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## CONTINUING CONNECTED TRANSACTIONS

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### OVERVIEW

We will continue to engage in certain transactions with our connected persons upon Listing. These transactions will constitute our continuing connected transactions under Chapter 14A of the Listing Rules.

### RELEVANT CONNECTED PERSONS

The following entities with whom we have entered into transactions will be regarded as our connected persons under the Listing Rules:

<u>Connected Persons</u>	<u>Connected Relationship</u>
Sichuan Haidilao	Sichuan Haidilao is a company established in the PRC and was directly held as to 33.5% by Mr. ZHANG Yong and Ms. SHU Ping and 50% by Jianyang Jingyuan Investment Co., Ltd. (簡陽市靜遠投資有限公司) (which was in turn held as to 68% by Mr. ZHANG Yong and Ms. SHU Ping) as of the Latest Practicable Date.
Yihai	Yihai is a company incorporated under the laws of the Cayman Islands with limited liability on October 18, 2013 whose shares are listed on the Main Board of the Stock Exchange (stock code: 1579). As of the Latest Practicable Date, Yihai was held as to approximately 31.13% in aggregate, directly and indirectly, by Mr. ZHANG Yong and Ms. SHU Ping.
Shuyun Dongfang	Shuyun Dongfang is a company established in the PRC on May 10, 2006, which was owned as to 80% by Mr. ZHANG Shuyi (張碩軼), the brother of Mr. ZHANG Yong, as of the Latest Practicable Date.

## CONTINUING CONNECTED TRANSACTIONS

### CONTINUING CONNECTED TRANSACTIONS

The following table sets forth a summary of our continuing connected transactions:

<u>Transaction</u>	<u>Applicable Listing Rules</u>	<u>Waiver Sought</u>	<b>Proposed Annual Caps for the years ended December 31,</b>	
			<u>2022</u>	<u>2023</u>
<i>(US\$ in thousands)</i>				
Trademark License Agreement	14A.52, 14A.76(1)(a)	Waiver from limiting the period of agreement to a fixed term not exceeding three years	N/A	N/A
Master Decoration Project Management Service Agreement	14A.34 to 14A.35, 14A.49, 14A.51 to 14A.59 and 14A.71	Waiver from announcement requirement	4,266	3,321
Yihai Master Purchase Agreement	14A.34 to 14A.36, 14A.49, 14A.51 to 14A.59 and 14A.71	Waiver from announcement, circular and independent Shareholders’ approval requirements	16,755	22,866

#### **Trademark License Agreement**

Sichuan Haidilao and the Company (for itself and on behalf of its subsidiaries) entered into the Trademark License Agreement on [●], 2022, pursuant to which Sichuan Haidilao agreed to license certain trademarks which have been or are being registered by Sichuan Haidilao in certain jurisdictions for our use in connection with our operations (the “**Licensed Trademarks**”) on an exclusive and royalty-free basis for a perpetual term to the extent permissible under the Listing Rules, relevant laws and regulations.

As the license of the trademarks by Sichuan Haidilao to our Group is on a royalty-free basis, each of the applicable percentage ratios (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will not exceed 0.1% on an annual basis. Accordingly, the transactions under the Trademark License Agreement fall within the de minimis threshold under Rule 14A.76(1)(a) of the Listing Rules and are exempt from the annual review, reporting, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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## CONTINUING CONNECTED TRANSACTIONS

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Under Rule 14A.52 of the Listing Rules, the period of an agreement for a continuing connected transaction must be fixed and must not exceed three years. However, the Trademark License Agreement has a perpetual term to the extent permissible under the Listing Rules, relevant laws and regulations. We have applied for, and the Stock Exchange [has granted], a waiver from strict compliance with Rule 14A.52 of the Listing Rules such that the term of the License Agreement can be of a perpetual term based on the grounds that (a) the Trademark License Agreement is on a royalty-free basis and allows our Group to use the Licensed Trademarks during the daily restaurant operations, which is long term in nature. Imposing a restriction on the term of the Trademark License Agreement for a period of three years would deviate from the market prevailing practice and be contrary to the business intention of the parties; (b) such a perpetual term of cooperation is in the interest of our Company and the Shareholders as a whole; and (c) Sichuan Haidilao cannot terminate the Trademark License Agreement without obtaining prior written consent from our Group within a prescribed period of time. Our Directors are of the view that, it is reasonable for the Trademark License Agreement to be entered into for a perpetual term, and it is normal business practice for agreements of this type to be of such duration.

### **Master Decoration Project Management Service Agreement**

Our Company and Shuyun Dongfang, each for itself and on behalf of its respective subsidiaries, entered into the Master Decoration Project Management Service Agreement on [●], 2022, pursuant to which Shuyun Dongfang agreed to provide decoration project management and related services, including but not limited to, selecting and supervising the design and construction subcontractors, to our Group in connection with the interior decoration and renovation of our restaurants.

#### ***Principal Terms***

The term of Master Decoration Project Management Service Agreement will commence from the [REDACTED] and continue until December 31, 2023 (both days inclusive). Subject to compliance with Listing Rules and applicable laws and regulations, the Master Decoration Project Management Service Agreement 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. Upon renewal of the Master Decoration Project Management Service Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

#### ***Pricing Policy***

The management service fee will be determined based on the quality of the decoration services according to a fixed service fee schedule as agreed by both parties with reference to the prevailing market rate of such decoration project management service.

## CONTINUING CONNECTED TRANSACTIONS

### *Reasons for the Transaction*

Shuyun Dongfang primarily conducts the provision of decoration service business. We have been engaging Shuyun Dongfang to provide decoration project management for the interior decoration and renovation of our restaurants since 2012. Due to our long-term and stable business relationship, Shuyun Dongfang has been very familiar with our requirements of decoration projects and has been providing satisfying project management services in a timely and cost-efficient manner.

As our Group estimated that we would continue to expand in the future and the restaurant decoration execution demands will continue to exist, we believe 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 our Group, Shuyun Dongfang is more familiar with the decoration needs and requirements under project management arrangement for our overseas restaurants and can tailor for the decoration demands at a stage of expansion. In light of the above, the Directors are of the view that the continuous procurement of such services from Shuyun Dongfang will be beneficial to our Group and is in the best interest of Shareholders as a whole. For details, see “Relationship with our Controlling Shareholders—Independence From Our Controlling Shareholders and Their Close Associates—Operational Independence—Shuyun Dongfang.”

### *Historical Amounts*

The following table sets forth the historical amounts of procurement of decoration management service by our Group from Shuyun Dongfang for the three years ended December 31, 2021 and the three months ended March 31, 2022:

<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>
<i>(US\$ in thousands)</i>			
1,412	2,172	5,576	1,135

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## CONTINUING CONNECTED TRANSACTIONS

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### *Annual Caps*

The following table sets forth the proposed annual caps for the decoration project management service fees under the Master Decoration Project Management Service Agreement:

<b>Proposed annual cap for the year ending December 31,</b>	
<b>2022</b>	<b>2023</b>
<i>(US\$ in thousands)</i>	
4,266	3,321

The proposed annual caps have been estimated based on the following factors:

- (1) the decoration project management service fee rate agreed by Shuyun Dongfang and us and the expected fluctuation in the rate; and
- (2) the anticipated expansion of our restaurant network, specifically, the estimated number of new hot pot restaurants we plan to open and decorate and the estimated number of existing hot pot restaurants we plan to renovate; and
- (3) the past experience of the Group in restaurant decoration projects and the major terms and payment schedule for the project management services agreed by Shuyun Dongfang and us; and
- (4) the historical transaction amounts with Shuyun Dongfang under the transaction arrangement and the service capacity of Shuyun Dongfang in providing project management services.

### *Listing Rules Implications*

As of the Latest Practicable Date, Mr. ZHANG Shuoyi (張碩軼) is the director of Shuyun Dongfang and owns 80% of the equity interests in Shuyun Dongfang. Mr. ZHANG Shuoyi is the brother of Mr. ZHANG Yong, our Controlling Shareholder. Therefore, Shuyun Dongfang is an associate of Mr. ZHANG Yong and a connected person of the Company, and the transactions under the Master Decoration Project Management Service Agreement constitute continuing connected transactions of the Company under the Listing Rules. Since the highest of all applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the proposed annual caps of the Master Decoration Project Management Service Agreement will be more than HK\$3 million but not exceed 5%, the transactions under the Master Decoration Project Management Service Agreement are exempt from the circular (including independent financial advice) and Shareholders' approval requirements but are subject to the announcement and reporting requirements under Chapter 14A of the Listing Rules.

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## CONTINUING CONNECTED TRANSACTIONS

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### Yihai Master Purchase Agreement

On [●], 2022, Yihai and our Company, each for itself and on behalf of its subsidiaries, entered into the Yihai Master Purchase Agreement, pursuant to which our Group agreed to purchase Haidilao Customized Products, Yihai Retail Products and instant self-serving products from Yihai Group.

#### *Principal Terms*

The term of the Yihai Master Purchase Agreement will commence from the [REDACTED] and continue until December 31, 2023 (both days inclusive). Subject to compliance with applicable laws and regulations (including but not limited to the Listing Rules) and requirements of securities regulatory authorities, the Yihai Master Purchase Agreement may be automatically renewed for a further term of three years from time to time, unless: (i) the parties agree in writing to terminate the Yihai Master Purchase Agreement during its term; or (ii) the Yihai Master Purchase Agreement is terminated as required by applicable laws, regulations, requirements of the securities regulatory authorities, or judgment or decision of any competent court. Upon renewal of the Yihai Master Purchase Agreement, the parties may amend the terms of the Yihai Master Purchase Agreement based on the then prevailing circumstances.

#### *(1) Purchase of Haidilao Customized Products*

During the term of the Yihai Master Purchase Agreement, Yihai Group is the supplier of Haidilao Customized Products for use in our hot pot restaurants outside Greater China. In the event that Yihai Group is unable to satisfy the quantity or quality of products demanded by our Group, and such problem is not resolved within a reasonable period of time after negotiation between both parties, we may engage third party suppliers.

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

We own the proprietary rights to the formulas of Haidilao Customized Products (the “**Condiments Formulae**”) and license the Condiments Formulae to Yihai Group and its contract manufacturers to use for production on a royalty-free basis. Yihai Group are required to, and shall use reasonable efforts to procure its contract manufacturers to: (i) keep confidential the Condiments Formulae, and (ii) unless we have given written consent, refrain from selling products that use these formulae to any of our major competitors.

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## CONTINUING CONNECTED TRANSACTIONS

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For any upgrades and developments in the Condiments Formulae made through the joint efforts of Yihai Group and us, we will own the proprietary rights and Yihai Group and its contract manufacturers will be entitled to use such upgraded formulae for production of Haidilao Customized Products. In relation to the purchase of products which will be produced with such upgraded formulae, and in accordance with the Yihai Master Purchase Agreement, a supplemental agreement will be entered into by the parties to confirm that the upgraded formulae are a result of joint efforts of Yihai Group and us.

For any upgrades and developments in Condiments Formulae made through Yihai Group's own efforts, Yihai Group will own the proprietary rights of such upgraded formulae unless otherwise agreed between the parties. If Yihai Group agrees to supply any product which will be produced with such upgraded formulae to us, in accordance with the Yihai Master Purchase Agreement, a supplemental agreement will be entered into by the parties to confirm that the upgraded formulae are a result of Yihai Group's efforts and to confirm the usage of such upgraded formulae.

### *(2) Purchase of Yihai Retail Products*

During the term of the Yihai Master Purchase Agreement, Yihai Group is the sole supplier of the Yihai Retail Products to us for display and sales to consumers in our hot pot restaurants. Yihai Retail Products are manufactured with Yihai Group's formulas.

Purchase of Yihai Retail Products will be made on the basis of individual orders specifying the type of product, purchase volume, delivery date and etc. The price of the Yihai Retail Products shall be determined based on the pricing policy as set out below, and a price list for the Yihai Retail Products by cities shall be provided to us semi-annually. Payment will be made on a monthly basis, following the delivery of products and Yihai Group's issuance of delivery invoices.

### *(3) Purchase of instant self-serving products*

During the term of the Yihai Master Purchase Agreement, Yihai Group is the sole supplier of the instant self-serving products to us for display and sales to customers in our hot pot restaurants.

Purchase of instant self-serving products will be made on the basis of individual orders specifying the type of product, purchase volume, delivery date and etc. The price of the instant self-serving products shall be determined based on the pricing policy as set out below. Payment will be made on a monthly basis, following the delivery of products and Yihai Group's issuance of delivery invoices.

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## CONTINUING CONNECTED TRANSACTIONS

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### *Pricing Policy*

The prices of Haidilao Customized Products, Yihai Retail Products and instant self-serving products shall be determined by the parties with reference to a number of factors, details of which are further disclosed below.

#### *(1) Purchase of Haidilao Customized Products*

The purchase price of Haidilao Customized Products shall be determined by the parties at arm’s length negotiations with reference to (i) historical purchase price, (ii) Yihai Group’s production cost, including the cost of raw materials, selling and administrative expenses, incurred in connection with the production of Haidilao Customized Products, (iii) Yihai Group’s estimated overall net profit margin through sales to its Independent Third Party distributors, and (iv) the market price of similar products purchased from independent and comparable suppliers.

#### *(2) Purchase of Yihai Retail Products*

The purchase price of Yihai Retail Products shall be consistent with the pricing policy for similar products Yihai Group offers to its Independent Third Party distributors and shall be determined by the parties at arm’s length negotiations with reference to (i) the relevant costs and expenses, and (ii) the prevailing market price of similar products.

To ensure that the purchase price of Yihai Retail Products is consistent with the pricing policy for similar products offered by Yihai Group to its independent third party distributors, our Group and Yihai Group will explicitly agree on such pricing policy in the relevant purchase agreements. In addition, our Group has adopted comprehensive internal control measures to monitor the enforcement of the purchase agreements.

#### *(3) Purchase of instant self-serving products*

The price of instant self-serving products shall be determined by the parties after arm’s length negotiations with reference to (i) the relevant costs and expenses, and (ii) the prevailing market price of similar products Yihai Group offers to its independent third parties.

### *Reasons for the Transaction*

Yihai Group is a leading compound condiment manufacturer, and has been the supplier of flavoring products for our Group for a long time. Our long-term, stable and mutually beneficial business relationship with Yihai Group and its mass production capabilities have contributed to our successful growth and expansion and we believe the maintenance of the mutually beneficial relationship is in the best interest of our Shareholders as a whole. For details, see “Relationship with Our Controlling Shareholders—Independence from Our Controlling Shareholders and their Close Associate—Operational Independence—Yihai.”



**CONTINUING CONNECTED TRANSACTIONS**

*Historical Amounts*

The following table sets forth the historical amounts of our purchase from Yihai Group for the three years ended December 31, 2021 and the three months ended March 31, 2022.

<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>
<i>(US\$ in thousands)</i>			
6,728	5,794	8,582	3,062

*Annual Caps*

The following table sets forth the proposed annual caps for the purchase under the Yihai Master Purchase Agreement:

<b>Proposed annual cap for the year ending December 31,</b>	
<b>2022</b>	<b>2023</b>
<i>(US\$ in thousands)</i>	
16,755	22,866

The proposed annual caps for Haidilao Customized Products and Yihai Retail Products have been estimated based on the following factors:

- (1) the historical transaction amounts with the Yihai Group;
- (2) the estimated increase in demand for Haidilao Customized Products and sales volume of Yihai Retail Products as a result of the anticipated expansion of our restaurant network;
- (3) the supply capacity of the Yihai Group; and
- (4) the growth of the catering industry.

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## CONTINUING CONNECTED TRANSACTIONS

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The proposed annual caps for instant self-serving products have been estimated based on the following factors:

- (1) the historical transaction amounts with the Yihai Group;
- (2) the estimated increase in sales volume of instant self-serving products as a result of the anticipated expansion of our restaurant network; and
- (3) the strong growth and extensive market potential of the catering industry and the market of the instant self-serving products.

### *Listing Rules Implications*

As of the Latest Practicable Date, Yihai was held as to approximately 31.13% in aggregate, directly and indirectly, by Mr. ZHANG Yong and Ms. SHU Ping. Therefore, Yihai is an associate of Mr. ZHANG Yong and Ms. SHU Ping and thus a connected person of the Company. The transactions under the Yihai Master Purchase Agreement constitute continuing connected transactions of the Company under the Listing Rules. Since the highest of all applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the proposed annual caps of the Yihai Master Purchase Agreement will exceed 5%, the transactions under the Yihai Master Purchase Agreement shall be subject to annual review, reporting, announcement, circular (including independent financial advice) and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **WAIVER APPLICATION FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

By virtue of Rule 14A.76(2) of the Listing Rules, the transactions under the Master Decoration Project Management Service Agreement will constitute continuing connected transactions which are subject to reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules, and the transactions under the Yihai Master Purchase Agreement will constitute continuing connected transactions subject to reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the above non-exempt continuing connected transactions are expected to continue on a recurring and continuing basis, our Directors consider that compliance with the above announcement and/or independent shareholders' approval requirements would be impractical, would add unnecessary administrative costs to us and would be unduly burdensome to us.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has [granted], a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement requirements and/or independent shareholders' approval in respect of the above non-exempt continuing connected transactions. In addition, we confirm that we will comply with the Listing Rules in relation to the discloseable and non-exempt continuing connected transactions.

## **CONTINUING CONNECTED TRANSACTIONS**

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In addition, we have applied for, and the Stock Exchange has [granted], a waiver from strict compliance with the requirement under Rule 14A.52 of the Listing Rules such that the term of the Trademark License Agreement can be of a perpetual term.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this listing document, our Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

### **CONFIRMATION FROM OUR DIRECTORS**

Our Directors (including our independent non-executive Directors) are of the view that (i) the continuing connected transactions as set out above have been and will be entered into during our ordinary and usual course of business on normal commercial terms or terms better to us, and are fair and reasonable and in the interest of us and our Shareholders as a whole; and (ii) the proposed annual caps, where applicable, for these transactions are fair and reasonable and in the interest of us and our Shareholders as a whole.

### **CONFIRMATION FROM THE JOINT SPONSORS**

Having considered the above, the Joint Sponsors are of the view that the aforesaid non-exempt continuing connected transactions have been entered into in the ordinary and usual course of business of the Company on normal commercial terms or terms better to us which are fair and reasonable, and in the interests of the Company and the Shareholders as a whole, and the proposed annual caps in respect of non-exempt continuing connected transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.