
CONTINUING CONNECTED TRANSACTIONS

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 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), 25.50% by Mr. ZHANG Yong, 8.00% by Ms. SHU Ping, 8.00% by Mr. Sean SHI, 8.00% by Ms. Hailey LEE, 0.20% by Ms. June Yang Lijuan (楊利娟), 0.10% by Mr. Gou Yiqun (苟軼群), 0.10% by Mr. Yuan Huaqiang (袁華強), 0.06% by Mr. Chen Yong (陳勇) and 0.04% by Mr. Yang Bin (楊賓) as of the Latest Practicable Date. Except for Mr. ZHANG Yong and Ms. SHU Ping, the other individual shareholders of Sichuan Haidilao are Independent Third Parties.
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. Mr. Sean SHI and Ms. SHU Ping are executive directors of Yihai and Mr. ZHANG Yong is a non-executive director of Yihai.
Shuyun Dongfang	Shuyun Dongfang is a company established in the PRC on May 10, 2006, which was owned as to 80% by Mr. ZHANG Shuoyi (張碩軼) and 20.00% by his spouse, Ms. Wang Dongyu (王東煜), as of the Latest Practicable Date. Mr. ZHANG Shuoyi is the brother of Mr. ZHANG Yong.

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>	Proposed Annual Caps for the years ended December 31,	
			<u>2022</u>	<u>2023</u>
<i>(US\$ in thousands)</i>				
Exempt continuing connected transactions				
Trademark License Agreement	14A.76(1)(a)	N/A	N/A	N/A
Non-exempt continuing connected transactions				
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

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Trademark License Agreement

Sichuan Haidilao and the Company (for itself and on behalf of its subsidiaries) entered into the Trademark License Agreement on [REDACTED], pursuant to which Sichuan Haidilao agreed to license certain trademarks which have been or are being registered by Sichuan Haidilao in certain jurisdictions⁽¹⁾ 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.

(1) Including Singapore, Indonesia, New Zealand, Japan, EU, Thailand, Australia, Switzerland, the U.S., the United Kingdom, Philippines, UAE, South Korea, Malaysia, Canada, Cambodia and Vietnam, covering all the countries where we have operations.

CONTINUING CONNECTED TRANSACTIONS

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.

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, except in cases where the nature of the transaction requires the agreement to be a duration longer than three years. However, the Trademark License Agreement has a perpetual term to the extent permissible under the Listing Rules, relevant laws and regulations. Our Directors are of the view, and the Joint Sponsors concur, that, the Trademark License Agreement was entered into on normal commercial terms and a longer duration of the agreement will avoid any unnecessary business interruptions and help ensure the long-term stable business development, and it is normal business practice for agreements of this type to be of such duration.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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 [REDACTED], 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, and provision of procurement services 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 (including but not limited to Chapter 14A of the Listing Rules at the time of renewal) 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 subject to the compliance with the requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

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. We will compare the quotation offered by Shuyun Dongfang with at least two other Independent Third Party suppliers on our “Qualified Supplier List” to determine if the price offered by Shuyun Dongfang is fair and reasonable on a project-by-project basis.

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. Given Shuyun Dongfang has a proven record and well-established business around the world and is familiar with our requirements, it will be beneficial to our Company to engage Shuyun Dongfang to provide the decoration management services when we enter into a new market so as to improve efficiency and enhance quality control. 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 six months ended June 30, 2022:

For the Year Ended December 31,			For the Six Months Ended June 30,
2019	2020	2021	2022
<i>(US\$ in thousands)</i>			
1,412	2,172	5,576	2,765

CONTINUING CONNECTED TRANSACTIONS

The transaction amount for the year ended December 31, 2021 increased significantly from that for the year ended December 31, 2020 mainly because (1) 24 out of the 36 new restaurants in 2020 actually opened in the second half of 2020 (in particular, 16 out of the 36 opened in the fourth quarter of 2020) and an aggregate of approximately US\$1 million service fees for the decoration and management service provided by Shuyun Dongfang were paid in 2021 according to the payment milestone agreed between the parties; (2) decoration management service cost per restaurant was increased due to the inflation under the current economic conditions; and (3) an additional fee of approximately US\$1 million was incurred as we engaged Shuyun Dongfang to provide procurement services (the “**Procurement Service Fee**”) for certain construction and decoration materials and furnitures used for our restaurants given Shuyun Dongfang offers more favorable pricing, payment, storage terms as compared to those offered by other trading companies and this arrangement lifts the Company’s burden in managing and dealing with various suppliers and is cost efficient to the Company as a whole.

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:

Proposed annual cap for the year ending December 31,	
2022	2023
<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;
- (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. As of the Latest Practicable Date, we had opened 14 new restaurants and expect three or four more restaurants will be opened by 2022. Based on our current market analysis, our planned total number of new restaurants in 2023 is expected to be in the high teens to low twenties, mainly targeting geographically within existing markets and also in new geographic regions, such as Dubai and the Philippines. The expansion plan will be adjusted on an ongoing basis considering a number of factors, including market conditions, local business environments and the evolving COVID-19 pandemic;

CONTINUING CONNECTED TRANSACTIONS

- (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 (including the payment made for the restaurants opened in the preceding year);
- (4) the historical transaction amounts with Shuyun Dongfang under the transaction arrangement and the service capacity of Shuyun Dongfang in providing project management services;
- (5) the Group’s plan to engage Shuyun Dongfang to provide procurement services for certain construction and decoration materials and furnitures used for our restaurants; and
- (6) the Group’s plan to procure more independent local project management and/or construction companies that meet our requirements to engage in such services so as to diversify our suppliers base.

The proposed annual cap for the year ending December 31, 2022 is expected to include (1) the service fee of approximately US\$1.0 million payable to Shuyun Dongfang for 10 restaurants opened in 2022; (2) the milestone service fee payment of approximately US\$0.5 million payable to Shuyun Dongfang for 6 restaurants opened in late 2021; and (3) the Procurement Service Fee of approximately US\$2.7 million. The increase of the Procurement Service Fee for the year ending December 31, 2022 as compared to that for the year ended December 31, 2021 was mainly because the Company engaged Shuyun Dongfang to provide more procurement services for the construction and decoration materials and services given Shuyun Dongfang offers more favorable pricing, payment, storage terms as compared to those offered by other trading companies and this arrangement lifts the Company’s burden in managing and dealing with various suppliers and is cost efficient to the Company as a whole.

The proposed annual cap for the year ending December 31, 2023 is expected to include substantially consistent payment items while the total amount of the annual cap will potentially decrease given the Company plans to engage more local independent suppliers.

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

CONTINUING CONNECTED TRANSACTIONS

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.

Yihai Master Purchase Agreement

On [REDACTED], 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 Chapter 14A of the Listing Rules at the time of renewal) and requirements of securities regulatory authorities, the Yihai Master Purchase Agreement may be 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 subject to the compliance with the requirements under Chapter 14A of the Listing Rules.

(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.

CONTINUING CONNECTED TRANSACTIONS

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.

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. Payment will be made on a regular 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.

CONTINUING CONNECTED TRANSACTIONS

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 regular basis, following the delivery of products and Yihai Group’s issuance of delivery invoices.

Pricing Policy

Based on the annual reports of Yihai for the three years ended December 31, 2021 and the interim report for the six months ended June 30, 2022 published on the website of the Stock Exchange, for the three years ended December 31, 2021 and the six months ended June 30, 2022, the gross profit margin of Yihai Group was approximately 38.3%, 39.0%, 32.4% and 28.5%, respectively. The decrease in gross profit margin from 39.0% for the year of 2020 to 32.4% for the year of 2021 and to 28.5% for the first six months of 2022 was mainly due to a rise in the prices of main raw materials and an increase in sales revenue from sales with lower profit margin. The net profit margin of Yihai Group during the same periods is 18.6%, 18.3%, 14.4% and 11.0%, respectively. The decrease in net profit margin from 18.3% for the year of 2020 to 14.4% for the year of 2021 was mainly due to the decline in gross profit margin and the increase in distribution expenses and the decrease to 11.0% for the six months ended June 30, 2022 was mainly due to the decline in gross profit margin.

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.

CONTINUING CONNECTED TRANSACTIONS

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.

Based on the quotations obtained by the Company, the fee charged by Yihai for its Haidilao Customized Products, Yihai Retail Products and instant self-serving products will not be more than the fee charged by other Independent Third Party suppliers for providing the same/similar products.

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.”

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 six months ended June 30, 2022.

For the Year Ended December 31,			For the Six Months Ended June 30,
2019	2020	2021	2022
<i>(US\$ in thousands)</i>			
6,728	5,794	8,582	6,417

CONTINUING CONNECTED TRANSACTIONS

Annual Caps

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

Proposed annual cap for the year ending December 31,	
2022	2023
<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 expected increase in the price of the Haidilao Customized Products and Yihai Retail Products due to the fluctuation in raw material costs and delivery costs;
- (3) the estimated increase in demand for Haidilao Customized Products and sales volume of Yihai Retail Products as a result of the recovery of the restaurant business in 2022 as the COVID-19 pandemic gradually came under control, the anticipated expansion of our restaurant network and our reserve plan due to the expected increase in the price of the Haidilao Customized Products and Yihai Retail Products;
- (4) the supply capacity of the Yihai Group; and
- (5) the growth of the catering industry.

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 expected increase in the price of instant self-serving products due to the fluctuation in raw material costs and delivery costs;
- (3) the estimated increase in sales volume of instant self-serving products as a result of the recovery of the restaurant business in 2022 as the COVID-19 pandemic gradually came under control, the anticipated expansion of our restaurant network and our reserve plan due to the expected increase in the price of the instant self-serving products;
- (4) the strong growth and extensive market potential of the catering industry and the market of the instant self-serving products.

CONTINUING CONNECTED TRANSACTIONS

The proposed annual cap for the Yihai Master Purchase Agreement for the year ending December 31, 2022 shows an approximately 95% increase as compared to that for the year ended December 31, 2021. Such increase is mainly attributable to (i) the increase in the price of the products due to the fluctuation in raw material costs and delivery costs; and (ii) the estimated increase in demand for the products under the agreement, which is consistent with the recovery of the restaurant business in 2022 as the COVID-19 pandemic gradually came under control as well as the business expansion and our Group’s reserve plan due to the expected increase in the price of the products, which is in line with the increase of price quoted by the other suppliers of the Group. To be specific, the revenue from restaurant operations increased significantly by 88.7% from US\$127.1 million for the six months ended June 30, 2021 to US\$239.8 million for the six months ended June 30, 2022, mainly because (i) many local governments have eased restrictive measures for COVID-19, resulting in a significant increase in guest visits and table turnover rate at our restaurants; and (ii) our restaurant network expansion and overall business growth in 2021. Further, according to the audited financial statements of the Company for the six months ended June 30, 2022 and the unaudited management accounts of the Company for the nine months ended September 30, 2022, the purchase amount of the Group under the Yihai Master Purchase Agreement has exceeded US\$6.4 million and US\$9.6 million for the first half and the three quarters of 2022, respectively. Therefore, considering the robust business recovery since 2022 and the incurred historical transaction amount, we believe the proposed annual cap estimated for the year ending December 31, 2022 is fair and reasonable.

The proposed annual cap for the Yihai Master Purchase Agreement for the year ending December 31, 2023 shows an approximately 36% estimated increase as compared to that for the year ending December 31, 2022, which is mainly attributable to the increasing demands of the relevant products under the Yihai Master Purchase Agreement arising out of the potential improvement of performance of the existing restaurants in the post-pandemic period, the furtherance of the restaurant network expansion and overall business growth in 2022 and 2023 and our reserve plan due to the expected increase in the price of the relevant 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.

CONTINUING CONNECTED TRANSACTIONS

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.

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.

INTERNAL CONTROL MEASURES

Our Group has a comprehensive internal control system to ensure that the above continuing connected transactions and the transactions contemplated thereunder and the proposed annual caps are fair and reasonable, and the transactions contemplated thereunder are conducted on normal commercial terms or better and in the ordinary course of business of our Group, and in the interests of the Company and the Shareholders as a whole. Relevant internal control measures include:

- (i) Our Company has designated a team of senior management from business operation, legal, risk control and finance departments and Board office to monitor the continuing connected transactions and ensure that the continuing connected transactions with the abovementioned connected persons are on arm's length basis and that the annual caps are not exceeded. Such team of senior management continuously traces and regularly monitors the progress of the continuing connected transactions and reports to the management of the Company;

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- (ii) The team of senior management and the internal control department of the Group organizes and runs internal control tests regularly to evaluate the completeness and effectiveness of the internal control measures in relation to continuing connected transactions;
- (iii) Our Company has set up a specialized team of experienced employees specializing in restaurant management and operation to assess, among others, the professional qualifications, team size, capabilities and historical experience of the product and/or service providers based on our business needs. In addition, to avoid potential conflict of interest and ensure fairness of the assessment, members in the aforesaid specialized team cannot be the key contact persons reaching out to the relevant product and/or service providers. As of the Latest Practicable Date, Yihai and Shuyun Dongfang, have passed the supplier review process of our Group and have been added into the “Qualified Supplier List” maintained by our Group;
- (iv) The legal department of the Group is responsible for identifying connected persons of the Group from new customers or suppliers on a regular basis and updating the connected persons list. The finance department of the Group would monitor on an on-going basis the actual transaction amounts with the connected persons to ensure that such amounts do not exceed the relevant annual caps;
- (v) Before conducting any transactions contemplated under, or entering into any sub-contract pursuant to, an agreement for continuing connected transactions, the legal department and finance department of the Group would review the terms of the proposed transactions and the draft sub-contracts to ensure that the transactions would be conducted in accordance with the terms of the agreement and in accordance with the Company’s pricing policy;
- (vi) The procurement department of the Company will conduct regular checks on the market price for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the pricing basis for the relevant continuing connected transactions. The procurement team will from time to time (on a regular basis and/or prior to price negotiation) gather market intelligence by way of research and investigation to ascertain the quality of the products compared to similar products/services in the market and the reference price of each type of the products/services in the market;
- (vii) Upon the Listing, the team of senior management of the Group will collect and review continuing connected transactions each month in order to guarantee that (a) the connected parties have fulfilled the terms of the agreements in relation to continuing connected transactions during the relevant month; and (b) the actual transaction amounts incurred and estimated to be incurred between the Company and the connected parties are within the annual caps;

CONTINUING CONNECTED TRANSACTIONS

- (viii) The Board conducts annual review on the implementation of continuing connected transactions and conducts review of financial statements which include the disclosure of continuing connected transactions semi-annually. The review mainly includes a review on whether the Group and the connected parties have fulfilled the terms of the agreements in relation to continuing connected transactions during the relevant year or semi-annually and whether the actual transaction amounts incurred between the Group and the connected persons are within the annual caps;
- (ix) The independent non-executive Directors conduct annual review of continuing connected transactions and provide annual confirmations in the Company’s annual report on whether the continuing connected transactions are conducted (a) in the Group’s ordinary course of business; (b) in accordance with normal commercial terms or better and on terms that are fair and reasonable; (c) in accordance with the terms of the relevant agreements; and (d) in the interests of the Company and the Shareholders as a whole;
- (x) The audit committee of the Company conducts review of the annual financial statements, annual report, interim financial statements and interim report which include the disclosure and analysis of the implementation of continuing connected transactions and opine on continuing connected transactions as disclosed in such financial statements and reports, including whether the terms of the continuing connected transactions are fair and reasonable and whether the transaction amounts are within the relevant annual caps; and
- (xi) To assist the Company in complying with the applicable rules listed in chapter 14A of the Listing Rules, the external auditor of the Company performs work in accordance with the regulations in the “Hong Kong Standard on Assurance Engagements 3000 – “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to the “Practice Note 740 – Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants, on the Company’s continuing connected transactions and issue a letter in respect of the continuing connected transactions disclosed in the Company’s annual report in accordance with the applicable accounting standards and the Listing Rules.

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.

CONTINUING CONNECTED TRANSACTIONS

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.