

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, (i) Mr. ZHANG Yong (through ZY NP LTD) as well as Ms. SHU Ping (through SP NP LTD) individually, and together through NP United Holding Ltd, were collectively interested in approximately 60.35% of the total issued share capital of Haidilao International; and (ii) our Company was a subsidiary of Haidilao International.

As disclosed in the section headed “The Distribution and Spin-off” in this listing document, the Haidilao International Distribution will be satisfied by way of distribution in specie to the Qualifying Haidilao International Shareholders of 90% of the issued share capital of our Company, being the entire interest held by Haidilao International immediately prior to the Spin-off and Listing, in proportion to their respective shareholdings in Haidilao International held on the Record Date, on the basis of one Share for every [REDACTED] Haidilao International Shares. As a result, immediately after the Haidilao International Distribution, (i) our Company will cease to be a subsidiary of Haidilao International; and (ii) Mr. ZHANG Yong (through ZY NP LTD) as well as Ms. SHU Ping (through SP NP LTD) individually, and together through NP United Holding Ltd, will be collectively interested in approximately [REDACTED]% of our total issued share capital. As a result, following the completion of the Spin-off and the Listing, Mr. ZHANG Yong, Ms. SHU Ping together with ZY NP LTD, SP NP LTD and NP United Holding Ltd will continue to be our Controlling Shareholders. See “History, Reorganization and Corporate Structure—Our Shareholding and Corporate Structure” for our shareholding structure immediately after the completion of the Spin-off and the Listing.

DELINEATION OF BUSINESS

Business of Our Group

We are principally engaged in the operation of restaurant business outside Greater China.

Haidilao International

Haidilao International is a globally leading Chinese restaurant brand focusing on hot pot cuisine. Upon the Spin-off and the Listing, the Retained Group will be principally engaged in the operation of restaurants in Greater China. As of March 31, 2022, the Retained Group owned and operated 1,359 restaurants in Greater China, which comprised 1,334 Haidilao restaurants and 25 restaurants under other brand names including but not limited to Madam Zhu’s Kitchen (漢舍中國菜), Shi Ba Cuan Noodle (十八畚麵館), Five Grains Three Meals (五谷三餐) and Brother Miao (苗師兄炒雞), etc. In addition, the Retained Group will also continue to be engaged in delivery business and sales of condiment products and food ingredients in Greater China.

As stated above, the Retained Group will continue to be principally engaged in the above business in Greater China (the “**Remaining Business**”), and our Group will be principally engaged in the operation of overseas restaurants located outside Greater China. Thus there is a clear geographical delineation between the Remaining Business and the business of our Group.

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Each of our Controlling Shareholders confirms that as of the Latest Practicable Date, he/she/it did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, and requires disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS AND THEIR CLOSE ASSOCIATES

Having considered the following factors, our Directors are satisfied that we are able of carrying out our business independently from our Controlling Shareholders and their close associates after the Listing.

Management Independence

Our Board comprises three executive Directors and three independent non-executive Directors. For further details, see “Directors and Senior Management”.

Save as disclosed below, our Company and the Retained Group have their respective directors and management teams independent of each other.

Name	Position in our Group following the Spin-off and the Listing	Current Management Positions in the Retained Group as of the Latest Practicable Date	Positions in the Retained Group following the Spin-off and the Listing
Mr. ZHOU Zhaocheng	Executive Director, chairman of the Board and chief executive officer	Executive director, chief strategy officer and joint company secretary ^{Note 1}	Non-executive director ^{Note 1}
Mr. WANG Jinping	Executive Director and chief operating officer	Chief operating officer (Hong Kong, Macau, Taiwan and overseas) ^{Note 2}	N/A ^{Note 2}

Notes:

- (1) Mr. ZHOU Zhaocheng is currently an executive director, chief strategy officer and joint company secretary of Haidilao International. He will cease to be the chief strategy officer and the joint company secretary and be re-designated as a non-executive director of Haidilao International upon the Spin-off and Listing.
- (2) Mr. WANG Jinping will cease to be the chief operating officer (Hong Kong, Macau, Taiwan) of Haidilao International upon the Spin-off and Listing.

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Our Directors are of the view that our Board and senior management team are able to manage our business independently from the Controlling Shareholders and their associates for the following reasons:

- (1) Upon the Listing, our executive Directors and senior management members will not hold any role as an executive director or member of senior management in any close associates of our Controlling Shareholders. There will not be any overlapping member on the board or senior management team between our Group and the Retained Group given that (i) Mr. ZHOU Zhaocheng will cease to be an executive Director, the chief strategy officer and the joint company secretary of Haidilao International and be re-designated as a non-executive director of Haidilao International upon the Spin-off, and therefore will not be involved in day-to-day management of affairs and operations of the Retained Group; and (ii) Mr. WANG Jinping will cease to be the chief operating officer (Hong Kong, Macau, Taiwan) of Haidilao International upon the Spin-off. The day-to-day management and operations of our Group will be dealt with by, among others, our management members who have been serving our Group for a long time and are familiar with our business, which will ensure that our Group's management and daily operations are independent from the Retained Group;
- (2) according to our corporate governance policies, with respect to any matters of conflict or potential conflict of interest which involve a transaction between our Company and another company or entity to which a Director holds office, such Director shall abstain from voting and shall not be counted towards the quorum for the voting. There would be sufficient quorum for the board meetings of our Company and Haidilao International if the common Directors abstain from voting due to conflict of interest;
- (3) we [have appointed] three independent non-executive Directors to provide a balance of the number of potentially interested and independent Directors with a view to promote the interests of our Company and the Shareholders as a whole. None of the independent non-executive Directors have any positions in our Controlling Shareholders and their associates and all of them can exercise independent judgement free of any conflict of interest. With one half of the six members of the Board to be independent non-executive Directors, there is a strong element in our Board which can provide independent oversight over the Board's decision-making in any situation involving a conflict of interest and thereby protect the interests of independent Shareholders. In addition, the independent non-executive Directors will be entitled to engage professional advisor(s) at our cost for advice on matters relating to any potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates;
- (4) each of our Directors is aware of his/her fiduciary duties and responsibilities under the Listing Rules as a director, which require that she/he acts in the best interests of our Company and our Shareholders as a whole;

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- (5) where a Shareholders’ meeting is held to consider a proposed transaction in which the Controlling Shareholders have a material interest, the Controlling Shareholders shall abstain from voting on the resolutions and shall not be counted towards the quorum for the voting; and
- (6) our Company has appointed Maxa Capital Limited as our compliance advisor, which will provide advice and guidance to our Group in respect of compliance with the applicable laws and Listing Rules including various requirements relating to Directors’ duties and corporate governance.

Operational Independence

We engage in our operations independently, making and implementing operational decisions independently. We are not dependent upon our Controlling Shareholders or their close associates for any material licenses and permits. In addition, we have established our internal organizational and management structure which includes Shareholders’ meetings, our Board and other committees and formulated the terms of reference of these bodies in accordance with the requirements of the applicable laws and regulations, the Listing Rules and the Articles of Association, so as to establish a regulated and effective corporate governance structure with independent departments, each with specific areas of responsibilities.

During the Track Record Period, our Group conducted certain transactions with our Controlling Shareholders’ associates on a recurring basis which are expected to continue after the Listing and will constitute continuing connected transactions of our Company under the Listing Rules. Details of each of the continuing connected transactions are set out in the section headed “Continuing Connected Transactions” in this listing document. Such transactions are entered into in the ordinary and usual course of business of our Group and our Directors confirm that the terms of such transactions are determined at arm’s length negotiations and are no less favorable to our Group than those offered by Independent Third Parties. Our Directors believe that the continuing connected transactions between our Group and our Controlling Shareholders’ associates do not indicate any undue reliance by our Group on our Controlling Shareholders and are beneficial to our Group and our Shareholders as a whole for the reasons as set out below.

Yihai

Yihai Group, principally conducts manufacturing, distribution and sale, as well as research and development, of hot pot condiment products, Chinese-style compound condiment products and convenient ready-to-eat food products. Yihai has been a supplier for our business for many years.

Pursuant to the Yihai Master Purchase Agreement, Yihai Group provides Haidilao Customized Products, Yihai Retail Products (together with the Haidilao Customized Products, the “**Flavoring Products**”) and instant self-serving products to our Group. For details, see

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“Continuing Connected Transactions—Continuing Connected Transactions—Yihai Master Purchase Agreement.” We believe that the transactions under the Yihai Master Purchase Agreement do not constitute undue reliance on Yihai Group or our Controlling Shareholders on the following grounds:

(1) *Long-standing and mutually beneficial relationship*

There has been a continued long-term, stable and mutually beneficial business relationship between our Group and Yihai Group. Yihai Group has been the internal supplier of the Flavoring Products of our Group since 2012. The mass production capabilities of Yihai Group have ensured the stable supply of products that are price competitive, of high-quality and compliant with stringent food safety standards to our Group, while the long-term and stable business relationship enables Yihai Group to grow alongside our Group’s expansion. In addition, Yihai Group has every incentive to protect the proprietary know-how and trade secrets due to the importance of our Group to its business, and the in-house research teams of both Yihai Group and our Group have been working closely to continuously upgrade and explore hot pot soup flavoring formulae. To maintain a mutually beneficial relationship is in the best interest of the shareholders of both Yihai Group and our Group.

(2) *Importance of our Group to Yihai Group’s overseas business*

The purchase amount by our Group from Yihai Group was approximately US\$6.7 million, US\$5.8 million, US\$8.6 million and US\$3.1 million for the three years ended December 31, 2021 and the three months ended March 31, 2022, respectively, representing 3.0%, 2.2%, 3.0% and 3.6% of our Group’s total purchase amount for the relevant periods. The purchase amount by our Group from Yihai Group for the three years ended December 31, 2021 also accounted for at least 15% of the total revenue of Yihai Group’s overseas business for each of the relevant years. Given the leading market place of our Group in the Chinese-cuisine sector in the overseas market and the contribution of our Group to the overseas business of Yihai Group, which reflects an important role our Group has been playing in the overseas business development of Yihai Group, the Company considers that Yihai Group has every incentive to deliver high-quality products with reasonable prices and it is unlikely that Yihai Group will intentionally cease or reduce its supply to our Group.

(3) *Sourcing from alternative suppliers*

The formulae for the Haidilao Customized Products are owned by our Group. Since the listing of Yihai on the Stock Exchange, Our Group has been identifying alternative suppliers for the Haidilao Customized Products in case the supply from Yihai Group cannot meet our requirements and demand. We have entered into agreements with certain Independent Third Party suppliers of comparable Flavoring Products, who have been added into the “Qualified Supplier List” maintained for the purpose of our business, to procure specific types of soup base product which Yihai Group is currently unable to

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manufacture. Such alternative suppliers are able to supply similar Flavoring Products of comparable quality and pricing terms as those offered by Yihai Group. As our Group owns the formulae and the raw materials for the Haidilao Customized Products can readily be sourced, the Company believes that in the unlikely event that Yihai Group ceases or is unable to supply to our Group, Our Group would be able to source from alternative suppliers the Haidilao Customized Products that meet our requirements and demand within a reasonable period of time, and the business of our Group would not be adversely affected.

Under the Yihai Master Purchase Agreement, Yihai Group is the sole supplier of the Yihai Retail Products and the instant self-serving products to us for display and sales to consumers in our restaurants. Given the revenue generated from sales of the Yihai Retail Products and the instant self-serving products is relatively insignificant to our Group, in the unlikely event that Yihai Group ceases or reduces the supply of the Yihai Retail Products and the instant self-serving products to our Group, the potential effect on our business, financial condition and results of operations would be immaterial. Therefore, we believe that it is unnecessary to secure alternative suppliers of such products.

(4) Fair and reasonable pricing terms

Under the Yihai Master Purchase Agreement, the pricing of the Haidilao Customized Products is determined by taking into account various factors such as historical sale price to our Group by Yihai Group, the estimated overall net profit margin of Yihai’s sales to third-party distributors, production cost, and the market price of similar products purchased from independent and comparable suppliers. Although there is no market price directly comparable to the prices that Yihai Group charges for the Haidilao Customized Products, the pricing terms are considered fair and reasonable and on normal commercial terms at arm’s length negotiation by both parties. The pricing of the Yihai Retail Products and instant self-serving products follows the pricing of sales to independent third party distributors by Yihai.

(5) High level of transparency and corporate governance measures

Yihai is listed on the Stock Exchange and its connected transactions with our Group may subject to the relevant requirements under the Listing Rules. The same compliance requirements are also expected to apply to our Group. As such, upon Listing, the Shareholders will be well protected as the fairness and reasonableness of the connected transactions between Yihai Group and our Group will be closely and regularly monitored by respective independent shareholders, independent non-executive directors and auditors of Yihai Group and our Group with sufficient disclosures.

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Shuyun Dongfang

Shuyun Dongfang primarily conducts the provision of decoration service business. As disclosed in the section headed “Continuing Connected Transaction—Continuing Connected Transactions—Master Decoration Project Management Service Agreement”, we have been engaging Shuyun Dongfang to provide decoration project management for the interior decoration and renovation of our restaurants. The term of the Master Decoration Project Management Service Agreement between Shuyun Dongfang and our Company will commence from the [REDACTED] and continue until December 31, 2023 (both days inclusive) and may be renewed for a further term of three years from time to time, unless our Company notifies Shuyun Dongfang to the contrary with 30 days’ written notice prior to the expiry of the term. The amounts of procurement of decoration management service by our Group from Shuyun Dongfang was US\$1.4 million, US\$2.2 million, US\$5.6 million and US\$1.1 million for the three years ended December 31, 2019, 2020 and 2021 and the three months ended March 31, 2022, respectively.

As the Company estimated that it would continue to expand in the future and the Group’s restaurant decoration execution demands will continue to exist, the Company believes that the continuous cooperation with Shuyun Dongfang could improve efficiency by running multiple projects at the same time and also enhance the quality control. Based on the long-term cooperation with the Company, Shuyun Dongfang is more familiar with the Company’s decoration needs and requirements under project management arrangement for our overseas restaurants and can tailor for the Group’s decoration demands at a stage of expansion. In light of the above, our Directors believe that the continuous procurement of such services from Shuyun Dongfang will be beneficial to our Group and is in the best interest of our Shareholders as a whole.

Given the decoration project management services can be readily sourced in the open market, and the service fee under the Master Decoration Project Management Service Agreement is determined with reference to the prevailing market rate, we can easily source such service from alternative service providers at comparable terms. As of the Latest Practicable Date, certain third party decoration management service providers have passed the supplier review process of our Group and have been added into the “Qualified Supplier List” maintained for the purpose of our business. The Company will select decoration management service providers from the “Qualified Supplier List” on a project-by-project basis and run the selection process for every single project. The selection criteria include, amongst others, the performance in recently completed projects, the quotation for the project and the current service capacity of the suppliers. While the number of decoration projects may increase with the expansion of our restaurant network, we will adhere to our supplier selection criteria to ensure fair competition between Shuyun Dongfang and other third party decoration management service providers. Thus, we believe that our procurement of decoration project management services from Shuyun Dongfang will not constitute undue reliance on Shuyun Dongfang or our Controlling Shareholders.

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Sichuan Haidilao

Sichuan Haidilao is an associate of our Controlling Shareholders. We have entered into the Trademark License Agreement with Sichuan Haidilao, pursuant to which Sichuan Haidilao agreed to grant license to our Group for the use of certain trademarks in connection with our operations in the jurisdictions where we operate or will operate on an exclusive and royalty-free basis for a perpetual term to the extent permissible under the Listing Rules, relevant laws and regulations. Considering that transfer of the relevant trademarks of all the registered classes by Sichuan Haidilao to us may incur considerable time and transactional costs and would be commercially inefficient and costly, and the Trademark License Agreement (i) are of a perpetual term to the extent permissible under the Listing Rules, relevant laws and regulations, (ii) are made on a royalty-free basis, and (iii) cannot be terminated by Sichuan Haidilao without our prior written consent, we believe that the Trademark License Agreement secures our exclusive rights to use the licensed trademarks in our operations in a cost-efficient and sustainable manner and thus adequately protects our interests.

Financial Independence

Our Group has an independent financial system. We make financial decisions according to our own business needs and neither our Controlling Shareholders nor their close associates intervene with our use of funds. We have opened accounts with banks independently and do not share any bank account with our Controlling Shareholders or their close associates. We have made tax filings and paid tax independently from our Controlling Shareholders and their close associates pursuant to applicable laws and regulations. We have been gradually establishing an independent finance department and have implemented sound and independent audit, accounting and financial management systems. We have adequate internal resources and credit profile to support our daily operations.

No loans or guarantees provided by, or granted to, our Controlling Shareholders or their respective associates will be outstanding as of the [REDACTED].

Based on the above, our Company considers there is no financial dependence on our Controlling Shareholders and their close associates.

CORPORATE GOVERNANCE MEASURES

Save as disclosed in the section headed “Directors and Senior Management—Corporate Governance—Chairman of the Board and Chief Executive Officer” in this listing document, our Company will comply with the provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules, which sets out principles of good corporate governance.

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Each of our Controlling Shareholders has confirmed that he/she/it fully comprehends his/her/its obligations to act as our Shareholders’ and our best interests as a whole. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (a) where a Board meeting or Shareholders’ meeting is to be held for considering proposed transactions in which any of our Director or Controlling Shareholder or any of their respective close associates has a material interest, the relevant Director or Controlling Shareholder will not vote on the relevant resolutions;
- (b) our Company has established internal control mechanisms to identify connected transactions. Upon the Listing, if our Company enters into connected transactions with our Controlling Shareholders or any of his associates, our Company will comply with the applicable Listing Rules;
- (c) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between the Group and our Controlling Shareholders (the “**Annual Review**”) and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (d) our Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review;
- (e) our Company will disclose decisions on matters reviewed by the independent non-executive Directors either in its annual reports or by way of announcements;
- (f) where our Directors reasonably request the advice of independent professionals, such as financial advisor, the appointment of such independent professionals will be made at our Company’s expenses; and
- (g) we have appointed Maxa Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority Shareholders’ interests after the Listing.