1 September 2020 to 31 December 2020.

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1. Background information of the parties

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

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

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

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

2. Principal terms of the Framework Sales and Purchase Agreements

Term

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

Nature of transactions

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

The quantity of (a) the hot pot soup flavouring products to be sold to the Joint Venture and (b) the Small Hot Pot Products to be sold to Yihai Shanghai, respectively, are not fixed under the Framework Sales and Purchase Agreements but are to be determined and agreed between the relevant parties from time to time.

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

Pricing basis

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

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

The sales price of hot pot soup flavouring products shall be determined by the parties after arm's length negotiations with reference to (i) the prevailing production cost and expenses incurred by the Group in connection with the production of the products, and (ii) the market price of similar products sold by comparable companies. The sales price of hot pot soup flavouring products to the Joint Venture shall not be less favourable than the sales price to independent third parties.

We have reviewed some sample invoices for procurement of the similar hot pot soup flavouring products from other existing independent OEMs, and noted that the selling prices of such hot pot soup flavouring products to the Joint Venture are comparable to those sourced from independent OEMs and not less favourable than the selling prices to their other Independent Customers.

(b) *Purchase of Small Hot Pot Products*

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

We have discussed with the Management and reviewed certain sample invoices in relation to the sale of Small Hot Pot 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 per pack are 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 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 2018 Annual Report, the Group has provided trade credit to certain major distributors, who are independent third parties, for periods of ranging from 30 days to 60 days from the invoice date, depending on their financial positions, purchasing volume, track record and other factors. We consider that the payment terms on a monthly (i.e. 30 days) basis for the (i) sale of hot pot soup flavouring products; and (ii) purchase of Small Hot Pot Products pursuant to the Framework Sales and Purchase Agreements are usual, typical and on normal commercial terms, and therefore are fair and reasonable.

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

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

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

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

4. The historical transaction amounts, existing annual caps and the revised annual caps for the Framework Sales and Purchase Agreements

Historical transaction amounts

Based on the Group's unaudited management accounts for the three months ended 31 March 2019, the actual transaction amount for the sale of hot pot soup flavouring products to the Joint Venture pursuant to the Framework Sales and Purchase Agreements for the period from 1 January 2019 to 31 March 2019 amounted to approximately RMB7.8 million, representing approximately 54.0% of the existing annual caps for the Year 2019, which had not yet been exceeded. The historical transaction amount incurred for sale of hot pot soup flavouring products to the Joint Venture during the Year 2018 was approximately RMB7.9 million, representing approximately 83.4% of the existing annual caps for the Year 2018.

Based on the Group's unaudited management accounts for the three months ended 31 March 2019, the actual transaction amount for the purchase of Small Hot Pot Products from the Joint Venture pursuant to the Framework Sales and Purchase Agreements for the period from 1 January 2019 to 31 March 2019 amounted to approximately RMB19.7 million, representing approximately 10.3% of the existing annual caps for the Year 2019, which had not yet been exceeded. The historical transaction amount incurred for purchase of Small Hot Pot Products from the Joint Venture during the Year 2018 was approximately RMB96.8 million, representing approximately 73.4% of the existing annual caps for the Year 2018.

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Existing and revised annual caps and the basis of determination

The table below sets forth the existing and revised annual caps for the sales of hot pot soup flavouring products to, and purchase of Small Hot Pot Products from, the Joint Venture for the two Years 2019 and 2020:

	For the year ended/ending 31 December				
	2018	2019	Increase from 2018	2020	Increase from 2019
Sale of hot pot soup flavouring products					
Existing annual caps (RMB)	9,500,000	14,500,000	52.6%	25,600,000	76.6%
Actual transaction amounts of hot pot soup flavouring products sold (RMB)	7,918,000	7,824,000	<i>(Note 1)</i>		
Utilisation rate of the existing annual caps (%)	83.4%	54.0%			
Revised annual caps (RMB)		67,362,000		121,251,000	80.0%
Quantity of hot pot soup flavouring products to be sold to the Joint Venture (kg)		3,832,000		6,897,000	80.0%
Selling price of the hot pot soup flavouring products per kg (RMB)		17.58		17.58	—
Purchase of Small Hot Pot Products					
Existing annual caps (RMB)	131,800,000	191,000,000	44.9%	331,066,000	73.3%
Actual transaction amount of purchase of Small Hot Pot Products (RMB)	96,750,000	19,655,000	<i>(Note 2)</i>		
Utilisation rate of the existing annual caps (%)	73.4%	10.3%			

Notes:

1. The actual transaction amount of sale of hot pot soup flavouring products of approximately RMB7,824,000 was up to the three months ended 31 March 2019.
2. The actual transaction amount of purchase of Small Hot Pot Products of approximately RMB19,655,000 was up to the three months ended 31 March 2019.

The existing annual caps in relation to the purchase of Small Hot Pot Products from the Joint Venture will remain unchanged.

The existing annual caps in relation to the sale of hot pot soup flavouring products were determined based on the expected demand for the Small Hot Pot Products. As the hot pot soup flavouring products will be used as raw materials in producing the Small Hot Pot Products, the demand for the former is directly proportionate to the market demand for the latter, as described in more details below.

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

- (i) the rapid growth in sales of Small Hot Pot Products since its launch in 2017; and
- (ii) the shifting away of the hot pot soup flavouring products business of the Group from mainly OEM (original equipment manufacturer) to self-manufacturing since 2018, and therefore substantially all of the hot pot soup flavouring products for the manufacture of the Small Hot Pot Products will be supplied by the Group instead of independent OEMs. Such shift from OEM to self-manufacturing improves efficiency and cost margins, and allows the Group to have better control over quality of products. In 2018, the Group had self-manufactured approximately 57,600 tons of hot pot soup flavouring products, representing approximately 80% of the production volume of hot pot soup flavoring products. The remaining 20% (approximately 14,400 tons) of the hot pot soup flavouring products were manufactured by OEMs. In the first quarter of the Year 2019, substantially all of the hot pot soup flavouring products were manufactured by the Group. The Group has the capacity to fulfil the planned production volume as (a) Phase I of Maanshan production base has commenced operation in first half of 2018, with production capacity of approximately 60,000 tons, (b) the factory plant of Phase I of Bazhou project was basically completed in 2018, the south workshop has commenced production in May 2019 and it is expected that the north workshop in Phase I of Bazhou project will commence mass production in September 2019, with expected production capacity of approximately 70,000 tons, (c) the existing production base in Zhengzhou has production capacity of approximately 30,000 tons, and (d) Phase II of Maanshan condiment production base is expected to commence production in 2021 with an addition of approximately 200,000 tons of production capacity.

Assessment of the revised annual caps

In assessing the fairness and reasonableness of the revised annual caps for the Group's sale of hot pot soup flavouring products to the Joint Venture for producing Small Hot Pot Products pursuant to the Framework Sales and Purchase Agreements, we have reviewed the schedule including calculation formulas, bases and assumptions for setting sales amounts of hot pot soup flavouring products provided by the Company for two Years from 2019 to 2020.

As mentioned in the previous circular dated 19 July 2018, the Joint Venture was newly set-up 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 acceptance level by the Small Hot Pot Product market. As further discussed in the 2018 Annual Report, the Group firstly introduced and launched its convenient ready-to-eat food products (primarily consisting 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 (primarily consisting of Small Hot

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Pot Products) amounted to approximately RMB449.3 million (or in sales volume of 10,838 tons) for the Year 2018, representing a tremendous increase by over 7.3 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 99% was derived from Independent Customers. The Group's revenue generated from the sale of convenient ready-to-eat food products accounted for approximately 3.7% and 16.8% of its total revenue for each of the two Years 2017 and 2018, respectively. In view of these unpredictable brilliant sales results, the Group is now planning to increase its sale of hot pot soup flavouring products to the Joint Venture to cope with the rapidly increasing market demand for Small Hot Pot Products in the coming two Years 2019 and 2020. In addition, in order to control the quality of such hot pot soup flavouring products, the Group would like to self-manufacture the same in substitution of the existing OEM third party manufacturers. On such basis, the revised annual caps for sale of hot pot soup flavouring products would significantly increase by over 3.6 times from that of the existing ones.

The revised annual cap amounts in relation to sale of hot pot soup flavouring products under the Framework Sales and Purchase Agreements of approximately RMB67.4 million and RMB121.3 million for each of the two Years 2019 and 2020 are based on the Management's past experience in the hot pot catering market in the PRC, and their best estimates of approximately 3,832 tons (3,832,000 kg) and 6,897 tons (6,897,000 kg) of such hot pot soup flavouring products to be consumed for producing Small Hot Pot Products at an average unit production cost at around RMB17.58 per kg during the same period. Such hot pot soup flavouring products are to be packed with other hot pot ingredients, such as beef, bovine offal, 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.

Based on our independent review of the Group's historical operating data, the business segment of sale of "convenient ready-to-eat food products" (primarily consisting of 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 in the Year 2018 (or in sales volume of 10,838 tons), representing an increase of almost 7.3 times in revenue amounts between the two Years 2017 and 2018, mainly because the base amount in the Year 2017 only accounted for three to four months so as causing a more drastic increase in revenue in the Year 2018.

In Year 2018, the Group had self-manufactured and procured OEMs to manufacture approximately 57,600 tons and 14,400 tons of hot pot soup flavouring products, respectively, which in turn were sold to Independent Customers and related parties (including Haidilao) in 28,153 tons and 43,772 tons, respectively. The Group now plans to further increase its sale of hot pot soup flavouring products to the Joint Venture with increased sales volume up to 3,832 tons and 6,897 tons in each of the two Years 2019 and 2020 respectively, which would account for approximately 5.3% and 9.6% of the Group's existing production volume of 72,000 tons for each of the two Years 2019 and 2020, respectively.

The Group's sales of hot pot soup flavouring products to the Joint Venture for the three months ended 31 March 2019 increased significantly, because substantially all of the hot pot soup flavouring products were manufactured by the Group itself, and there was a substantial increase in the sale of Small Hot Pot Products by over 270.3% year-on-year. The Joint Venture had procured hot pot soup flavouring products from the Group and the Independent Suppliers in amounts of approximately

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RMB7.9 million and RMB20.4 million, respectively, for the Year 2018, the aggregate of which in approximately RMB28.3 million could be used for self-manufacturing Small Hot Pot Products with sales revenue of about RMB422.0 million for the Year 2018, representing a proportion of about 6.7% there between. The Group will cease to procure hot pot soup flavouring products from the Independent Suppliers starting from Year 2019, and will fully provide the same to the Joint Venture thereafter. The Management now forecasts the annual cap amount for sale of hot pot flavouring products to the Joint Venture of approximately RMB67.4 million for the Year 2019 with reference to that historical proportion of about 6.7% and based on its estimated increase in sales revenue of Small Hot Pot Products up to RMB1.0 billion, which is almost 122% over that of the same of approximately RMB449.3 million for Year 2018. We consider that this forecasting method in the same proportion between hot pot soup flavouring products and Small Hot Pot Products is practically justifiable, because the Management anticipates that the unit production cost of hot pot soup flavouring products could be effectively controlled at a stable level, while the selling price of Small Hot Pot Products in the same favours shall be relatively stable over the Years. For the three months ended 31 March 2019, the Group's sale of Small Hot Pot Products had increased significantly by over 270.3% year-on-year mainly because it merely commenced this business segment in September 2017 so as having a lesser base revenue amount in the first quarter of Year 2018, and the Management expects that the sale of Small Hot Pot Products will be slowing down with a relatively stable increase by around 120% in the Year 2019 as compared to that of Year 2018, which may demonstrate that the revised annual caps for sale of hot pot soup flavouring products to the Joint Venture for producing Small Hot Pot Products for the two Years 2019 and 2020 are not unrealistic or too aggressive, on the basis that the Group's production capacity will gradually be greatly enhanced coupled with tremendous increase in the sales volume of Small Hot Pot Products.

We have noted that the Group had a tremendous increasing trend in historical revenue over the past six Years from 2013 to 2018 with a CAGR of approximately 53.4% over the period. More recently, the Group had recorded revenue of approximately RMB1,646.2 million and RMB2,681.4 million for each of the two Years 2017 and 2018, respectively, representing a strong growth of approximately 62.9% there between. Based on our understanding, 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 2018 Annual Report, in respect of sales network construction, the Group plans to further deepen channel construction and elevate channel penetration rate. On the basis of continuous expansion of existing third-party retail channels, the Group will expand product offerings while developing new retail channels suitable for different categories of products. The Group will also expand new sales channels and enrich the ways by which its existing products can be consumed. Moreover, the Group will continue to deepen and explore the sales staff management model and product innovation model. On such basis, we consider that the Group's past revenue may provide a reliable reference or comparable basis for its forecast for sale of hot pot soup flavouring products to the Joint Venture for manufacturing Small Hot Pot Products to capture the anticipated huge market demand therefor in the coming years. Having considered the Group's historical outstanding revenue trend in addition to its aggressive business strategy for expansion of product offerings as well as sales channels in both online and offline, we concur with the Directors' sales forecasts for the coming two

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Years up to 31 December 2020, and therefore are of the view that the revised annual caps for sale of hot pot soup flavouring products to the Joint Venture for producing many more Small Hot Pot Products pursuant to the Framework Sales and Purchase Agreements shall be justifiable, fair and reasonable.

Having considered the above analysis and reasons behind, we are of the view that the sale of hot pot soup flavouring products to the Joint Venture pursuant to the Framework Sales and Purchase Agreements (including their respective existing and revised 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.

5. Internal control measures to govern the 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 Continuing Connected Transactions, which are then subject to annual review requirements.

Based on our review of the Company's internal control guidelines and the 2018 Annual Report, the Company has designated a team of senior management from the Group's business operation, legal, risk control and finance departments and the Board office to monitor the 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 Continuing Connected Transactions and reports to the Management. They will review the 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, monthly or as needed, to report the progress of the 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 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 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 Continuing Connected Transactions contemplated under the Shuhai Purchase Agreement, the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements will be conducted on normal commercial terms or better, and at prices not more favourable to the relevant members of the Shuhai Supply Chain Group and/or 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 2018 Annual Report, the independent non-executive Directors have confirmed that the Continuing Connected Transactions for the Year 2018 were entered into by the

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Group: (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreement (including the pricing principle and guidelines set out therein) governing them and on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In addition, the auditors of the Group had reviewed the Continuing Connected Transactions for the Year 2018 and confirmed to the Board that the 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.

RECOMMENDATION

Having taken into account the principal factors and reasons as referred to the above, we are of the view that the Continuing Connected Transactions (including their respective proposed or revised annual caps) contemplated under each of the Shuhai Purchase Agreement, the Shuhai Sales Agreement and the Framework Sales and Purchase 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 Continuing Connected Transactions (including their respective proposed or revised annual caps) and the transactions contemplated thereunder pursuant to each of the Shuhai Purchase Agreement, the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements.

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 over 17 years of 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 ⁽¹⁾	Founder of a discretionary trust, interest of controlled corporation, interest of spouse, beneficial owner and beneficiary of a trust	177,443,492 (L)	16.95% (L)
Ms. Shu Ping ⁽²⁾	Founder of a discretionary trust, interest of controlled corporation, beneficial owner and beneficiary of a trust	372,847,021 (L)	35.61% (L)
Mr. Zhang Yong ⁽²⁾	Founder of a discretionary trust, interest of controlled corporation, beneficial owner and beneficiary of a trust	372,847,021 (L)	35.61% (L)
Ms. Dang Chunxiang ⁽³⁾	Beneficiary of a trust, beneficial owner	1,160,000 (L)	0.11% (L)
Mr. Sun Shengfeng ⁽⁴⁾	Beneficiary of a trust, beneficial owner	620,000 (L)	0.06% (L)
Mr. Guo Qiang ⁽⁵⁾	Beneficiary of a trust, interest of spouse and beneficial owner	280,000 (L)	0.03% (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.

200,000 RSUs were granted to Mr. Shi Yonghong pursuant to the RSU Scheme on 9 December 2018, all of which had been vested.

- (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.

100,000 and 200,000 RSUs were granted to Ms. Shu Ping and Mr. Zhang Yong pursuant to the RSU Scheme on 9 December 2018, respectively, all of which had been vested.

- (3) 1,010,000 and 150,000 RSUs were granted to Ms. Dang Chunxiang pursuant to the RSU Scheme on 28 December 2016 and 9 December 2018, respectively. 352,000 Shares had been vested.
- (4) 500,000 and 120,000 RSUs were granted to Mr. Sun Shengfeng pursuant to the RSU Scheme on 28 December 2016 and 9 December 2018, respectively. 220,000 Shares had been vested.
- (5) 150,000 and 120,000 RSUs were granted to Mr. Guo Qiang pursuant to the RSU Scheme on 28 December 2016 and 9 December 2018, respectively. 30,000 Shares had been vested. Ms. Guo Weiwen is the spouse of Mr. Guo Qiang and is deemed to be interested in the same number of Shares in which Ms. Guo Weiwen 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 ⁽¹⁾	Trustee (other than a bare trustee)	372,547,021 (L)	35.59% (L)
ZYSP YIHAI Ltd ⁽¹⁾	Beneficial owner	372,547,021 (L)	35.59% (L)
Cititrust Private Trust (Cayman) Limited ⁽²⁾	Trustee (other than a bare trustee)	177,243,492 (L)	16.93% (L)
Li Haiyan ⁽²⁾	Founder of a discretionary trust, interest of controlled corporation and interest of spouse	177,443,492 (L)	16.95% (L)
Twice Happiness Limited ⁽²⁾	Interest of controlled corporation	177,243,492 (L)	16.93% (L)
LHY YIHAI Ltd ⁽²⁾	Beneficial owner	88,621,746 (L)	8.47% (L)
SYH YIHAI Ltd ⁽²⁾	Beneficial owner	88,621,746 (L)	8.47% (L)
JLJH YIHAI Ltd ⁽³⁾	Beneficial owner and nominee for another person	76,148,000 (L)	7.27% (L)
Vistra Trust (HK) Limited ⁽³⁾	Trustee (other than a bare trustee)	76,148,000 (L)	7.27% (L)
UBS Group AG ⁽⁴⁾	Person having a security interest in share	181,334 (L)	0.01% (L)
	Interest of controlled corporation	63,731,401 (L)	6.08% (L)
	Unlisted derivatives	30,000 (L)	2.86% (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) 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.

As at 31 December 2018, 3,214,000 Shares were vested pursuant the RSU Scheme. Among which, 1,072,000 Shares were vested and transferred to the respective grantees, and 2,142,000 Shares were vested but the transfer to the respective grantees was not completed as at 31 December 2018. As at 31 December 2018, 76,148,000 Shares were at held by JLJH YIHAI Ltd.

- (4) UBS Group AG is interested in 181,334 Shares as person having a security in shares and 63,731,401 Shares as interest of corporation controlled by it via secured wholly owned subsidiaries. UBS Group AG is also interested in 30,000 Shares as unlisted derivatives.

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

4. QUALIFICATIONS AND CONSENT

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

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

- (a) As at the Latest Practicable Date, First Shanghai had not had any beneficial interest in the share capital of any member of the Group, did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and did not have any interest, either directly or indirectly, in any assets which had been, since 31 December 2018, being the date of the latest published audited accounts of the Company, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

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

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Company since 31 December 2018, 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 2018 Annual Report, the announcement of the Company dated 10 June 2019 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 2018, 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 1st and 2nd Floors, Building 6, Songlei Office Building, Heng Song Yuan, Middle Road of South 3rd Ring Road, Fengtai District, Beijing, PRC.
- (c) The principal place of business of the Company in Hong Kong is 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong.
- (d) The Company's share registrar is Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text in the case of any inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on Monday to Friday (other than public holidays) at the offices of Davis Polk & Wardwell at 18th Floor, The Hong Kong Club Building, 3A Chater Road, Hong Kong, from the date of this circular up to and including 28 June 2019:

- (a) the Shuhai Purchase Agreement entered into between the Company and Shuhai Supply Chain;
- (b) the Shuhai Sales Agreement entered into between Yihai Shanghai and Shuhai Supply Chain;
- (c) the 2017 Hot Pot Soup Flavouring Products Sales Agreement entered into between Yihai Shanghai and the Joint Venture;
- (d) the 2018 Hot Pot Soup Flavouring Products Sales Agreement entered into between Yihai Shanghai and the Joint Venture;
- (e) the 2017 Small Hot Pot Products Sales Agreement entered into between Yihai Shanghai and the Joint Venture;
- (f) the 2018 Small Hot Pot Products Sales Agreement entered into between Yihai Shanghai and the Joint Venture;
- (g) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 28 to 29 of this circular;
- (h) the letter of advice issued by First Shanghai, being the Independent Financial Adviser, the text of which is set out on pages 30 to 61 of this circular; and
- (i) the written consent referred to in paragraph 4 of this Appendix I.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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 Conference Room 206, 2nd Floor, Building 6, Songlei Office Building, Heng Song Yuan, Middle Road of South 3rd Ring Road, Fengtai District, Beijing, PRC on Thursday, 4 July 2019 at 10:00 a.m. for the following purposes:

AS ORDINARY RESOLUTIONS

1. “THAT

- (i) the purchase agreement (the “**Shuhai Purchase Agreement**”) dated 10 June 2019 entered into between the Company and Shuhai (Beijing) Supply Chain Management Co., Ltd. (“**Shuhai Supply Chain**”) in relation to the purchase of ingredients (“**Shuhai Ingredients**”), and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (ii) the proposed annual caps in relation to the transactions contemplated under the Shuhai Purchase Agreement as specified below be and are hereby approved, ratified and confirmed;

For the year ending 31 December

	2019	2020
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Shuhai Ingredients	85,584	228,037

- (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 Purchase Agreement and to make and agree such variations of a non-material nature in or to the terms of the Shuhai Purchase Agreement as he may in his discretion consider to be desirable and in the interests of the Company.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. “THAT

- (i) in relation to the sales agreement (the “**Shuhai Sales Agreement**”) dated 6 July 2018 entered into between Yihai Shanghai and Shuhai Supply Chain in relation to the sale of products customized for Shuhai Supply Chain Group’s customers who are catering service clients (“**Shuhai Customized Products**”) and products targeting at the retail market (“**Shuhai Retail Products**”), the proposed revised annual caps under the Shuhai Sales Agreement (the “**Revised Shuhai Annual Caps**”) as specified below be and are hereby approved, ratified and confirmed;

	For the year ending 31 December 2019 (RMB’000)	For the year ending 31 December 2020 (RMB’000)
Revised Annual Caps for the Shuhai Customized Products	79,800	130,060
Shuhai Retail Products	<u>1,060</u>	<u>1,600</u>
Aggregated amount	<u>80,860</u>	<u>131,660</u>

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

3. “THAT

- (i) in relation to the hot pot soup flavouring products sales agreements (the “**Hot Pot Soup Flavouring Products Sales Agreements**”) dated 18 September 2017 and 6 July 2018, respectively, entered into between Yihai Shanghai and Fuhai (Shanghai) Food Technology Co., Ltd. (the “**Joint Venture**”) in relation to the sale of hot pot soup flavouring products by Yihai Shanghai and its subsidiaries to the Joint Venture, and the self-serving small hot pot products sales agreements (the “**Small Hot Pot Products Sales Agreements**”) dated 18 September 2017 and 6 July 2018, respectively, 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 (the Hot Pot Soup Flavouring Products Sales Agreements and the Small Hot Pot Products Sales Agreements are collectively referred to as the “**Framework Sales and Purchase Agreements**”), the proposed annual caps under the Framework Sales and Purchase Agreements and the proposed revised annual caps for the Hot Pot Soup Flavouring Products Sales Agreements (the “**Revised Framework Annual Caps**”) as specified below be and are hereby approved, ratified and confirmed;

NOTICE OF EXTRAORDINARY GENERAL MEETING

	For the year ending 31 December 2019 (RMB'000)	For the year ending 31 December 2020 (RMB'000)
Revised Annual Caps for the Hot Pot Soup		
Flavouring Products Sales Agreements	67,362	121,251
Small Hot Pot Products Sales Agreements	<u>191,000</u>	<u>331,066</u>
Aggregated amount	<u>258,362</u>	<u>452,317</u>

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

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

Beijing, China
14 June 2019

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.

NOTICE OF EXTRAORDINARY GENERAL 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 Friday, 28 June 2019 to Thursday, 4 July 2019, 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, 27 June 2019 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, 27 June 2019.