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## BUSINESS

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### OUR MISSION

Our mission is to build the leading international Chinese restaurant brand and to spread Chinese culinary heritage across the globe. We uphold Haidilao’s core values to satisfy two critical groups of people—“changing your future with your own hands” (用雙手改變命運) to motivate our employees, and delivering an exceptional and fun dining experience to our guests. Guided by our proven management philosophy, “aligned interests and disciplined management” (連住利益, 鎖住管理), we believe we are well positioned to expand internationally by balancing standardization and localization.

### OVERVIEW

We are a leading Chinese cuisine restaurant brand in the international market committed to spreading Chinese culinary heritage across the globe. With a unique dining experience and outstanding service quality, our Haidilao restaurants have become a worldwide cultural phenomenon. According to the F&S Report, we were the third largest Chinese cuisine restaurant brand in the international market and the largest Chinese cuisine restaurant brand originating from China in the international market in terms of 2021 revenue. We were also the largest Chinese cuisine restaurant brand in the international market in terms of number of countries covered by self-operated restaurants as of December 31, 2021.

Food is an expression of cultural identity, values and a way of life. Chinese cuisine is one of the richest and most diverse culinary heritages in the world. However, due to challenges in standardization, scalability and localization across countries, very few Chinese cuisine restaurant brands have successfully expanded internationally while maintaining consistent quality and a brand identity that resonates across cultures. Chinese cuisine restaurant brands with over 10 stores and brands covering two or more countries only accounted for approximately 13.0% and less than 5% of the international market in terms of number of restaurants in 2021, respectively. With a unique dining experience and service quality, our Haidilao restaurants have become a worldwide cultural phenomenon. Since opening our first restaurant in Singapore in 2012, we have expanded to 97 restaurants in 11 countries across four continents as of March 31, 2022.

We believe striking a balance between honoring the Haidilao legacy and continuous innovation for localization has been the foundation of our growth and expansion in the international market.

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**Brand legacy.** Leveraging the renowned Haidilao brand and our extensive experience in standardized restaurant operation, we seek to address challenges faced in international expansion through implementing our operating paradigm of “aligned interests and disciplined management.”

- *Brand image.* After close to 30 years of cultivation, Haidilao has become a unique cultural phenomenon and a household name worldwide. Our Haidilao brand commands customer loyalty and strong brand equity through our commitment to a unique dining experience and service quality as well as uncompromised food safety. With a brand recognition that precedes our presence, we believe the Haidilao brand will enable us to steadily expand in the international market.
- *Management philosophy.* Haidilao’s management philosophy of “aligned interests and disciplined management” fuels our international expansion. Under this philosophy, the interests of our employees are highly aligned to ours, motivating them to drive our bottom-up dynamic growth. Meanwhile, our disciplined management systematically ensures our high-quality expansion by controlling operational risks and providing key resources and support to our restaurants. We believe that this principle appeals to human nature across different cultures and regions and has been proven in Haidilao’s expansion both in China and international markets.
- *Standardized operations.* Over the years, we have gained extensive experience in standardizing restaurant operations in different countries. We maintain strict control over key aspects of restaurant operation, including restaurant network expansion, employee training and promotion, food safety, service quality control and supply chain, which, we believe, have been crucial to our continuous expansion and efficient operations.

**Localization.** Under the framework of standardized operations and guided by core Haidilao values, we seek to adapt restaurant operations to local customs, tastes and preferences in order to provide a unique dining experience to guests and keep employees incentivized in different regional markets. We continue to innovate in the following aspects.

- *Food and menu.* We continuously develop and launch new menu items (including food ingredients, soup bases and dipping sauces) tailored to local tastes and preferences and introduce local food ingredients into our menu. Generally, a significant portion of our menu in each restaurant is localized.
- *Guest services.* We give employees the autonomy to discover how to best serve our guests and encourage them to adjust how we effectuate warm and personalized services based on local customs and cultural norms. For example, we organize themed events and decorate our restaurants to celebrate holidays, such as Easter and Halloween. We also recommend optimal cooking times for each hot pot ingredient and dipping sauce combos in countries that are relatively new to hot pot dining.

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- *Management structure.* We have established a three-layer structure consisting of our headquarters, senior regional managers and restaurant managers, to effectively manage our restaurants. Our headquarters hold control over critical restaurant management functions to ensure standardization across our multi-national operations and optimized resource allocation. Leveraging strong local know-how, our senior regional managers act as bridges between the strategic objectives of our headquarters and individual restaurants. They play key roles in expanding localized supply chains and building local teams to support operations, developing business strategies with our headquarters and implementing our strategies at the local level providing support to restaurant managers. Our restaurant managers are responsible for managing the day-to-day operations of our restaurants.

Benefiting from our proven management philosophy and successful localization efforts, we have built an international Haidilao restaurant network with highly standardized operations, effective management systems, motivated employees and a high level of guest satisfaction. Despite the effect of the global COVID-19 pandemic, we have achieved strong growth during the Track Record Period.

- *Restaurant expansion.* Our restaurant network expanded from 24 restaurants in five countries as of January 1, 2019 to 97 restaurants in 11 countries as of March 31, 2022. Our revenue increased from US\$233.1 million in 2019 to US\$312.4 million in 2021 at a CAGR of 15.8%. We also recorded a robust recovery from the COVID-19 pandemic in 2022, with our revenue increasing from US\$68.3 million in the three months ended March 31, 2021 to US\$109.1 million in the three months ended March 31, 2022.
- *Entering new markets.* Prior to the start of the COVID-19 pandemic, we expanded into six new countries in 2019, including four countries in Southeast Asia, namely Vietnam, Malaysia, Thailand and Indonesia, the UK and Australia. In the same year, we achieved strong table turnover rates of over 4.8 times per day on average in these countries. During the pandemic, we focused primarily on expansion within existing countries and enhancing their operating performance, opening a total of 61 new restaurants as of March 31, 2022.
- *Guest traffic.* Prior to the COVID-19 pandemic, we recorded a total of approximately 8.1 million guest visits at our restaurants in 2019. While our guest traffic was significantly affected by COVID-19, through our efforts, we increased guest visits from approximately 7.1 million in the height of the pandemic in 2020 to 9.8 million in 2021 and our same store guest visits per restaurant increased from 133.2 thousand in 2020 to 143.2 thousand in 2021. In the first quarter of 2022, we recorded approximately 3.8 million guest visits in total as the pandemic gradually eased in certain countries, a 60.3% increase from approximately 2.4 million for the same period in 2021.
- *Table turnover rate.* We recorded a strong overall table turnover rate of 4.1 times per day in 2019. During the pandemic, we implemented a number of measures, such as offering discounts, reactivating existing guests and offering off-peak hour meals, to improve table turnover rates. In the first quarter of 2022, our overall table turnover rate was approximately 2.7 times per day, improving from the overall table turnover rate of 2.4 times per day and 2.1 times per day in 2020 and 2021, respectively.

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### COMPETITIVE STRENGTHS

#### **A leading Chinese cuisine restaurant brand in the international market**

We are a leading Chinese cuisine restaurant brand in the international market, ranking third in terms of 2021 revenue. With roots in Sichuan from 1994, we were also the largest Chinese cuisine restaurant brand originating from China in the international market, in terms of 2021 revenue. Since opening our first Haidilao restaurant in Singapore in 2012, we have expanded to 97 restaurants in 11 countries in Asia, North America, Europe and Oceania as of March 31, 2022, making us the largest Chinese cuisine restaurant brand in terms of number of restaurants covered by self-operated restaurants as of December 31, 2021.

We are committed to serving our guests authentic Chinese food with international appeal. Chinese cuisine is one of the most popular cuisine types internationally, with a market size of US\$261.1 billion and over 600,000 Chinese cuisine restaurants abroad in 2021. Brought overseas by early Chinese immigrants hundreds of years ago, Chinese cuisine has become especially popular in countries with large immigrant populations, such as Singapore, the United States, Thailand and Vietnam. Within Chinese cuisine, hot pot is popular and one of the fastest-growing segments, with a market size of US\$28.9 billion in 2021. With its unique dining experience, social nature and fresh ingredients, hot pot has garnered a strong international fan base. F&S estimates that the international hotpot market will grow to US\$46.5 billion by 2026 at a CAGR of 10.0% from 2021.

We have continued to achieve strong growth during the Track Record Period despite the global COVID-19 pandemic. Our revenue increased from US\$233.1 million in 2019 to US\$312.4 million in 2021, and our Haidilao restaurant network grew from 24 restaurants at the beginning of 2019 to 97 as of March 31, 2022. We also recorded a robust recovery from the COVID-19 pandemic, with our revenue increasing from US\$68.3 million in the three months ended March 31, 2021 to US\$109.1 million in the three months ended March 31, 2022. We believe our international leading position, the Haidilao brand recognition and our management philosophy of “aligned interests and disciplined management” will continue to fuel our international expansion and growth.

#### **Haidilao has become a global cultural phenomenon and an ambassador of Chinese culinary heritage**

Brand Finance, one of the world’s leading brand valuation consultancies, ranked Haidilao as 9th in the “Top 25 Most Valuable Restaurant Brands” in 2021, firmly establishing our brand in the same league as restaurant giants Starbucks and McDonald’s. Haidilao is also the first and only Chinese cuisine restaurant to make the list and has risen fast up the ranking from 15th in 2019. With humble beginnings in Jianyang, Sichuan, we believe Haidilao’s dining experience and service quality have propelled the brand into a global cultural phenomenon. Haidilao is well-loved by guests for its unique dining experience—warm and attentive service, great ambiance and delicious food, standing out among global restaurant chains. Beyond the dine-in

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experience, the Haidilao brand has extended its reach through its delivery business and hot pot condiments business. As of December 31, 2021, Haidilao had 1,443 restaurants worldwide with over 378 million guest visits in 2021 and Haidilao brand condiment products were sold around the world.

With a unique value proposition, we have leveraged the Haidilao brand to cultivate a cult following of loyal guests. Capitalizing on Haidilao's global brand equity, we have gained recognition among those who have not even stepped foot in our restaurants, which has been instrumental to our successful international expansion. During the Track Record Period, we accumulated over 28 million guest visits at our restaurants. Our guest loyalty program had approximately 0.8 million members as of December 31, 2019, which increased to approximately 2.3 million as of the Latest Practicable Date.

We believe Chinese cuisine is an expression of China's rich cultural heritage. Although hot pot has been an essential part of Chinese cuisine for centuries, it is still relatively new to many foreign guests. As interest in Chinese culture and food has grown, we have aspired to give the world a taste of Chinese culture with our distinctively Chinese hot pot dining format and unique cultural experiences, such as our famed hand-pulled noodle dance and Chinese opera face-changing performances. Leveraging Haidilao's global position as a quintessential Chinese cuisine brand, we have become an ambassador of the rich Chinese cultural heritage. Through our restaurants, we hope to showcase China's culinary heritage by reaching communities beyond those that most Chinese cuisine restaurants abroad serve. More importantly, by doing so, we hope to build larger brand communities, which will enable our sustainable growth and expansion to farther corners of the world.

### **Strong local know-how and international operating capabilities**

The international Chinese cuisine restaurant market is highly fragmented. Despite the popularity of Chinese food, very few Chinese cuisine restaurant brands have successfully expanded internationally while maintaining consistent quality and a brand identity that resonates across cultures. Chinese cuisine restaurant brands with over 10 restaurants and brands covering two or more countries outside China only accounted for 13.0% and less than 5.0% of the international market in terms of number of restaurants in 2021, respectively. Most Chinese cuisine restaurants in the international market are single-restaurant operations or operate a few restaurants within one city or region.

We seek to address these challenges by striking a balance between standardization and localization.

- *Standardization.* We believe standardization is the foundation of our restaurant operations, enabling us to control and manage critical aspects of our operations and ensure the quality of our restaurants. We have consistently applied Haidilao's management philosophy and operating tenets across all of our restaurants, especially in relation to expansion strategy, employee training and management, performance assessment, food safety and supply chain management.

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- *Localization.* Within the framework of our standard operating tenets, we believe that adapting our operations to local practices and cultures is crucial to keep two critical groups of people, our guests and employees, happy, and to operate and expand effectively. For example, a significant portion of our menu items is tailored to local tastes and preferences. To deliver a great dining experience across cultures, we adjust the manner in which we effectuate warm and personalized service, such as by recommending optimal cooking times for each hot pot ingredient to guests. Similarly, to employees, we show care and tailor their compensation structure according to local practice. To manage our growing restaurant network with more precision, we divide our current operations into four groups and formulate localized growth strategies and restaurant-level operating guidelines that fit the needs of each group. See “—Proven management philosophy that enables sustainable international expansion” for details of our group management structure.

Through our two-pronged approach, we have achieved strong growth during the Track Record Period despite the effects of the global COVID-19 pandemic:

- *Restaurant expansion.* Our Haidilao restaurant network expanded from 24 restaurants in five countries as of January 1, 2019 to 97 restaurants in 11 countries as of March 31, 2022. Our revenue increased from US\$233.1 million in 2019 to US\$312.4 million in 2021 at a CAGR of 15.8%. We also recorded a robust recovery from the COVID-19 pandemic in 2022, with our revenue increasing from US\$68.3 million in the three months ended March 31, 2021 to US\$109.1 million in the three months ended March 31, 2022.
- *Entering new markets.* In formulating our expansion strategy, we carefully assess the markets that we choose to enter based on a deep understanding of local market conditions, cultures, consumer behavior and regulatory framework. Moreover, we evaluate the performance of existing restaurants to develop strategies to deepen our penetration. Prior to the start of the COVID-19 pandemic, we expanded into six new countries in 2019, including four countries in Southeast Asia, namely Vietnam, Malaysia, Thailand and Indonesia, the UK and Australia. In the same year, we achieved strong table turnover rates of over 4.8 times per day on average in these countries. During the pandemic, we focused primarily on expansion within existing countries and enhancing their operating performance, opening a total of 61 new restaurants as of March 31, 2022.
- *Guest traffic.* Prior to the COVID-19 pandemic, we recorded a total of approximately 8.1 million guest visits at our Haidilao restaurants in 2019. While our guest traffic was significantly affected by the COVID-19, through our efforts, we increased guest visits from approximately 7.1 million in the height of the pandemic in 2020 to approximately 9.8 million in 2021 and our same store guest visits per restaurant increased from 133.2 thousand in 2020 to 143.2 thousand in 2021. In the first quarter of 2022, we recorded approximately 3.8 million guests visits in total as the pandemic gradually eased in certain countries, a 60.3% increase from approximately 2.4 million for the same period in 2021.



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- *Table turnover rate.* We recorded a strong overall table turnover rate of 4.1 times per day in 2019. During the pandemic, we implemented a number of measures, such as offering discounts, to improve table turnover rates. In the first quarter of 2022, our overall table turnover rate was approximately 2.7 times per day, improving from 2.4 times per day and 2.1 times per day in 2020 and 2021, respectively.

### **Proven management philosophy that enables sustainable international expansion**

We are guided by the Haidilao management philosophy of “aligned interests and disciplined management”, which has served as our compass in developing management systems for localized international operations.

**Aligned interests.** We and our employees are aligned with common interests to propel our growth:

- *Mentor-mentee system.* We implement a mentor-mentee system in all of our restaurants. Our restaurant managers not only can share in the profits of their own restaurants, but are also encouraged to train first- and second-generation mentees to share in the profits of their restaurants. Our mentor-mentee system is crucial in our bottom-up expansion strategy. As of March 31, 2022, all of our 97 restaurant managers were trained and promoted through our mentor-mentee system. As of the same date, we had over 50 restaurant manager candidates in our talent pool.
- *Piece rate compensation.* We implement a piece rate compensation system to empower employees to be self-driven, earning better pay by working with higher productivity and quality. Most of our restaurants utilize a piece rate system, including in Singapore, Canada, the UK, Malaysia and Vietnam. Each system is tailored to be in line with local industry norms and laws and regulations. For instance, in countries with a tipping culture, we have adjusted our compensation structure of employees to include a piece rate pay plus tips.

**Disciplined management.** Our headquarters maintain effective control over critical aspects of restaurant management. By providing key supporting services to restaurants and managing operating risks, our headquarters ensure our disciplined and sustainable expansion.

- *Group management structure.* We have organized our restaurants into four groups to facilitate our multi-national management. These four groups are each overseen by a senior regional manager, who acts as a bridge between the guiding principles and strategic objectives of our headquarters and the day-to-day operations of individual restaurants. Their primary role is to provide supporting services to restaurants and conduct KPI assessments for restaurants within the group. For example, they oversee human resources, procurement, finance and brand development functions and communicate with restaurant managers on a monthly basis to drive initiatives, resolve issues and conduct training. They also work with our corporate headquarters to rate each restaurant within the group every quarter.

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- *Rating system.* We implement a rating system to evaluate our restaurant performance systematically and hold accountability to improve performance, which we believe is crucial to ensure our high-quality and scalable growth. Our headquarters and senior regional managers establish KPIs for each restaurant group based on the conditions and characteristics of local markets. These KPIs are the bases of our quarterly assessment and help us rate of all of our restaurants on a scale of A, B, C, and C-rated or lower. As a commitment to food quality, restaurants that have food-safety incidents are automatically rated below C. Restaurant managers that are rated below C are held accountable—they cannot open new restaurants and may be removed from their positions.
- *Critical management functions.* Our headquarters hold control over critical restaurant management decisions, including product development, food safety, performance assessment, brand management, finance, construction, IT, supply chain and restaurant automation. By overseeing these critical aspects, we can ensure standardization across our multi-national operations and achieve scalable growth.

The Haidilao management philosophy is recognized and studied across the world, including as a case study by the Harvard Business School. Moreover, the Haidilao management philosophy is proven in the international market through decades of successful operations, including our international expansion to 97 restaurants since 2012. We believe that aligned interests and disciplined management will continue to empower our dynamic and sustainable growth.

### **Seasoned management team with a corporate culture that prescribes acting with kindness**

We are led by a seasoned management team, many of whom are home grown leaders that embody core Haidilao values. They lead our operations with a commitment to treat people with kindness and pursue quality excellence, which we believe is crucial to create loyalty in employees and guests with our restaurants and the Haidilao brand. Our executive Director, Chairman and chief executive officer, Mr. Zhou Zhaocheng (周兆呈), has extensive experience in enterprise management, brand management and strategic consulting. Since joining Haidilao in 2018, Mr. Zhou has been deeply involved in the strategic growth, international operation and brand building of Haidilao. Mr. Zhou is supported by a core team who has extensive operational experience in international Haidilao restaurants, including Mr. Wang Jinping (王金平), our executive Director and chief operating officer, and Ms. Liu Li (劉麗), our executive Director and product director. Mr. Wang has been with Haidilao for over 14 years and has overseen our international restaurant operations for over eight years. Ms. Liu started as a waitress in our Singapore restaurant and has been with us for approximately ten years. Guided and inspired by the Haidilao management philosophy formulated by Mr. Zhang Yong, the founder of Haidilao, our management team develops strategies to drive our continued growth as an international Chinese cuisine restaurant brand.



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### BUSINESS STRATEGY

We believe that there is significant opportunity for growth in the international market for Chinese cuisine restaurants. According to the F&S Report, the international Chinese cuisine restaurant market is expected to grow from US\$261.1 billion in 2021 to US\$409.8 billion in 2026 at a CAGR of 9.4%. Capitalizing on our decade-long international operating experience and our broad and loyal guest base, we believe we are well-positioned to continue our growth and to spread Chinese culinary culture across the globe. We intend to implement the following business strategies going forward:

#### **Continue to grow our international Haidilao brand, enhance our dining experience and spread Chinese culinary heritage internationally**

- ***Brand building.*** We will continue to enhance the brand awareness of Haidilao internationally and promote and spread Chinese culinary culture, especially hot pot, internationally. We will stay true to our brand motto—good hot pot speaks for itself (好火鍋自己會說話)—and bring the Haidilao philosophy and culture to different countries. We have gained a broad and loyal guest base from our operations and marketing efforts in the past. For example, the number of Haidilao members in the United States increased by over 50.0% in 2021. We will continue to retain and cultivate our guest base to enhance brand awareness. Observing trends in the digital age of marketing, we plan to launch innovative online marketing campaigns on popular social media platforms to target local guests and expand our guest reach. We will also create online marketing initiatives to increase guest interactions and engagement, which we believe will enhance our brand loyalty. We also intend to expand our guest reach further with traditional offline marketing efforts.
- ***“Pursue the perfect dining experience.”*** We believe providing a unique dining experience is what makes Haidilao great. We will continue to offer a unique dining experience to our guests, which may mean different things in different parts of the world and will require us to innovate, adapt and localize.

***Menu items.*** As part of this effort, we will continue to develop menu items, including new soup bases, signature dishes and dipping sauces, adapted to local taste. In particular, we will continue to develop, install and upgrade automated equipment that can customize soup bases in different jurisdictions, enabling our guests to adjust the depth of flavor and type and amount of ingredients added based on personal preference. We believe this type of personalization provides a unique and appealing dining experience and enhances guest engagement. We also plan to develop customized menus for different countries by launching innovative menu dishes while optimizing our menu structure and layout. Through these efforts, we aim to satisfy guest demands and tailor to different dining and consumption preferences in different countries, which we believe will, in turn, increase guest traffic and average spend per guest. Further, we are also planning to launch other add-on services in our restaurants, such as boba milk tea and cocktails.

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***Services and restaurant atmosphere.*** We have opened two tech-forward restaurants in Singapore, equipped with digitalized and automated equipment with food preparation and busser functions as well as architectural lighting, audio and visual technologies. These new technologies allow us to provide an immersive and fun dining experience for our guests while significantly enhancing our operational efficiency. For our services and restaurant atmosphere, we will continue to adhere to our signature Haidilao services and interior design while making localized adjustments based on customs and practices in different countries to make our dining experience warm, comfortable and fun.

- ***Promote Chinese cuisine internationally.*** Leveraging our extensive restaurant network and brand awareness, we plan to attract more local guests and promote Chinese cuisine and Chinese culture internationally. Initially, we have focused our operations in countries and cities with large Chinese communities. Their word-of-mouth marketing and our localization efforts have enabled us to attract more and more local guests, thereby increasing our penetration rate in local communities. We will continue to seek opportunities to showcase Chinese cuisine and Chinese culture and expand our reach to more local guests, which we believe will enable us to solidify our position as an iconic Chinese cuisine restaurant brand internationally.

### **Enhance restaurant performance and explore new sources of revenue**

We are dedicated to enhancing our sales performance through increasing restaurant-level revenue, optimizing our operational efficiency and exploring new revenue sources. For our dine-in services, we plan to implement the following strategies:

- ***Better utilize off-peak hours.*** We plan to capitalize on off-peak hours to improve overall restaurant performance. For example, we plan to offer discounts for dining during off-peak hours to increase occupancy and table turnover rate of our restaurants. We may also offer special menu items or set meals to attract guests during off-peak hours.
- ***Supply chain upgrade.*** We will actively explore opportunities to collaborate with local suppliers to establish localized procurement and supply chain systems and further reduce our procurement costs. We may also set up central kitchens to support the innovation, safety, and quality control of our food to enhance our operational efficiency and performance. As a first step, we plan to establish local procurement and supply chain systems in markets where we have more extensive restaurant operating experience and a larger restaurant network, such as Singapore. For other markets, we will assess when and whether to establish local procurement and supply chain system based on the needs of the restaurants.

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In addition, we also plan to explore and develop new sources of revenue to complement our dine-in services:

- ***Food delivery.*** We plan to establish food delivery services in more of our restaurants. For these restaurants, we intend to offer both delivery and pick-up options, aimed to provide more flexibility and convenience for our guests. In addition, we intend to increase the menu items available for delivery services and upgrade the accessory packages that accompany our food, which normally include disposable tableware and tablecloths, hairbands and gum, among others, to give guests a more complete Haidilao dining experience. Through these efforts, we believe we are well-positioned to capture the significant growth potential in the food delivery market.
- ***Sales of prepackaged food.*** With the increasing diversification of dining scenarios, we have observed an increase in demand for prepackaged, ready-to-eat food. In line with this trend, we plan to develop and launch different kinds of prepackaged food, and actively expand the sales channels for these products. We believe our prepackaged food will create more opportunities for our guests to enjoy our food and provide a stable source of revenue for us.

### **Strategically optimize and expand our restaurant network**

We will continue to adhere to our management philosophy of “aligned interests and disciplined management” to optimize and expand our restaurant network. Leveraging over ten years of experience in international restaurant operations and extensive insights in each local market, we will expand our restaurant network by implementing the following strategies:

- ***Increase restaurant density.*** We have gained abundant insights in guest preferences and characteristics of each market where we have restaurant presence. Leveraging these valuable insights and the historical performance of our existing restaurants, we believe we are able to identify areas with significant growth potential to open new Haidilao restaurants and increase our restaurant density. We will implement a tailored restaurant expansion plan for different jurisdictions based on their specific market conditions and the performance of existing restaurants and prudently expand our restaurant network. With our localization efforts, we believe these new restaurants will be able to meet local demand and deepen our penetration.
- ***Expand geographic coverage.*** We will continue to explore opportunities to expand into new countries with significant growth potential to achieve long-term growth. We will assess the local tastes, eating habits, demographics, consumer preferences, market and cultural conditions and regulatory environments in these jurisdictions and enter into new markets when appropriate.

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### Identify opportunities for organic growth and seek potential acquisition opportunities

We plan to identify opportunities for organic growth and potential acquisition targets to strengthen our market position and competitiveness.

- ***Organic growth.*** While we continue to focus on our core Haidilao hot pot restaurants business, we will also explore opportunities to create new Chinese cuisine brands in the international market. We will develop restaurant concepts tailored for target markets of interest and formulate restaurant opening plans for these new restaurant brands to further expand our restaurant network. Leveraging our extensive experience and insights in Chinese cuisine and the local restaurant market in different countries, we believe we are well-positioned to launch new restaurant brands tailored towards different markets and create growth opportunities for us.
- ***External acquisition.*** As part of our overall growth strategy, we plan to pursue opportunities to acquire high-quality businesses or assets that can achieve synergies with our existing business to strengthen our market position and competitiveness. We will evaluate their strategic value, brand image, business scale, financial performance and synergistic value in assessing each potential acquisition opportunity. For example, we have agreed to acquire a majority stake in Hao Noodle and Tea Holdings Inc., which held two restaurants under the “Hao Noodle” brand in the United States. As of the Latest Practicable Date, save as disclosed above, we did not have any specific acquisition targets and were not in negotiations with any specific acquisition targets.

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### OUR BUSINESS

We are one of the leading Chinese cuisine restaurant brands in the international market and the largest Chinese cuisine brand in the international market originating from China in terms of revenue in 2021, according to the F&S Report. During the Track Record Period, we generated substantially all of our revenue from Haidilao restaurant operations. To a lesser extent, we also generated revenue from food delivery and sales of hot pot condiment products and food ingredients. The following table sets forth the components of our revenue for the period indicated.

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2019		2020		2021		2021		2022	
	<i>(US\$ in thousands, except for percentages)</i>									
	<i>(Unaudited)</i>									
Restaurant operation	232,542	99.8%	209,275	94.5%	296,059	94.8%	65,019	95.2%	105,043	96.3%
Delivery business	158	0.1%	10,225	4.6%	11,783	3.8%	2,588	3.8%	2,596	2.4%
Others <sup>(1)</sup>	419	0.1%	1,911	0.9%	4,531	1.4%	665	1.0%	1,436	1.3%
<b>Total</b>	<b>233,119</b>	<b>100.0%</b>	<b>221,411</b>	<b>100.0%</b>	<b>312,373</b>	<b>100.0%</b>	<b>68,272</b>	<b>100.0%</b>	<b>109,075</b>	<b>100.0%</b>

*Note:*

- (1) Others primarily represented revenue generated from sales of hot pot condiment products and food ingredients.

### Our Localized Haidilao Dining Experience

Originally from Sichuan, China, Haidilao has grown to be a worldwide cultural phenomenon, delivering a unique dining experience with outstanding service, food and restaurant atmosphere. To give our guests at all of our restaurants a classic Haidilao dining experience, we offer our signature menu items (e.g. spicy Sichuan-style soup base and hand-pulled noodles (捞麵)) and services (e.g. providing birthday celebration) for guests across all our restaurants. Understanding that a great dining experience means different things in different parts of the world, we also make adjustments to our services and food based on local culture, tastes and preferences. As a leading international Chinese cuisine restaurant brand, we have become an ambassador to China’s culinary heritage, spreading Chinese cuisine culture across the globe through the Haidilao dining experience.

### Services

Haidilao is renowned for its unique services, differentiating us from other restaurant brands. The ultimate goal of our services is to make our guests feel happy, warm and comfortable at our restaurants. To achieve that, we encourage our servers to take initiative and be creative in giving guests a memorable dining experience.

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Generally, our restaurants offer major services that are iconic to Haidilao, such as the seated waiting area with free fruits, snacks or other beverages, hairbands for dine-in guests with long hair and eyeglass cleaning cloths for those wearing glasses. Some restaurants also offer manicure services at the seated waiting area. We also provide personalized services to care for first-time local guests, providing them with suggested cooking times for each hot pot ingredient. From time to time, our restaurants also collaborate with other third parties to host Chinese cultural events. For example, our restaurant in the UK hosted parties with local galleries to showcase traditional Chinese watercolor paintings.

As an international restaurant brand, we also encourage our servers to take into consideration local customs in providing our services. For example, we organize themed events and decorate our restaurants to celebrate holidays in local cultures, such as Easter and Halloween. Our restaurants in South Korea serve free rice cake dishes to students on the day of college entrance exams, which is a symbol for good luck. The following images illustrate examples of our localization efforts in different countries.



*“Trick or Treat”  
(the United States)*



*“Time for Chinese New Year”  
(Indonesia)*



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### *Menu and Ingredients*

Our hot pot offering has three major components—the soup base, the sauces and condiments, and the food ingredients to be cooked in the soup base. Generally, a majority of our menu consists of Haidilao signature or classic dishes, while also incorporating localized or seasonal items. Depending on restaurant size and the availability of food ingredients in the country that meet our high standards on freshness, quality and food safety, our restaurants typically offer 110 to 180 types of food ingredients under eight categories, namely signature Haidilao dishes, seafood, classic hot pot dishes, meatballs and pastes, leafy vegetables, root vegetables and mushrooms, snacks, and alcohol and beverages.

To offer guests a complete Haidilao dining experience, our restaurants offer substantially all of the Haidilao signature menu items, including four signature soup bases, namely our spicy vegetable oil Sichuan-style soup base, tomato soup base, mushroom soup base and savory bone soup base, as well as signature “Laopai” (捞派) dishes including classic Sichuan-style hot pot ingredients, such as beef tripe (毛肚), shrimp paste (蝦滑) and hand-pulled noodles. In addition, our restaurants also feature Haidilao’s signature self-serve sauce and condiment bar, allowing guests to mix and match different dipping sauces and garnishes to their preference and have fun in the process. Normally the sauce and condiment bar will include over 20 ingredients, including soy sauce, chopped garlic, hoisin sauce, sesame sauce, chopped cilantro and dried chili pepper flakes. In addition, our sauce and condiment bars also serve cold dishes, fruit and soup or porridge. We also have several dishes that, we believe, showcase Chinese cuisine and Chinese culture to local guests. Our signature “Laopai” hand-pulled noodles are prepared at guest tables along with a noodle dance, allowing guests to enjoy Chinese culinary culture in a fun atmosphere. Videos of our hand-pulled noodle dance have gone viral and attracted millions of views on social media platforms.

In addition to our core menu, we also offer localized soup bases and food ingredients and tailor our menu format to local practices. Our restaurants in Japan offer traditional Japanese style soup bases, such as miso soup base, as well as localized food ingredients, such as beef intestines, and our restaurants in Southeast Asia offer tom yum soup base. We offer sauces and condiments common to the country, such as black pepper sauce, pickles and olives in the United Kingdom. We also provide classic sauce recipes to cater to our international guests. In addition, we offer individual combo meals, consisting of a choice of protein, a fresh plate of vegetables and choice of rice or noodles, in countries where guests are more accustomed to having individual instead of shared meals. The following images illustrate some of our soup bases and food ingredients adapted to local tastes.



*Tom yum soup base  
in Thailand*



*Beef intestines  
in Japan*



*Spicy poutine  
in Canada*



*Combo meals in  
the United States*

## BUSINESS

### *Restaurant Atmosphere and Design*

Our restaurants are designed and decorated to make our guests feel relaxed and comfortable. Most of our restaurants are designed with a light green and yellow theme, with slight modifications in different countries. We opened two tech-forward restaurants in Singapore, which use architectural lighting, audio and visual technologies to create a full-sensory immersive dining experience, making guests feel like they are dining in different landscapes and time periods in history. These tech-forward restaurants are also equipped with automatic busser equipment. For details, see “—Technologies.” The following images show the typical interior of our restaurants and our tech-forward restaurants.



*Light green and yellow theme*



*Singapore tech-forward restaurants*

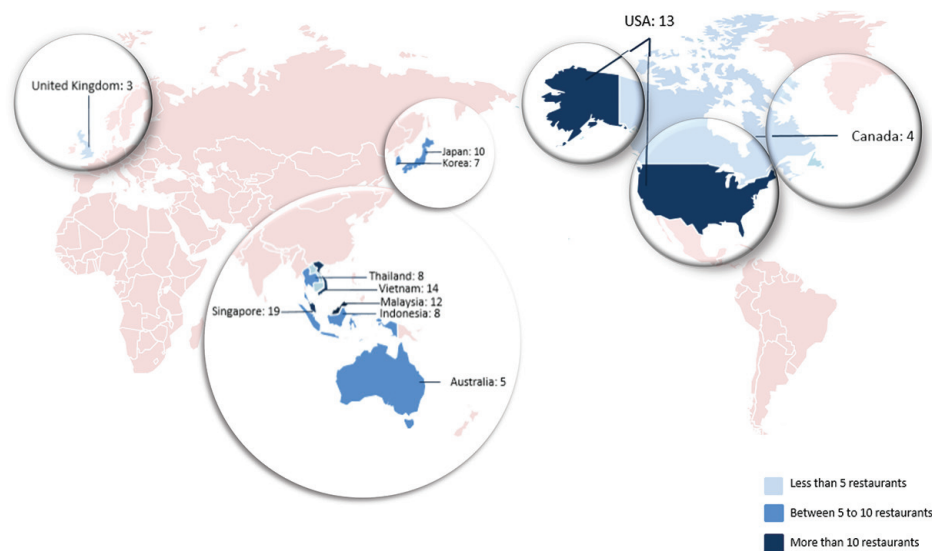
Our restaurants generally have a main dining hall and private dining rooms for larger parties. Given the nature of hot pot, we do not need to maintain large kitchens and approximately 75% to 80% of our restaurant space is the dining area. The GFA of our restaurants generally ranges from 400 to 1,500 square meters with 30 to 85 tables that can seat two to eight people each. Some of our restaurants also have smaller tables for solo-dining customers. The total capital expenditure per restaurant in Asia typically ranged from US\$1.4 million to US\$3.0 million and may be higher in other countries depending on the size of the restaurant and the country it is located in.

## BUSINESS

### Our Haidilao Restaurant Business

#### Restaurant Network

We opened our first restaurant in Singapore in 2012. Since then, we have gradually expanded our restaurant network to 97 restaurants in 11 countries in Asia, North America, Europe and Oceania as of March 31, 2022. As of the Latest Practicable Date, we had 103 restaurants in 11 countries. We own and operate all of our Haidilao restaurants and lease all of the premises on which our restaurants operate. The following map sets forth our restaurant network as of the Latest Practicable Date.



The following table summarizes the number of restaurants and breakdown of our revenue from restaurant operation by geographic region as of the date and for the period indicated.

	As of/For the Year Ended December 31,						As of/For the Three Months Ended March 31,			
	2019		2020		2021		2021		2022	
	# of restaurants	Revenue	# of restaurants	Revenue	# of restaurants	Revenue	# of restaurants	Revenue	# of restaurants	Revenue
(US\$ in thousands, except for number of restaurants)										
(Unaudited)										
Southeast Asia	20	128,933	39	136,263	55	165,942	43	44,432	57	64,040
East Asia	10	49,910	17	34,309	17	37,251	17	8,112	17	11,768
North America	6	37,888	13	25,203	16	68,064	14	8,289	16	20,149
Others <sup>(1)</sup>	2	15,811	5	13,500	6	24,802	5	4,186	7	9,086
<b>Total</b>	<b>38</b>	<b>232,542</b>	<b>74</b>	<b>209,275</b>	<b>94</b>	<b>296,059</b>	<b>79</b>	<b>65,019</b>	<b>97</b>	<b>105,043</b>

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*Note:*

(1) Others include Australia and the United Kingdom.

As of December 31, 2019, 2020 and 2021 and March 31, 2022, we owned and operated 38, 74, 94 and 97 restaurants, respectively. The following table summarizes the number of restaurants and their movements during the Track Record Period.

	<b>For the Year Ended December 31,</b>			<b>For the Three Months Ended March 31,</b>
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Number of restaurants at the beginning of the year/period	24	38	74	94
Number of new restaurants opened during the year/period	15	36	22	3
Number of restaurants closed during the year/period	1	–	2	–
Number of restaurants at the end of the year/period	38	74	94	97

We opened 15 new restaurants in 2019, including ten restaurants in six new countries. Starting in 2020, we adjusted our expansion plan taking into consideration the COVID-19 pandemic and focused primarily on opening new restaurants in countries where we already have restaurant presence. In 2020, we opened a total of 36 new restaurants. In 2021, we further adjusted our expansion plan, focusing more on optimizing the performance of existing restaurants, and therefore the number of new restaurants we opened decreased to 22 in 2021 and three in the first quarter of 2022. During the COVID-19 pandemic, many countries imposed restrictive measures on restaurant dine-in and social gatherings, resulting in lower guest traffic and the temporary closure of many of our restaurants. Nevertheless, most of our restaurants opened during the Track Record Period were able to achieve initial monthly breakeven within six months.

We believe our expansion strategy was generally effective during the Track Record Period, as we did not experience significant restaurant closures as a result of the pandemic. During the Track Record Period, we closed a total of three restaurants, primarily due to expiry of leases and other commercial reasons based on our assessment of their performance.

## BUSINESS

### *Restaurant Performance*

The following table sets forth certain key performance indicators of our restaurants by geographic region for the period indicated.

	For the Year Ended December 31,			For the Three Months Ended March 31,
	2019	2020	2021	2022
	<b>Total guest visits (million)</b>			
Southeast Asia	5.0	5.4	6.7	2.8
East Asia	1.8	1.0	1.3	0.4
North America	0.9	0.4	1.3	0.4
Others <sup>(1)</sup>	0.4	0.3	0.5	0.2
<b>Overall</b>	<b>8.1</b>	<b>7.1</b>	<b>9.8</b>	<b>3.8</b>
<b>Table turnover rate<sup>(2)</sup> (times per day)</b>				
Southeast Asia	4.5	2.9	2.2	2.8
East Asia	3.4	1.9	1.9	2.3
North America	4.2	1.5	2.1	2.5
Others <sup>(1)</sup>	4.3	1.7	1.9	2.4
<b>Overall</b>	<b>4.1</b>	<b>2.4</b>	<b>2.1</b>	<b>2.7</b>
<b>Average spending per guest<sup>(3)</sup> (US\$)</b>				
Southeast Asia	25.6	25.2	24.8	22.7
East Asia	28.1	34.0	28.8	28.5
North America	43.5	58.7	54.3	52.1
Others <sup>(1)</sup>	37.0	46.3	45.6	45.2
<b>Overall</b>	<b>28.7</b>	<b>29.4</b>	<b>30.3</b>	<b>27.5</b>
<b>Average daily revenue per restaurant<sup>(4)</sup> (in thousands of US\$)</b>				
Southeast Asia	25.8	14.9	10.5	13.2
East Asia	13.1	7.4	5.9	8.4
North America	21.1	8.2	12.2	14.1
Others <sup>(1)</sup>	27.3	11.7	13.7	17.1
<b>Overall</b>	<b>20.8</b>	<b>11.6</b>	<b>10.0</b>	<b>12.8</b>

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*Notes:*

- (1) Others include Australia and the United Kingdom.
- (2) Calculated by dividing the total tables served for the year/period by the product of total restaurant operation days for the year/period and average table count during the year/period in the same geographic region.
- (3) Calculated by dividing the revenue generated from restaurant operation for the year/period by total guest visits for the year/period in the same geographic region.
- (4) Calculated by dividing the revenue from restaurant operation for the year/period by the total restaurant operation days for the year/period in the same geographic region.

*Table Turnover Rates*

Starting from 2020, our results of operations were adversely affected by the COVID-19 pandemic. Local governments across the world implemented various restrictive measures in order to contain the spread of the disease, including city- or nation-wide lockdowns, temporary restaurant closures, limited dining hours, social distancing seating, among others. These measures resulted in a significant decrease in guest traffic at our restaurants. Accordingly, we experienced a decrease in our table turnover rates from 4.1 times per day in 2019 to 2.4 times per day in 2020 and 2.1 times per day in 2021. In 2022, the performance of our restaurants gradually recovered as the COVID-19 pandemic has come under control. Many local governments have lifted restrictive measures, enabling us to operate normally. Our table turnover rates bounced back to 2.7 times per day in the three months ended March 31, 2022.

*Average Spending per Guest*

Generally, our average spending per guest is affected by the number of guests per table. As the number of soup bases ordered per table, a major cost component in hot pot meals, is not necessarily tied to the number of guests dining at the table, having fewer guests per table may increase average spending per guest. In addition, our average spending per guest may also be affected by our restaurant mix, the discounts we provided, adjustment of our pricing and introduction of new menu items. Our average spending per guest, especially in East Asia and North America, increased in 2020 due to a decreased average number of guests per table as various social distancing measures were implemented against the COVID-19 pandemic. In 2021, our overall average spending per guest continued to increase as we opened new restaurants in regions with higher consumption levels, such as the United States and Singapore. This increase was partially offset by the increase in guests per table as governments gradually relaxed social distancing restrictions in certain regions. The decrease in our average spending per guest in the three months ended March 31, 2022 was primarily because our business recovery in Southeast Asia outpaced other geographic regions, where we normally have a lower average spending per guest.

*Average Daily Revenue Per Restaurant and Same Store Sales*

As a result of the above, our average daily revenue per restaurant was US\$20.8 thousand, US\$11.6 thousand, US\$10.0 thousand and US\$12.8 thousand in 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively. Our same store sales decreased by 39.3% and 1.4% in 2020 and 2021 as compared to the previous year, respectively. We recorded a same store sales growth of 32.0% in the three months ended March 31, 2022 as compared to the same period in 2021.



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### Delivery Business

We started to offer delivery services at Haidilao restaurants in 2019. Our delivery business has become an increasingly important part of our business as the COVID-19 pandemic restricted dine-in services. We have endeavored to offer delivery services in more restaurants, with over 60 of our restaurants offering delivery as of the Latest Practicable Date. We provide delivery services through our hotline and social media account (e.g. WeChat and WhatsApp), as well as local online food delivery platforms.

During the Track Record Period, most of our delivery services were conducted through local third-party online food delivery platforms. Based on our collaboration agreements with these third-party online platforms, we generally agreed to pay them a certain percentage of the revenue generated through their platforms as commission fees, which normally ranging from 10% to 20%. These platforms are responsible for picking up the food and delivering to our guests. For delivery orders we receive from our own channels, we normally assign our employees to deliver our food. To a lesser extent, some restaurants also engage third-party delivery companies to deliver our food.

We aim to provide our guests a true Haidilao dining experience even if they do not dine in our restaurants. For each delivery order, we generally include side dishes and a complementary care package containing napkins and peppermint candies. To guarantee freshness and hygiene, our food is packed in sealed food containers and we allow our guests to return the food if the seal is damaged. In such an event, we will seek compensation from the relevant third-party responsible for food delivery.

In 2019, 2020, 2021 and the three months ended March 31, 2021 and 2022, revenue generated from our delivery services amounted to US\$0.2 million, US\$10.2 million, US\$11.8 million, US\$2.6 million and US\$2.6 million, respectively.

### Others

During the Track Record Period, we also generated revenue from other activities, primarily including sales of hot pot condiment products to local guests and food ingredients to retailers. These products aim to enable our guests to enjoy hot pot at home.

## ORGANIZATION STRUCTURE

We adopt a management system focused on balancing standardization and localization. Based on our mentor-mentee system, our restaurants are grouped into four groups, taking into account the number of restaurants within the group and similarities in local cultures and practices. We believe managing restaurants by group enables us to formulate more effective business strategies and operating guidelines that fit the needs of the group. Each group is overseen by a senior regional manager, to whom all restaurant managers in the group report directly. Normally, the senior regional managers are nominated from the mentors of the restaurant managers within the same group. The senior regional manager is generally responsible for implementing business strategies and management of restaurant operations in the group. The senior regional manager is supported by seven core business functions under our headquarters, including product management, finance, IT and food safety, among others.

### Headquarters

Our headquarters maintain control over critical aspects of our restaurant operation, including food safety, legal, IT, finance and restaurant expansion strategy. Our headquarters set corporate goals, business strategies and operational standards so that we can achieve high-quality management and scalable growth. Under the framework set out by our headquarters, we grant significant autonomy to senior regional managers and restaurant managers to execute our corporate objectives in each country.

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### Senior Regional Managers

Our senior regional managers serve as a bridge between the guiding principles and strategic objectives of our headquarters and overseeing the operations of individual restaurants. As our senior regional managers are normally promoted from the restaurant manager pool, we believe they are familiar with local restaurant operations and market conditions, enabling them to formulate the most suitable business strategy for each group. For example, senior regional managers are responsible for implementing marketing strategies and executing restaurant expansion plans. Senior regional managers are also responsible for assessment of restaurants and restaurant managers within the group, including formulating KPIs, conducting restaurant performance evaluation and review within the group.

### Restaurant Level

Our restaurant managers are responsible for day-to-day management of our restaurants. We grant significant autonomy and decision-making power to them in operating restaurants. They are responsible for restaurant staff assessment and promotion, handling complaints and emergency situations, holding staff meetings and reviewing financial and performance metrics. Depending on restaurant size, each restaurant is normally staffed with 60 to 120 employees, which are assigned to beginner, intermediate and advanced-level roles. New joiners will start from beginner roles and move up to more advanced roles when they gain sufficient experience.

### EXPANSION PLAN, SITE SELECTION AND DEVELOPMENT

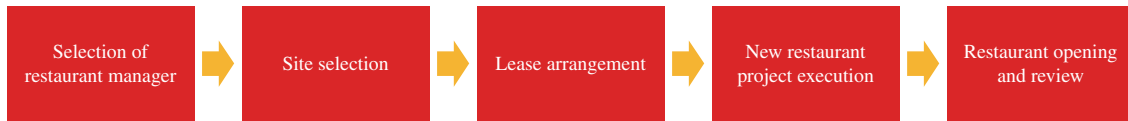
We have established a series of internal procedures to implement our expansion plans and new restaurant development. Our headquarters together with our senior regional managers determine the overall strategic expansion plan of each group, for example, whether to enter into a new market and whether to open new restaurants in existing market. We encourage our senior regional managers and restaurant managers to submit proposals for new restaurants, which will be subject to our headquarters' approval. We do not set fixed annual expansion targets for our expansion plan. Since 2020, we have also taken into account the COVID-19 pandemic when determining our expansion plan.

We generally adopt a bottom-up approach in expanding our restaurant network. We align the financial interests of our restaurant managers with their ability to cultivate new locations and leaders to open new restaurants, which has become a significant driver in our expansion. Under our leadership program, existing restaurant managers can identify and train restaurant manager candidates through our leadership training program. As of the Latest Practicable Date, all of our restaurant managers were promoted through our leadership training program.

### Expansion Management

We have established standardized procedures to open a new restaurant. For each new restaurant project, our senior regional managers are primarily responsible for choosing new restaurant managers based on recommendations from restaurant managers. After the restaurant manager is identified and the restaurant premise is determined, the new restaurant manager will be responsible for project execution with the support from senior regional managers. Our headquarters will also supervise and provide guidance on the expansion process. The following chart illustrates the major steps in our restaurant opening process after a new restaurant project has been determined.

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### *Selection of New Restaurant Managers*

We believe selecting a qualified restaurant manager lays the foundation for the success of a new restaurant. The ideal new restaurant manager should have extensive experience as restaurant staff so that he/she is familiar with every detail of restaurant operations. During the Track Record Period, all of our restaurant managers were home grown and have served in various non-managerial positions, such as waiters or janitors. See “—Assessment, Compensation and Training—Training and Promotion” for details of our apprenticeship program.

Our restaurant managers are encouraged to recommend new restaurant manager candidates, normally being their mentees. If the new restaurant was originally proposed by an existing restaurant manager, we will consider his or her recommendation for the new restaurant manager as the first choice, subject to senior regional manager’s review and approval. In other cases, our senior regional manager will review the restaurant manager candidates recommended by each restaurant manager to select the most suitable candidate. Generally, we consider the following factors in the review process:

- *Historical performance.* We give priority to mentees of restaurant managers with A ratings in selecting new restaurant managers. Managers of C- or lower-rated restaurants may not be eligible to open new restaurants. For details of our restaurants rating system, see “—Assessment, Compensation and Training—Performance Assessment—Restaurant Level.”
- *Language proficiency.* We require our restaurant manager candidates to be proficient in the local language of the country that he/she is nominated for or English.

### *Site Selection*

The location of a restaurant is crucial to its success. Our headquarters are responsible for providing guidance in our site selection process with the consideration of our Group’s strategic growth. Our restaurant managers are responsible for identifying suitable locations, since they have a deeper understanding of the local market. We carefully consider potential markets and devote a substantial amount of time and effort to evaluating each potential restaurant site. The criteria we consider in selecting new restaurant sites includes:

- density of Chinese cuisine restaurants in the area;
- consumption level within the area;
- presence of activity centers or community centers, such as offices, shopping complexes and residential areas, that generate guest traffic;

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- popularity of other restaurants in the vicinity;
- accessibility by public transportation, traffic conditions and parking space; and
- rent level and property conditions and features.

### *Lease Arrangement*

We generally enter into long-term leases ranging from three to fifteen years with an option to renew for our restaurants in order to secure more favorable terms. We do not own any property for substantially all of our restaurant sites and believe such strategy can significantly reduce our capital expenditures. Most of our leases include a rent-free period for several months to facilitate the interior design and renovation of the premises. Generally, our lease agreements were under fixed rent arrangements, or alternatively, the rents were calculated in connection with restaurant revenue or table turnover rates.

Rent under a substantial majority of our leases is subject to incremental increases upon renewal based on the lease terms. Lessors may terminate our lease agreements but may be required to pay us damages, the amount of which is dependent on the length of our occupancy and our rental fee. Some of our leases are automatically renewed unless notified by either party, and we enjoy the right of first refusal to lease certain properties. We did not experience any significant difficulties in renewing our leases in a timely manner during the Track Record Period.

Leveraging our strong brand image, we have maintained good relationships with a number of renowned real estate developers. As Haidilao restaurants can help them attract significant guest traffic, they normally invite us to their newly-developed commercial properties and offer us favorable commercial terms.

### *Project Execution*

The new restaurant manager will be responsible for project execution, with assistance provided by the senior regional manager and our headquarters. Key aspects of our new restaurant opening process include:

- *Licenses, registrations and compliance.* Our restaurant manager, with the assistance from the senior regional manager and headquarters, initiates the application process, including but not limited to business license, food safety licenses and alcohol license.

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- *Restaurant decoration.* Our senior regional managers are responsible for selecting the most suitable interior design and service providers for each restaurant. We also engage Shuyun Dongfang, our connected person, to provide decoration project management and related services. After the restaurant design is determined, the restaurant manager and senior regional manager identify and engage qualified local construction teams to execute the decoration plan.
- *Menu selection and pricing.* We have a dedicated product development team that conducts market research on local cuisine and taste preferences in the new markets we enter. Based on such research, they will build a menu and give pricing suggestions for the senior regional manager’s approval. For new restaurants in countries where we already have presence, we typically adopt substantially the same menu and pricing strategies as existing restaurants in the same country.
- *Staff recruitment.* We typically promote staff from the existing restaurant to higher-level positions at the new restaurant to motivate our employees by providing more opportunities for career development. Through this approach, we can also ensure the smooth opening and operation of new restaurants in its initial months. Other restaurant staff are primarily recruited locally.
- *Supply chain.* Based on our menu selection, our senior regional manager will help the restaurant manager to identify suitable suppliers. Considering our stringent requirements on freshness of the food ingredients, most of our food ingredients are procured from local suppliers. For new restaurants in existing markets, we will normally engage suppliers of other restaurants within the same group.
- *Restaurant set-up.* We require the new restaurant manager and all new staff to arrive at the new restaurant to set up approximately one month prior to the restaurant opening. During such period, the restaurant manager and staff shall receive extensive training. Our senior regional manager will conduct a final inspection and review before opening of the restaurant.

### ***Restaurant Operations and Review***

The senior regional manager will continue to provide support and guidance after the new restaurant is opened, including conducting site visits, and reviewing initial table turnover rates and other performance metrics. New restaurants are subject to the same restaurant performance assessment as existing restaurants in the same group. Senior regional managers are available to provide training and assistance to new restaurants that are rated C. See “—Assessment, Compensation and Training—Performance Assessment—Restaurant Level.”

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### ASSESSMENT, COMPENSATION AND TRAINING

#### Performance Assessment

##### *Group Level*

The performance of senior regional managers is assessed and reviewed by our headquarters, which is primarily based on certain key performance metrics, in particular, the table turnover rates and assessment results of restaurants within each group.

##### *Restaurant Level*

Our headquarters have formulated a set of criteria to review and assess the performance of each restaurant. We place an emphasis on guest satisfaction and guest experience as we believe they capture intangible elements in restaurant operations that are unmeasurable by operating or financial performance metrics but are crucial for evaluating a restaurant's quality and service.

We conduct monthly evaluation of the performance of our restaurants and derive a monthly rating for each restaurant based on the criteria above, which also ties to the rating of each restaurant manager. The ratings of each restaurant will be published on a monthly basis via online meeting or internal announcement, incentivizing them to improve their performance in the following months. We also derive a final rating for each restaurant each quarter, taking into account the ratings of the restaurant in the three months. These final ratings issued by our senior regional managers are applied as follows:

- *A-rated restaurants.* A is our highest rating. When we select candidates to serve as managers of new restaurants, we give preference to employees from A-rated restaurants. When a new restaurant opens, the new restaurant manager's mentor may share a percentage of the profit of that new restaurant. A-rated restaurant managers may have first pick in new restaurant project.
- *B-rated restaurants.* We consider B-rated restaurants to have satisfactory performance but still have room for improvement. Managers of B-rated restaurants may seek help and advice from our senior regional managers.
- *C-rated restaurants.* For a restaurant that receives a C rating for the first time, its restaurant manager is encouraged to undergo management training to improve the restaurant's performance. We normally will give the restaurant managers a three-month rectification period, during which the senior regional manager will help them improve their performance.



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- *Lower than C.* For restaurants that receive a rating lower than C, we consider the performance of these restaurants are far below Haidilao standards and may be detrimental to our guests and brand. The restaurant manager of such restaurants will be replaced, or, in the worst case scenario, the restaurant may be closed.

### *Mystery Guest Program*

We have established a quarterly mystery guest review program, allowing us to understand the performance of restaurants from our guests' points of view. We invite certain mystery guests to register on our designated mobile app and apply to be a mystery guest at a specific restaurant. Once the task is assigned, they are invited to visit our restaurants and provide a feedback report on their dining experience. The report generally covers aspects including (i) quality of service; (ii) dedication of their servers; (iii) quality of food; and (iv) restaurant environment. The reviewers are required to provide an overall rating to the restaurant as "A", "B", "C" or lower at the end of review, which we believe provides the most direct indication of guest satisfaction and whether they would visit us again. Our senior regional managers then will review these reports. Based on these reports, which are not shared to restaurant managers, we will provide general feedback to restaurant managers.

Ratings from our mystery guest reviewers form one of the most important criteria for our performance assessment of a restaurant. Other criteria that we may take into account include: (i) results of unannounced inspections, which focus on safety and hygiene of restaurant areas not visited by guests, such as the kitchen; (ii) reviews from online restaurant review sites; (iii) attrition rate of employees; and (iv) financial performance of the restaurants. We also implement a dynamic assessment system by adjusting the weight given to different performance metrics to better understand the performance of each restaurant.

### *Restaurant Staff*

Our restaurant managers are responsible for conducting staff performance assessment and promotion. Staff that interact with guests, such as waiters, are reviewed based on service quality and guest feedback.

### **Compensation**

#### *Senior Regional Manager*

The compensation for the senior regional managers is directly tied to the performance of the restaurants within the restaurant that he/she is responsible for, taking into account the ratings and profitability of each restaurant.

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### ***Restaurant Manager***

The compensation for our restaurant managers is directly tied to the performance of the restaurants they or their mentees are in charge of. Under this compensation model, our restaurant manager will be self-motivated to enhance the guest satisfaction rate and self-incentivized to train additional talented restaurant managers. Our restaurant manager's compensation primarily includes a base salary and an additional percentage of profits from restaurants. Our restaurant managers may receive a higher percentage of profits by training and developing more mentees. Restaurant managers shall not be entitled to share a restaurant's net profit if their restaurant is rated-C or below. We review the compensation scheme and adjust their salary from time to time.

### ***Restaurant Staff***

The compensation and benefits package for our restaurant staff is competitive and is proportionate to the amount of work performed by each employee. As an extension of our Company's management philosophy and taking into account local customs, we adjust the compensation system in each country to better motivate our employees. Our compensation systems include (i) the piece rate compensation system where every activities involved in guest services is measured by units; (ii) hourly rate; and/or (iii) tip system. In order to incentivize and reward outstanding employees, the restaurant manager may decide to allocate up to a low single digit of the net profits of a restaurant every month to managerial staff in the restaurant, such as our floor manager and kitchen manager.

### **Training and Promotion**

We conduct comprehensive training for all of our employees, from management positions to restaurant staff. We create an outcome-oriented and merit-based working environment and seek to instill Haidilao's core values and culture in our employees. Substantially all of our restaurant managers are promoted internally from junior roles at our restaurants.

### ***Restaurant Managers***

We are dedicated to identifying, training and retaining experienced employees with high potential who are capable of becoming restaurant managers. As of the Latest Practicable Date, we had over 50 restaurant manager candidates, respectively.

The following sets forth the steps to promote restaurant managers:

- *Qualification to talent pool.* Mentors may nominate outstanding mentees to a talent pool. These mentees receive additional training on restaurant management, service offerings and our internal policies.

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- *Internal training.* We encourage restaurant staff that have mastered skills in all major roles in our restaurant operation to enroll in more advanced trainings provided by our headquarters. These trainings primarily cover our corporate culture, restaurant management and assessment skills and interpersonal skills, aiming to help them smoothly transition to a qualified restaurant manager. In particular, the assessment of such trainings is conducted in English, Chinese and/or the local language to ensure that they have the requisite language skills as the restaurant manager at our restaurant.
- *Promotion to restaurant managers.* Restaurant manager candidates are required to complete our internal training and pass various tests to be qualified into our restaurant manager pool. These tests not only cover the trainings we provide, but also cover their performance at different roles within the restaurant, including front office manager and kitchen manager. Subject to the performance of the restaurants of their mentors, they will be promoted to restaurant managers when there are suitable new restaurant openings.

### ***Restaurant Staff***

During the Track Record Period, most of our restaurant staff were recruited locally. For restaurants opened in new markets, our restaurant managers will provide on-board training to new joiners, emphasizing on culture and philosophy, corporate values and operating standards and procedures. We have also established an apprenticeship program at our restaurants. Each new employee is assigned a mentor upon joining us. Under our apprenticeship program, the mentor provides new-joiner mentees with a week-long orientation, and regularly provides guidance and support throughout their career. Restaurant staff are reviewed and promoted by restaurant managers. Depending on their performance, outstanding restaurant staff can be promoted to restaurant managers in approximately four years.

## SUPPLY CHAIN MANAGEMENT

Our ability to offer consistently high-quality food across our restaurants depends largely upon the ability to procure the highest quality food ingredients commercially available. Our overall procurement strategy is generally based on the guest volume of our restaurants. We primarily procure (i) soup base for our hot pot, (ii) food ingredients, such as meat, seafood and vegetables, as well as consumables used in our restaurants, and (iii) decoration services and equipment for restaurant operation. We have established a procurement team within each group. The procurement team is responsible for identifying suitable suppliers based on each restaurant's demands and supply chain management.

### **Procurement of Soup Base**

During the Track Record Period and up to the Latest Practicable Date, Yihai Group has been our primary supplier of soup base. The soup bases we procured from Yihai Group are primarily Haidilao signature soup bases. For the years ended December 31, 2019, 2020 and

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2021 and the three months ended March 31, 2022, purchases from Yihai Group amounted to US\$6.7 million, US\$5.8 million, US\$8.6 million and US\$3.1 million, respectively. In addition to soup bases, we also procured small amounts of other products, such as instant hot pot products, from Yihai Group. For details, see “Continuing Connected Transactions—Continuing Connected Transactions—Yihai Master Purchase Agreement.”

For soup bases localized to the taste preferences of local guests, we generally procure them from larger suppliers with whom we have established long-term business relationships if we consider that it is impractical or infeasible to procure them from Yihai Group.

### **Procurement of Food Ingredients and Consumables**

For markets where we have a larger business scale, we generally adopt a centralized procurement system for major food ingredients and consumables we use. We have set up a central kitchen in Singapore, primarily responsible for manufacturing and processing food ingredients used in our restaurants, including meats that require processing and flavoring, and vegetables that require washing and cutting. We believe this model can streamline our supply chain management practice and reduce staff costs in relation to food preparation at each restaurant, while maintaining the consistency in taste, quality and food safety. Based on our business demand, we are also exploring opportunities to open more central kitchens in other markets where we have greater presence to achieve economies of scale.

For other markets we operate in, we normally procure food ingredients directly from local suppliers to ensure regulatory compliance in each jurisdiction. After we receive requests for new food ingredients from restaurants, our procurement team in each country shall be responsible to identify suitable local suppliers. In order to better manage our costs in relation to food ingredients, we are also exploring opportunities for bulk procurement for our restaurants across different countries. During the Track Record Period, we procured food ingredients from over 150 qualified suppliers worldwide.

### **Procurement of Decoration Materials and Related Services**

Our senior regional managers are responsible for selecting the most suitable renovation project management and related services providers for each restaurant, including Shuyun Dongfang, our connected person. For details, see “Continuing Connected Transactions—Continuing Connected Transactions—Master Decoration Project Management Service Agreement.” In order to control renovation costs, materials and construction services are mainly procured from local suppliers, as we believe they have more resources and are more familiar with local regulatory environments. We normally enter into supply or service agreements with these suppliers on a project-by-project basis.

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### Supply Agreements

We generally enter into standard framework agreements with our suppliers for long-term supplies of food ingredients and consumables. To a lesser extent, we may also enter into one-time purchase agreements for items that our restaurants use less frequently. Salient terms of our standard framework agreement are set out as follows:

- *Quality.* We generally provide detailed specifications regarding the quality of the goods supplied. We require all suppliers to provide an inspection report or a certificate of quality, except for small volume seasonal procurements.
- *Quantity and pricing.* We generally do not stipulate the purchase amount or price in the agreements, but set out the amount and price purchase orders depending on the type of ingredients or products procured and with reference to the then market prices.
- *Delivery schedule.* We stipulate the delivery schedule in our agreements. The delivery schedule depends on the type of ingredients or products procured.
- *Inspection and acceptance.* For food ingredients, we generally inspect the supplies once we receive them. We are also entitled to appoint a third party to conduct inspections for major food ingredients we procure. In case of any quality defects that are not due to our negligence in storage, we are entitled to replacement or refund by the suppliers pursuant to the supply agreement.
- *Most favorable clause.* We generally require the supplier to give us prices and terms that are no less favorable than those given to any other customer.
- *Credit term.* Our suppliers generally offer us a credit term up of 30 to 90 days.

### Supplier Management

We have identified and established stable business relationships with our major suppliers. For major food ingredients and consumables we used, we normally have at least two qualified suppliers, allowing us to minimize any potential disruption in our operation caused by our suppliers and secure competitive prices. During the Track Record Period and up to the Latest Practicable Date, we did not experience any interruption of the food ingredients supply, early termination of supply agreements, or failure to secure sufficient quantities of scarce food ingredients that had any material adverse impact on our business and results of operations. On average, we have maintained business relationships of approximately five years with our five largest suppliers.

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In each of the years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, our purchase amount from our five largest suppliers was US\$18.2 million, US\$22.0 million, US\$28.4 million, and US\$8.9 million, respectively, accounting for 8.2%, 8.5%, 10.1% and 10.6% of our total purchases for the same period. During each period, Yihai Group was one of our five largest suppliers. In addition, Shuyun Dongfang was one of our five largest suppliers in the year ended December 31, 2021. For details of our procurement from Yihai Group and Shuyun Dongfang, see “Continuing Connected Transactions.” Except as disclosed in the listing document, none of our Directors, their associates or any of our current Shareholders (who, to the knowledge of our Directors, own more than 5% of our share capital) has any interest in any of our five largest suppliers that is required to be disclosed under the Listing Rules.

### Price Management

We manage our prices by closely monitoring market price fluctuations. We generally do not enter into purchase agreements with fixed prices for food ingredients we procure in order to retain flexibility in our procurement price. As is customary in our industry, we typically do not pass any short-term price increases of our supplies to guests. Generally, our procurement team is responsible for price management with each supplier based on market conditions and negotiating with suppliers on price adjustments from time to time.

The table below sets forth a sensitivity analysis of the impact of raw material and consumable price fluctuations on our results of operations during the Track Record Period. The range of fluctuations is based on historical fluctuations of key raw materials in our operations, assuming all other factors remain unchanged. See “Industry Overview—Cost Structure” for details.

#### Hypothetical changes in raw materials and consumables used in 2019

	-10%	-5%	+5%	+10%
	<i>(in millions of US\$)</i>			
Raw materials and consumables used	73,158	77,223	85,351	89,416
Changes in raw materials and consumables used in 2019	(8,129)	(4,064)	4,064	8,129
Change in loss for the year ended December 31, 2019 <sup>(1)</sup>	7,934	3,967	(3,967)	(7,934)

#### Hypothetical changes in raw materials and consumables used in 2020

	-10%	-5%	+5%	+10%
	<i>(in millions of US\$)</i>			
Raw materials and consumables used	71,139	75,091	82,995	86,947
Changes in raw materials and consumables used in 2020	(7,904)	(3,952)	3,952	7,904
Change in loss for the year ended December 31, 2020 <sup>(1)</sup>	7,597	3,798	(3,798)	(7,597)

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### Hypothetical changes in raw materials and consumables used

in 2021	-10%	-5%	+5%	+10%
	<i>(in millions of US\$)</i>			
Raw materials and consumables used	102,384	108,072	119,448	125,136
Changes in raw materials and consumables used in 2021	(11,376)	(5,688)	5,688	11,376
Change in loss for the year ended December 31, 2021 <sup>(1)</sup>	11,288	5,644	(5,644)	(11,288)

### Hypothetical changes in raw materials and consumables used

in the three months ended March 31, 2022	-10%	-5%	+5%	+10%
	<i>(in millions of US\$)</i>			
Raw materials and consumables used	35,995	37,994	41,994	43,993
Changes in raw materials and consumables used in the three months ended March 31, 2022	(3,999)	(2,000)	2,000	3,999
Change in loss for the three months ended March 31, 2022 <sup>(1)</sup>	3,929	1,965	(1,965)	(3,929)

*Note:*

- (1) We apply the actual tax rate for purposes of this sensitivity analysis for each year/period during the Track Record Period.

### Logistics Arrangement

Our procurement team is primarily responsible for establishing and maintaining the logistics arrangements for each restaurant. We generally engage local reputable and large-scale third-party logistics companies. Currently, we have two large-scale warehouses in Japan and Thailand in light of the number of restaurants and their vicinities in these countries. Meanwhile, we are also establishing new warehouses in Singapore and Malaysia, which are expected to be completed and put into use by the end of 2022. Food ingredients with longer shelf lives and consumables we use are directly delivered to these warehouses and will be delivered to each restaurant upon the restaurant manager’s request.

For restaurants in other countries, each restaurant is generally equipped with a small-scale warehouse and maintains higher inventory levels. Supplies are delivered directly to these restaurants and stored there.



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### Inventory Management

The inventory level of each restaurant generally depends on its size, location, table turnover rates and historical and forecasted performance. For food ingredients that are procured locally, we typically do not maintain a significant inventory level to ensure their freshness and generally place orders frequently. For other food ingredients with a longer shelf life that needs to be shipped internationally, we generally keep a higher inventory level depending on the location of the restaurants and the time needed for transportation. In addition, we conduct stocktaking once a month to ensure sufficient inventories. We are currently developing a digitalized inventory management system, enabling us to manage inventory levels of our restaurants in different countries on a real-time basis.

### Anti-kickback Measures

An effective set of anti-kickback policies and procedures is critical to ensuring the integrity of our quality control and procurement system while managing our costs. Our anti-kickback measures and initiatives include the following:

- *Whistle-blower program.* We have implemented a whistle-blower program under which employees may receive financial incentives to report instances of bribery or kickbacks directly to the immediate supervisor or department head of the alleged wrongdoer anonymously.
- *Inspections.* From time to time, we conduct inspections to uncover any kickback activities.
- *Zero tolerance.* All employment agreements with procurement-related employees contain provisions prohibiting bribery and kickbacks. Breaches of such provisions will result in immediate termination.
- *High compensation.* Our procurement employees are among the most highly compensated employees in the company assuming equal experience and years of service, which we believe discourages them from accepting kick-backs and increases the stakes and costs of engaging in kick-backs.
- *Integrity undertaking.* We require our major suppliers to provide integrity undertakings to us. In accordance with the undertaking, we have the right to terminate or even blacklist the supplier if we find them breaching the undertakings.

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### FOOD SAFETY AND QUALITY CONTROL

We place the utmost priority on the health and safety of our guests and dedicate a significant amount of resources in maintaining our food safety and quality control system. As of the Latest Practicable Date, we had over 100 employees dedicated for our food safety management. We have established a food safety department at our headquarters overseeing our food safety practice and formulating our food safety protocols and strategies. The food safety department is led by Mr. Guan Hongfei (關鴻飛) who has over 29 years of experience in food safety management and quality control matters, including at large food processing companies and a multinational food safety accreditation and certification agency. Each restaurant also has one food safety specialist, who is responsible for supervising the food safety practice and conducting regular checks and examinations at the restaurant. The food safety specialists are required to attend periodic internal training and pass our quality and safety tests.

#### Supply Chain Quality Control

We are dedicated to procuring food ingredients of the highest quality that are commercially available from the most reliable suppliers. Details of our supplier quality control program are set out below:

- *Selection of suppliers.* We have established stringent supplier selection procedures. For each food ingredient supplier candidate, we examine its qualification and conduct on-site inspection and sample testing if we consider necessary. Only suppliers that can pass all these assessments can be included in our qualified supplier list. We only procure food ingredients from these qualified suppliers.
- *Management and review of suppliers.* We have formulated a performance evaluation system to assess the performance of each of our suppliers regularly. Based on the quality of supplies, price and services, each supplier is graded with low-risk, mid-risk and high-risk. For high-risk suppliers, we will reduce our purchase amount with them, or find new suppliers to replace them.
- *Stringent standards for food ingredients.* We formulate inspection standards for each type of supplies we procure, including physical inspection as well as testing for chemicals and foreign substances. Below are examples of our high-quality standards for our major food ingredients:
  - *Meat.* We source most of our meat supplies from Australia and the United States, which are generally more tender and juicier with a delicate flavor. We require all of our meat supplies to be traceable to ensure their superior quality.

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- *Seafood.* We procure seafood only from qualified suppliers after careful evaluation conducted by our food safety department. To ensure the quality of our seafood ingredients, we have established stringent procedures for inspecting quality standards, processing requirements and production standards. Our food safety staff conduct regular inspection on food safety management and hygienic operation of each restaurant on a daily basis.
- *Vegetables.* We seek to offer farm-to-table vegetables and primarily procure directly from local farms. To ensure freshness, our vegetable menu may change seasonally and differ by geographical region and we will replenish our vegetable inventory at our restaurants on a daily basis.
- *Inspections and testing.* We conduct extensive inspection and testing of product supplies. Our food safety specialists are responsible for conducting on-site examination on our suppliers. In addition, we also engage reputable third-party laboratories to conduct sample testing to ensure that our food ingredient supplies comply with the applicable food safety laws and regulations.

### Restaurant Quality Control

We focus on the following aspects of food safety and quality control at our restaurants.

- *Detailed and standardized procedures.* We have developed a series of food safety, hygiene and quality control protocols that set out guidelines detailed down to different methods of cleaning different types of kitchenware, sterilization schedules to prevent the spread of COVID-19 pandemic and the cleaning schedule for restrooms. Our food safety specialists also establish food safety procedures for each restaurant, taking into account local regulatory requirements. From time to time, our food safety specialists will make recommendations to our food safety, hygiene and quality control protocols based on issues identified in restaurants and regulatory updates.
- *Extensive inspection.* Our group manager is responsible for conducting monthly inspection for each restaurant. If any food safety issue is identified, the food safety specialist will assist the restaurant manager to rectify the issue and conduct a follow-up inspection after rectification is completed. Despite the travel restrictions due to the COVID-19 pandemic, the inspections are conducted through video conference.

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- *Clear accountability.* We have established clear responsibility for our restaurant managers and our food safety staff. Each restaurant is divided into thirteen different areas, such as the kitchen, dining area and waiting area and the restaurant manager assigns one designated person for each area. In addition, we require the restaurant manager to provide assistance for food safety management in his/her mentee's restaurant.
- *Compliance.* Our food safety specialist reviews and keeps abreast of local laws and regulations to formulate and update internal food safety policies.
- *Design and technology.* We believe that investing in restaurant design and technology allows us to enhance quality control and reduce the risk of human error. We have established kitchens with automated and smart equipment in Singapore, which we believe will allow us to achieve more consistency in handling food and maintaining hygiene in the kitchen area.
- *Continuous training programs.* We continuously provide training programs to our restaurant staff on the operating procedures and quality standards on an annual basis. Post-training tests are conducted to ensure the effectiveness of training.

During the Track Record Period, we did not experience any food safety incidents that had a material and adverse impact on us.

## PRODUCT ENHANCEMENT AND DEVELOPMENT

We constantly upgrade our menu dishes and introduce innovative dishes, soup base and dipping sauces in different countries to enhance our dining experience and attract local guests. We mainly manage our menu and product development through two channels:

- *In-house development.* We have established a core product development team, which is split into four groups. Each group is responsible for developing new menu items adapted to tastes in a particular geographic region, such as Southeast Asia and East Asia. We conduct extensive research on potential new dishes in terms of taste, nutritional content and suitability for hot pot cuisine. For example, we introduced the tom yum soup base in restaurants in Southeast Asia. We also have a dedicated product management team responsible for overseeing the sales performance of our menu items and updating our menus from time to time.
- *Open selection.* Our new products are also developed through an open-selection process. We encourage all of our employees to create new concepts for new menu dishes. As many of our employees are local residents, we believe they can provide creative ideas on new menu dishes that can attract local guests.

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### CUSTOMER BASE AND MARKETING

#### Guests

As a leading international Chinese cuisine restaurant brand, we are devoted to providing our guests with a great dining experience with affordable prices. In 2019, our restaurant attracted approximately 8.1 million guest visits. Due to the impact of the COVID-19 pandemic, our guest traffic decreased to approximately 7.1 million in 2020. As a result of our efforts to enhance our dining experience and expanding our restaurant network, we recorded approximately 9.8 million guest visits in 2021. In the three months ended March 31, 2022, we attracted approximately 3.8 million guest visits, increasing by over 60.3% from the same period in 2021.

In order to enhance our guests dining experience, we have established a customer loyalty program in each country we operate in. The program keeps record of our guests’ ordering history and preferences, including their customized soup base flavors, allowing us to customize our services and make recommendations, thereby enhancing guest experience. In addition, our members are awarded with one point for the amount spent in our restaurant, which can be redeemed for different levels of discounts or our condiment products. Our customer loyalty system has attracted approximately 2.3 million members as of the Latest Practicable Date. We give senior regional managers and restaurant managers the autonomy to give guest discounts or hold promotions for certain menu items as they see fit.

During the Track Record Period, most of our customers are individuals dining in our restaurants, or receiving our delivery services. To a lesser extent, we also derive revenue from sales of hot pot condiment products to local guests and food ingredients to retail customers. Revenue derived from our five largest customers accounted for less than 5% of our total revenue for each of the years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022. All of our five largest customers in 2019, 2020 and 2021 and the three months ended March 31, 2022 are Independent Third Parties. None of our Directors, their associates or any of our current Shareholders (who, to the knowledge of our Directors, own more than 5% of our share capital) has any interest in any of our five largest customers that are required to be disclosed under the Listing Rules.

#### Marketing and Promotion

Our service quality is the most vital factor influencing customer satisfaction and customer retention, and also enhances our brand image through word-of-mouth. Rather than funneling money into traditional advertising efforts, we primarily rely on our guests’ spontaneous word-of-mouth to attract new customers. Leveraging our leading position in the international Chinese cuisine market and Haidilao’s renowned brand image, our restaurants have attracted many celebrities to visit our restaurants, including movie directors, pop stars, and social media influencers. Their social media posts of dining at Haidilao have become one of our most effective channels to attract more guests.

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We engage with our guests, in particular through the social media accounts we operate (e.g. Facebook and Instagram). These online platforms have enabled us to spread our culture and Haidilao dining experiences to a larger audience. From time to time, our senior regional managers may also design, implement and launch marketing campaigns based on local customs and preferences. For example, we have launched marketing campaigns in Japan during cherry blossom seasons.

### AWARDS AND RECOGNITION

Year	Award/Recognition	Awarding Authority (Country)
2019	Best Company to Work For in Asia	HR Asia (Singapore)
2019	The most fashionable hot pot restaurant—Haidilao	International Dining Culture Center (Canada)
2019	Best Hot Pot Restaurant	2019 “Diner’s Choice Award” (Canada)
2020	Best Service Restaurant	2020 “Diner’s Choice Award” (Canada)
2021	Cesco Food Safety Assessment—AAA Grade	Cesco Food Safety (Korea)
2021	Best Hot Pot in Houston Area	Chinese Food Organization (United States)
2022	Charitable Public Welfare Enterprise	Malaysia Chinese Restaurant Association (Malaysia)

### PRICING

Generally, pricing of our dishes is determined by our senior regional managers based on costs and the disposable income level of the country. We adjust prices of our dishes with reference to local income levels, cost of ingredients, and guest feedback and preference data we collect from our membership system. From time to time, restaurant managers provide pricing adjustment suggestions every month, which is subject to the approval of the senior regional managers under the guidance from the headquarters.

### TECHNOLOGIES

We seek to distinguish ourselves in the restaurant industry by implementing advanced information technology to support our development. To this end, we have implemented a set of management information systems to not only enhance our guest experience but also improve the efficiency of operations. Details of our key technology applications are set forth below:

- *Automated ordering.* All orders at our restaurants are placed on tablet computers. This expedites service and enables our management to collect and analyze consumption behavior, spending and inventory data on a timely basis. This system also allows us to track ordering history and recommend dishes to members based on their consumption behavior.



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- *Automatic busser.* We have developed and applied an automatic busser equipment in our restaurants. These automatic busses can automatically deliver dishes to each table, which significantly improve our operation efficiency.
- *Immersive dining.* We opened two tech-forward restaurants in Singapore, which use architectural lighting, audio and visual technologies to create a full-sensory immersive dining experience, making guests feel like they are dining in different landscapes and time periods in history.
- *Customized flavors.* We adopted technology that would automate the preparation of soup bases and customize the depth of flavors, such as spiciness, oiliness, richness and thickness based on personal preferences. Our guests will be able to create his/her own personalized soup base. The unique choices of each guest are stored in our membership system and can be automatically ordered the next time he/she visits. Further, as some local guests have a lower tolerance for spicy food, our customized flavor technology enables them to adjust the spiciness of their Sichuan-style soup bases, making our restaurants more appealing to local guests.

### SETTLEMENT AND CASH MANAGEMENT

We accept cash and credit cards and third-party payment platform at our restaurants. During the Track Record Period, over 80% of the payments we received were made through credit cards or third party payment platforms, such as Alipay and ShopeePay.

#### Cash Settlement Measures

Our financial head within each group is primarily responsible for accounting work, such as data collection and feedback. The overall supervision is undertaken by our headquarters. We have implemented guidelines in relation to our cash management at the group level and restaurant level. To prevent misappropriation of cash, we have implemented the following measures to strengthen our cash management system:

- We reconcile cash receipts recorded in our system against cash kept at the cash register on a daily basis at our restaurants. We record and trace the source of any differences found during the reconciliation process.
- We have installed safe boxes at each restaurant, to which only a limited number of restaurant staff, including the restaurant manager, can have access to. We also have installed 24-hour surveillance systems that cover our cashier and safe area.

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- Cash received at each restaurant is deposited in designated bank accounts on the next day following the receipt of the cash. For banks that provide cash collection services, we require the personnel who collects the cash to present proper identification to us. Our restaurant staff shall open the safe and hand over the cash in the presence of the bank personnel and under surveillance cameras. We and the bank personnel shall each count the cash and complete the relevant paperwork. For banks that require our staff to deposit cash in person, we have authorized staff at each restaurant to make the deposits.
- Restaurants may only keep small amounts of petty cash to make change to guests, for disbursements and miscellaneous expenses. These exchanges are recorded and relevant receipts are reported to our finance department.
- Each restaurant conducts monthly internal financial analyses and reports these results to financial heads in each group through our OA system. If any issues or discrepancies are identified, we will immediately remedial actions.
- Our finance department at our headquarters supervises the deposit account statements and operating reports for each restaurant to monitor the sales and cash received from the restaurant.

During the Track Record Period, we did not encounter any material incidents of cash misappropriation or embezzlement.

## COMPETITION

Currently, the international Chinese cuisine restaurant market is very fragmented, with over 600,000 restaurants internationally. We ranked third among all the Chinese cuisine restaurant brands in the international market in terms of 2021 revenue. In addition, we were the largest China-originated Chinese cuisine restaurant brand in the international market in terms of 2021 revenue. We primarily compete with other chain and single-store restaurants with respect to food quality and consistency, brand reputation, price-value relationship, ambiance, service, location, supply of quality food ingredients and availability of trained employees. For details, see “Industry Overview.”

## INTELLECTUAL PROPERTY

We currently operate our restaurant network under the Haidilao (海底捞) brand. Sichuan Haidilao has registered or applied for registration of a variety of Haidilao (海底捞) trademarks, including, among other, trademarks incorporating Haidilao (海底捞) in the countries where we have operations, which has been licensed to us. For details, see “Continuing Connected Transactions—Continuing Connected Transactions—Trademark License Agreement.” As of the Latest Practicable Date, we maintained 25 trademark registrations that we consider to be material to our business in several jurisdictions, including Singapore, Thailand and the United States. In addition to trademarks, as of the Latest

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Practicable Date, we also maintained four domain name registrations which we consider to be material to our business in the countries we have operations. For more details, see “Appendix IV—General Information—B. Further Information About Our Business—2. Intellectual Property Rights.”

A number of proprietary know-how and trade secrets are also of significant importance to our operations, including the recipes for certain food ingredients and soup bases. We protect such intellectual property by relying on the protection afforded under applicable trade secret laws, implementing intellectual property management policies, installing secure information technology systems and entering into confidentiality arrangements with employees and third parties who may have access to our proprietary know-how and trade secrets. Our product development department is responsible for management of all of our recipes.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any intellectual property dispute or infringement that had a material and adverse impact on us.

### EMPLOYEES

We value our employees and believe high-quality customer service comes from happy employees. We endeavor to manage and motivate our employees through training programs, competitive compensation and a clear promotion system. As of March 31, 2022, we had a total of 7,574 full-time employees, of which 5,667 are located in Asia. The table below sets forth our full-time employees by function as of March 31, 2022.

<b>By Function</b>	<b>Number of Employees</b>
Headquarters, senior regional managers and administrative staff	316
Managerial restaurant staff	592
Kitchen staff	2,689
Guest service staff	2,312
Reception staff	407
Others <sup>(1)</sup>	1,258
<b>Total</b>	<b>7,574</b>

*Note:*

(1) Including midnight restaurant staff and restaurant staff responsible for food delivery.

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We are committed to hiring qualified candidates to support our business and operations. Our employees are primarily recruited through job fairs and internal referral. We enter into employment contracts with all of our employees and make contributions to social security or pension plans in accordance with local regulatory requirements in different countries. We provide on-board trainings and various career development trainings for our employees to familiarize them with Haidilao’s culture, philosophy and service procedure. For restaurant staff relocating to a new country, we provide dormitories as well as trainings to help them settle down. We have formed labor unions or other similar organizations, or implemented similar measures to protect our employees’ rights and encourage employees to participate in our management decisions. During the Track Record Period and up to the Latest Practicable Date, there had not been any labor strike within our Group and we did not experience any material labor dispute nor any material insurance claim related to employee injuries.

### PROPERTIES

Our Company’s headquarters are located in Singapore. As of the Latest Practicable Date, we leased 113 properties with a total GFA of over 90,000 square meters for our restaurants in countries where we currently have, or plan to open new restaurants, such as Singapore and United States. Save for certain properties we owned in Japan, we do not own any property and lease all of our properties from third parties for our restaurant sites to reduce our capital investment requirements. Currently we do not intend to acquire any property for our restaurant sites.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this listing document is exempted from compliance with the requirements of section 342(1)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which require a valuation report with respect to all our Group’s interests in land or buildings, for the reason that, as of March 31, 2022, we had no single property with a carrying amount of 15% or more of our total assets.

### INSURANCE

We maintained a number of insurance policies that are required under the applicable laws and regulations, as well as based on our assessment of our operational needs and industry practice. In line with industry practice, we have elected not to maintain certain types of insurances. Our Directors believe that our insurance coverage is adequate for our business. For details, see “Risk Factors—Risks Relating to Our Business—Our insurance policies may not cover the risks relating to our business and operations.”

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### ENVIRONMENT, SOCIAL AND CORPORATE GOVERNANCE

We are committed to building a lasting brand, and we believe our long-term success rests on our ability to make positive impact on the environment and society. Adhering to the concept of sustainable development on an ongoing basis, we have implemented and continue to improve sustainable development and ESG management by developing an ESG management mechanism involving collaborations at all levels within the Company and actively communicating with stakeholders. Accordingly, our Board is currently in the process of adopting a comprehensive policy on environmental, social and corporate governance responsibilities (the “**ESG Policy**”) in accordance with the Listing Rules, which sets forth our corporate social responsibility objectives and provides guidance on practicing corporate social responsibility in our daily operations, including (i) the appropriate risk governance on ESG matters, including climate-related risks and opportunities; (ii) identification of key stakeholders and the communication channels to engage with them; (iii) ESG governance structure; (iv) ESG strategy formation procedures; (v) ESG risk management and monitoring; and (vi) the identification of key performance indicators and mitigating measures.

#### Governance

Our Board has the collective and overall responsibility for establishing, adopting and reviewing the ESG vision, policy and target of our Group, and evaluating, determining and addressing our ESG-related risks at least once a year and are responsible for overseeing and guiding our Company’s ESG initiatives in multiple jurisdictions. Our Board may assess or engage independent third party(ies) to evaluate the ESG risks and review our existing strategy, target and internal controls. Necessary improvement will then be implemented to mitigate risks. Set forth below are the principal duties and responsibilities of our Board in respect of our ESG Policy:

- keeping abreast of the latest ESG-related laws and regulations in different countries, including the applicable sections of the Listing Rules, keeping the Board and our headquarters informed of any changes in such laws and regulations and updating our ESG Policy in accordance with the latest regulatory updates;
- identifying our key stakeholders based on our business operations and understanding such stakeholders’ influences and dependence with respect to ESG matters;
- assessing ESG-related risks on a regular basis according to applicable laws, regulations and policies, especially risks in relation to climate change, to ensure we fulfill our responsibilities with respect to ESG matters;
- monitoring the effectiveness and ensuring the implementation of our ESG Policy; and
- reporting to our management on an annual basis on the implementation of our ESG Policy and preparing the ESG report.

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During the Track Record Period and up to the Latest Practicable Date, we had not been materially and adversely impacted by any ESG-related incidents.

### ESG Initiatives

During the Track Record Period, we have taken the following environmental sustainability and social responsibility initiatives.

- *Green operation.* We continue to deepen the concept of green operation, actively promote energy conservation and consumption reduction, and pursue efficient operation. We have developed an online ordering system, online reservation and queuing system, and electronic invoice system, which not only improve operation efficiency, but also achieves the purpose of saving paper resources.
- *Energy saving.* We proactively monitor information relating to pollutant emissions to avoid energy waste. As such, we have established an air-conditioning and mechanical ventilation system to automatically determine the real-time business status of the restaurant, realize intelligent linkage control and supply the appropriate volume of fresh air. We have implemented an intelligent kitchen management system (IKMS) in certain restaurants in Singapore. The IKMS system can collect and analyze the data collected from the kitchen and offer real-time monitoring of the overall operating status, such as production, inventory and shelf life. We also plan to implement an energy management system in certain restaurants. The EMS system can collect and monitor the use of electricity in our restaurants. Through these intelligent systems, we can significantly reduce waste and save energy at our restaurants.
- *Anti-food waste project.* In most of our restaurants, we allow our guests to order half-portion dishes to promote awareness for food waste, while ensuring the diversity of food that our guests can enjoy. In addition, we also launched combo meals for individual guests according to the consumption needs for certain restaurants.
- *Offering nutritious meals.* Our broad menu allows guests to enjoy balanced meals consisting of proteins, vegetables, grains and other nutritious ingredients. In addition, we have formed product development teams to regularly introduce localized menu offerings that promotes a healthy diet.
- *Controlling usage of food additives and other chemicals.* Our suppliers are required to provide information on the use of food additives and other chemicals in their products in accordance with local laws and regulations. We also adopt strict rules for procurement, storage, inventory management and usage of food additives and other chemicals at our restaurants. Our food quality specialist conducts daily food safety inspections to ensure food quality and safety.



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We focus on embracing diversity within our organization, as well as equal and respectful treatment of all of our employees in their hiring, training, wellness, and professional and personal development. We will also continue to promote work-life balance and create a happy culture in our workplace and restaurants for all of our employees.

### LEGAL PROCEEDINGS

From time to time, we may be subject to legal proceedings, investigations and claims arising in the ordinary course of our business. During the Track Record Period and up to the Latest Practicable Date, there were no litigations, arbitrations or administrative proceedings pending or, to our knowledge, threatened against us or any of our Directors that could have a material and adverse effect on our business, financial condition or results of operations.

### COMPLIANCE, LICENSES AND PERMITS

As an international restaurant brand, we need to obtain various licenses and permits in different countries. During the Track Record Period and up to the Latest Practicable Date, we had obtained all material licenses and permits for our operations and we were in compliance in all material aspects with the applicable laws and regulations in the countries where we operate our restaurants.

### RISK MANAGEMENT AND INTERNAL CONTROL

We are exposed to various risks in our operations and have established a risk management system with relevant policies and procedures that we believe are appropriate for our business operations. For details on the major risks identified by our management, see “Risk Factors.” Our policies and procedures relate to managing our restaurant operations, procurement and food safety and quality.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the Listing, we have adopted or will continue to adopt, among other things, the following risk management measures:

- establishing an audit committee to review and supervise our financial reporting process and internal control system. Our audit committee consists of three members, namely Mr. TEO Ser Luck (張思樂), who serves as chairman of the committee, Mr. TAN Kang Uei, Anthony (陳康威) and Mr. LIEN Jown Jing Vincent (連宗正). For the qualifications and experience of these committee members, see “Directors and Senior Management;”
- adopting various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure;

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- providing anti-corruption and anti-bribery compliance training periodically to our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations, and include relevant policies against non-compliance in employee handbooks; and
- attending training session by our Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong.

We have engaged an internal control consultant to review the effectiveness of our internal controls associated with our major business processes, identify deficiencies, provide recommendations on remedial actions and review the implementation status of these remedial actions. Certain internal control matters were identified by our internal control consultant and we have adopted corresponding internal control measures to improve on these matters. We have adopted the recommendations made by the internal control consultant and our internal control consultant has completed the follow-up procedures on our internal control system with regard to those actions taken by us in June 2022 and has not identified any material deficiencies in our internal control system.