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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

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**H Aidilao INTERNATIONAL HOLDING LTD.**

**海底捞国际控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 6862)**

**(1) NEW CONTINUING CONNECTED TRANSACTIONS AND  
PROPOSED RENEWAL OF ANNUAL CAPS UNDER THE SHUYUN  
DONGFANG AGREEMENTS IN RESPECT OF 2019 AND 2020  
AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



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A notice convening the Extraordinary General Meeting of Haidilao International Holding Ltd. to be held at 08-36/43, Paya Lebar Square, 60 Paya Lebar Road, Singapore 409051 on Monday, November 18, 2019 at 10:00 a.m. is set out on pages 46 to 47 of this circular. A form of proxy for use at the Extraordinary General Meeting is also enclosed. Persons entitled to attend and vote at the Extraordinary General Meeting are also allowed to attend and vote through the video-conference system which will be located at the Company's principal place of business in Hong Kong at 40/F, Sunlight Tower, 248 Queen's Road East Wanchai, Hong Kong.

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

The English and Chinese versions of this circular and the accompanying form of proxy are available on the Company's website at [www.haidilao.com](http://www.haidilao.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

October 28, 2019

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following terms shall have the following meanings:*

“Articles of Association”	the articles of association of the Company, as amended from time to time
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Board Meeting”	the meeting of the Board held on Tuesday, October 8, 2019
“Company”	Haidilao International Holding Ltd. (海底捞国际控股有限公司), a company incorporated under the laws of the Cayman Islands with limited liability on July 14, 2015 and, except where the context otherwise requires, all of its subsidiaries
“Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
“Controlling Shareholders”	has the meaning ascribed thereto in the Listing Rules and unless the context requires otherwise, refers to Mr. Zhang Yong, Ms. Shu Ping, NP United Holding Ltd, ZY NP Ltd and SP NP Ltd
“Director(s)”	director(s) of the Company
“EGM” or “Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held at 08-36/43, Paya Lebar Square, 60 Paya Lebar Road, Singapore 409051 on Monday, November 18, 2019 at 10:00 a.m.
“Group”	the Company and its subsidiaries
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely Dr. Chua Sin Bin, Mr. Hee Theng Fong and Mr. Qi Daqing, established to advise the Independent Shareholders on the Shuyun Dongfang Agreements and the Revised Annual Caps

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## DEFINITIONS

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“Independent Financial Adviser” or “First Shanghai”	First Shanghai Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and Independent Shareholders on in relation to the Shuyun Dongfang Agreements and the Revised Annual Caps
“Independent Shareholders”	has the meaning ascribed to it under the Listing Rules; and in relation to approving the Shuyun Dongfang Agreements and the Revised Annual Caps at the Extraordinary General Meeting, means the Shareholders other than Mr. Zhang Yong
“Latest Practicable Date”	October 23, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Date”	September 26, 2018, on which dealings in our Shares first commence on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Master Decoration Project Management Service Agreement”	the master decoration project management service agreement dated September 1, 2018 entered into between the Company and Shuyun Dongfang, each for itself and on behalf of its subsidiaries, 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
“Master Decoration Project General Contract Service Agreement”	the master decoration project general contract service agreement dated October 8, 2019 entered into between the Company and Shuyun Dongfang, each for itself and on behalf of its subsidiaries, pursuant to which the Shuyun Dongfang agreed to provide decoration project general contract services, including but not limited to, selecting and engaging subcontractors to carry out the decoration work and purchasing plants and equipment for the projects, to our Group in connection with the interior decoration and renovation of our PRC restaurants

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## DEFINITIONS

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“Memorandum of Association”	the memorandum of association of the Company, as amended from time to time
“PRC” or “China”	People’s Republic of China, but for the purpose of this circular and for geographical reference only and except where the context requires otherwise, references in this circular to “China” and the “PRC” do not apply to Hong Kong, Macau and Taiwan
“Prospectus”	the Company’s prospectus dated September 12, 2018
“Revised Annual Caps”	the proposed revised annual caps of the Shuyun Dongfang Agreements for the two years ending December 31, 2019 and 2020
“RMB”	Renminbi, the lawful currency of the PRC
“Securities and Futures Ordinance”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended from time to time
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemental or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of the Company with nominal value of US\$0.000005 each
“Shareholder(s)”	the holder(s) of the Shares of the Company
“Shuyun Dongfang”	Beijing Shuyun Dongfang Decoration Project Co., Ltd.* (北京蜀韻東方裝飾工程有限公司), a limited liability company incorporated in the PRC on May 10, 2006, which was held as to 80% by Mr. Zhang Shuoyi (張碩軼), as of the Latest Practicable Date
“Shuyun Dongfang Agreements”	the Master Decoration Project Management Service Agreement and the Master Decoration Project General Contract Service Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meanings ascribed thereto in the Listing Rules
“substantial shareholder(s)”	has the meanings ascribed thereto in the Listing Rules
“Takeovers Code”	means the Codes on Takeovers and Mergers and Share Buy-backs, as amended from time to time

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## DEFINITIONS

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“US\$”	United States dollars, the lawful currency of the United States
“Youdingyou”	Beijing Youdingyou Catering Co., Ltd. (北京優鼎優餐飲股份有限公司), a company established in the PRC on July 30, 2012 and, except where the context otherwise requires, all of its subsidiaries
“%”	percentage

\* *English translations of company names are for identification purposes only.*



**HAIDILAO INTERNATIONAL HOLDING LTD.**  
**海底捞国际控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 6862)**

***Executive Directors:***

Mr. Zhang Yong (*Chairman*)  
Mr. Shi Yonghong  
Mr. Shao Zhidong  
Mr. Tong Xiaofeng

***Registered office:***

Cricket Square, Hutchins Drive  
PO Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

***Non-executive Directors:***

Ms. Shu Ping

***Corporate Headquarters in the PRC:***

7th Floor, No.1 Building  
No.398 Yard, Zhongdong Road  
Dongxiaokou Town, Changping district  
Beijing, PRC

***Independent non-executive Directors:***

Dr. Chua Sin Bin  
Mr. Hee Theng Fong  
Mr. Qi Daqing

***Principal place of business in Hong Kong:***

40/F, Sunlight Tower  
248 Queen's Road East  
Wanchai, Hong Kong

October 28, 2019

*To the Shareholders*

Dear Sir or Madam,

**(1) NEW CONTINUING CONNECTED TRANSACTIONS AND  
PROPOSED RENEWAL OF ANNUAL CAPS UNDER THE SHUYUN  
DONGFANG AGREEMENTS IN RESPECT OF 2019 AND 2020  
AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

The purpose of this circular is to give you the notice of the Extraordinary General Meeting and the proposal in relation to the new continuing connected transactions and the proposed renewal of the annual caps under the Shuyun Dongfang Agreements in respect of 2019 and 2020 to be put forward at the Extraordinary General Meeting.

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## LETTER FROM THE BOARD

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### CONTINUING CONNECTED TRANSACTIONS

#### **New Continuing Connected Transactions and the Proposed Renewal of the Annual Caps under the Shuyun Dongfang Agreements in Respect of 2019 and 2020**

##### *Background*

Reference is made to the Prospectus in relation to, inter alia, the engagement of Shuyun Dongfang for the provision of decoration project management and related services to the Group.

As disclosed in the Prospectus, Our Company and Shuyun Dongfang, each for itself and on behalf of its respective subsidiaries, entered into the Master Decoration Project Management Service Agreement. At the time of the listing of the Shares on the Stock Exchange in September 2018, the Stock Exchange granted a waiver (the “**Waiver**”) to the Company in respect of, inter alia, the non-exempt continuing connected transactions between the Group and Shuyun Dongfang from strict compliance with the announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. Pursuant to the Waiver, the transactions under the Master Decoration Project Management Service Agreement are subject to the respective annual caps for the year ended December 31, 2018 and the two years ending December 31, 2019 and 2020. The Company has closely monitored the transactions contemplated under the Master Decoration Project Management Service Agreement and the actual transaction amounts did not exceed the annual cap for the year ended December 31, 2018. In addition, as at the date of this circular, the actual transaction amounts for these transactions also have not exceeded the annual cap for the year ending December 31, 2019.

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

Our Company and Shuyun Dongfang, each for itself and on behalf of its subsidiaries, entered into the Master Decoration Project Management Service Agreement, 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. No term has been modified or changed since the parties entered into the Master Decoration Project Management Service Agreement. The principal terms of the Master Decoration Project Management Service Agreement which have been set out in the Prospectus are summarized below:

- Date:** September 1, 2018
- Parties:**
- (1) Our Company
  - (2) Shuyun Dongfang



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## LETTER FROM THE BOARD

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- Terms:** The Master Decoration Project Management Service Agreement has an initial term of three years commencing from the Listing Date. 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 agreement's 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.
- Nature of transactions:** During the term of the Master Decoration Project Management Service Agreement, 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.
- Pricing basis:** 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.

### *Master Decoration Project General Contract Service Agreement*

Our Company and Shuyun Dongfang, each for itself and on behalf of its subsidiaries, entered into the Master Decoration Project General Contract Service Agreement, pursuant to which Shuyun Dongfang agreed to provide decoration project general contract services to our Group in connection with the interior decoration and renovation of our PRC restaurants, including but not limited to, selecting and engaging subcontractors to carry out the decoration work and purchasing plants and equipment for the projects. The principal terms of the Master Decoration Project General Contract Service Agreement are summarized below:

- Date:** October 8, 2019
- Parties:**
- (1) Our Company
  - (2) Shuyun Dongfang
- Terms:** The Master Decoration Project General Contract Service Agreement has an initial term of three years. Subject to compliance with Listing Rules and applicable laws and regulations, the Master Decoration Project General Contract 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 agreement's term. Upon renewal of the Master Decoration Project General Contract Service Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

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## LETTER FROM THE BOARD

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**Nature of transactions:** During the term of the Master Decoration Project General Contract Service Agreement, Shuyun Dongfang agreed to provide decoration project general contract services to our Group in connection with the interior decoration and renovation of our PRC restaurants, including but not limited to selecting and engaging subcontractors to carry out the decoration work and purchasing plants and equipment for the projects.

**Pricing basis:** The general contract service fee will be determined based on the total cost and the quality of the decoration services with reference to the prevailing market rate of such decoration project general contract service.

### *Reasons for and Benefits of the Transactions*

Shuyun Dongfang primarily conducts the provision of decoration service business. We have been engaging Shuyun Dongfang to provide decoration services for the interior decoration and renovation of our restaurants since its establishment in 2006. 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 and general contract services in a timely and cost-efficient manner. Based on the quotations obtained by the Company, as at the time of this circular, the fee charged by Shuyun Dongfang for both decoration project management services and decoration project general contract services will not be more than the fee charged by other third party suppliers for providing the same/similar services.

As disclosed in the Prospectus, we have tried two different transaction arrangements with Shuyun Dongfang in the past, i.e., the general contract arrangement and the project management arrangement.

From December 2016 to November 2017, the Company engaged Shuyun Dongfang in provision of general contract services. During the period, as the Group had completed its business restructuring, it sped up expansion and opened 98 new restaurants in 2017. As demand for restaurant decoration services of the Group increased sharply compared with 2016, Shuyun Dongfang came across bottlenecks in terms of project execution capability and manpower, which resulted in prolonged construction period, unsatisfactory quality and higher cost. However, since the Company had not engaged any third party general contract service providers before, and the schedule for decorating our new restaurants was fairly tight, the Company was unable to identify and reach agreements with, in a relatively short timeframe, alternative third party suppliers to provide services for our decoration projects.

Since November 2017, as the Company estimated that it would maintain a high speed in expansion in the future under the new organizational structure, we revisited and adjusted our restaurant decoration execution strategy as follows:

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## LETTER FROM THE BOARD

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- On the one hand, we continued our cooperation with Shuyun Dongfang and switched the transaction arrangement to project management arrangement, under which Shuyun Dongfang could improve efficiency by running multiple projects at the same time and also enhance the quality control. Under the project management arrangement, the cost control and quality of the projects have been improved compared with that for the period from December 2016 to November 2017.
- On the other hand, to avoid the situation where Shuyun Dongfang's limited general contract capacity may hold back the development and expansion of the Group, the Company has been identifying and engaging other third party suppliers to provide general contract services since January 2018. In 2018, the decoration projects of 11 new restaurants were completed by third party suppliers.

In 2018, it was the first time for the Company to adopt the project management arrangement with Shuyun Dongfang at a stage of rapid expansion, with a large number of restaurants decorated in the fourth quarter of 2018. As a result, the Company has gradually been aware of the deficiency of the project management arrangement, especially since the fourth quarter of 2018. In addition, Shuyun Dongfang has enhanced its general contract service capacity, which mainly reflects in the following aspects:

- Shuyun Dongfang conducted organizational structure optimization and salary and evaluation system adjustment, which significantly improved the staff's work efficiency;
- Through training and recruitment, the number of Shuyun Dongfang's qualified project managers have increased, and it is still fast expanding its service team; and
- Since 2016, Shuyun Dongfang has been establishing stable relationships with competent suppliers nationwide, including more than ten design companies, more than 20 construction teams and hundreds of decoration material suppliers.

In light of the above and considering our past experience under both transaction arrangements with Shuyun Dongfang and other third party suppliers, we decided to adopt the general contract arrangement going forward for our PRC restaurants for the following reasons:

- Shuyun Dongfang has obtained all necessary licenses to provide decoration project general contract services in the PRC;
- The general contract arrangement enables Shuyun Dongfang to monitor and manage the projects more actively and closely and ensure that the designs of our restaurants be implemented and executed effectively and cost-efficiently; and
- Under the general contract arrangement, Shuyun Dongfang is responsible for the overall project management and supervision of the fitting-out works which could avoid potential disputes between the Group and the subcontractors.

For our overseas restaurants, since Shuyun Dongfang has not obtained the relevant licenses required for general contractor, we will continue with project management arrangement. Thus, the

## LETTER FROM THE BOARD

existing Master Decoration Project Management Service Agreement will continue to be effective and will be applicable to our transactions with Shuyun Dongfang in relation to the interior decoration and renovation of the overseas restaurants. Shuyun Dongfang will keep stable business relationship with suitable local subcontractors and manage, coordinate and supervise the local subcontractors at work sites to ensure the decoration projects of our overseas restaurants can be completed and delivered timely and with high quality.

In light of the above, our Directors believe that the continuous procurement of such services from Shuyun Dongfang will be beneficial to our Group.

### *Historical Amounts, Existing Annual Caps and Proposed Revised Annual Caps*

The following table sets forth the historical amounts of the decoration services, including project management services and general contract services, we obtained from Shuyun Dongfang:

	<b>For the year ended December 31,</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>The Group (excluding Youdingyou)</b>	11,428,000	32,605,051	1,290,205,949	737,573,098
<b>Youdingyou</b> <sup>Note</sup>	10,500	Nil	871,115	967,749
<b>Total</b>	11,438,500	32,605,051	1,291,077,064	738,540,847

*Note:* On March 26, 2019, Hai Di Lao Holdings Pte. Ltd., a wholly-owned subsidiary of the Company and the shareholders of Youdingyou entered into the equity transfer agreements, pursuant to which, Hai Di Lao Holdings Pte. Ltd. agreed to purchase 100% of the equity interest in Youdingyou.

For the reasons detailed below, the Board proposes that the existing annual caps for the transactions contemplated under the Shuyun Dongfang Agreements in respect of 2019 and 2020 be revised for the two years ending December 31, 2019 and 2020. The table below sets out the existing annual caps and the proposed revised annual caps for the relevant transactions for the two years ending December 31, 2019 and 2020.

	<b>For the year ending December 31,</b>				
	<b>2019</b>		<b>2020</b>		
<b>Existing annual cap</b>	<b>Proposed revised annual cap</b>	<b>Existing annual cap</b>	<b>Proposed revised annual cap</b>		
<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>		
Decoration project management and related services	<u>145,400,000</u>	Decoration project management and related services	150,000,000	Decoration project management and related services	<u>197,400,000</u>
		Decoration project general contract services	<u>1,250,000,000</u>	Decoration project general contract services	<u>3,600,000,000</u>
<b>Total</b>	<b><u>145,400,000</u></b>	<b>Total</b>	<b><u>1,400,000,000</u></b>	<b>Total</b>	<b><u>197,400,000</u></b>
				<b>Total</b>	<b><u>3,650,000,000</u></b>

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## LETTER FROM THE BOARD

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### *Reasons for Revising the Existing Annual Caps and Basis of Determination*

Considering (i) the above-mentioned transformation of the transaction arrangement between the Group and Shuyun Dongfang; (ii) the rapid development of the Group's businesses and expansion of our restaurant network; and (iii) the acquisition of Youdingyou, the Board considers that the existing annual caps in respect of 2019 and 2020 for the transactions under the Shuyun Dongfang Agreements will not be able to satisfy the significant increase in the demand for the decoration services of our Group for the two years ending December 31, 2019 and 2020. The proposed revised annual caps have been estimated based on the following factors:

- (i) the decoration project general contract service fee rate and the decoration project management service fee rate agreed by Shuyun Dongfang and us and the expected fluctuation in the rates;
- (ii) the anticipated expansion of our restaurant network in China and overseas, 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;
- (iii) the past experience of the Group in restaurant decoration projects and the major terms and payment schedule for the general contract services and project management services agreed by Shuyun Dongfang and us; and
- (iv) the historical transaction amounts with Shuyun Dongfang under both transaction arrangements and the service capacity of Shuyun Dongfang in providing general contract services and project management services.

The increase in the proposed revised annual cap for 2020 as compared to 2019 is due to the expected organic growth of the Group.

### *Information on the Parties*

Shuyun Dongfang is principally engaged in providing decoration related services.

The Group is principally engaged in the hot pot restaurant business.

### *Listing Rules Implications*

As at the date of this circular, Mr. Zhang Shuoyi is the sole director of Shuyun Dongfang and own 80% of the equity interest in Shuyun Dongfang. Mr. Zhang Shuoyi is the brother of Mr. Zhang Yong, our executive Director and controlling shareholder. Therefore, Shuyun Dongfang is an associate of Mr. Zhang Yong and a connected person of the Company, and the transactions under the Shuyun Dongfang Agreements 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

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## LETTER FROM THE BOARD

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Rules) in respect of the proposed revised annual caps of the Shuyun Dongfang Agreements is more than 5%, the transactions under the Shuyun Dongfang Agreements are subject to the announcement, circular, independent shareholders' approval, annual review and reporting requirements under Chapter 14A of the Listing Rules.

In accordance with the Listing Rules, Mr. Zhang Yong will abstain from voting on the ordinary resolution to approve the Shuyun Dongfang Agreements and the Revised Annual Caps at the Extraordinary General Meeting.

### **Directors' Confirmation**

The Directors (including the independent non-executive Directors) are of the view that the transactions under the Shuyun Dongfang Agreements have been and will be entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are of the view that the Shuyun Dongfang Agreements and the Revised Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Except for Mr. Zhang Yong, none of the Directors has any material interest or is required to abstain from voting on the relative Board resolution in relation to the Shuyun Dongfang Agreements and the Revised Annual Caps.

### **Approval by Independent Shareholders**

In accordance with the Listing Rules, Mr. Zhang Yong will abstain from voting on the ordinary resolution to approve the Shuyun Dongfang Agreements and the Revised Annual Caps at the Extraordinary General Meeting.

The Company will seek the Independent Shareholders' approval at the Extraordinary General Meeting for, among others, the Shuyun Dongfang Agreements on the condition that:

1. the annual transaction amount of the Shuyun Dongfang Agreements shall not exceed the respective annual caps; and
2. (i) the Shuyun Dongfang Agreements will be entered into in the ordinary and usual course of business of the Group and either (a) on normal commercial terms or better; or (b) if there is no available comparison, on terms no less favourable than terms available to the Group from Independent Third Parties; and  
  
(ii) the transactions will be entered into in accordance with the Shuyun Dongfang Agreements and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company will comply with relevant provisions of the Listing Rules in relation to the transactions under the Shuyun Dongfang Agreements.

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## LETTER FROM THE BOARD

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### INTERNAL CONTROL MEASURES

The Group has a comprehensive internal control system to ensure that the Shuyun Dongfang Agreements and the Revised Annual Caps are fair and reasonable, and the transactions under the Shuyun Dongfang Agreements are conducted on normal commercial terms or better and in the ordinary course of business of the Group, and in the interests of the Company and the Shareholders as a whole. Relevant internal control measures include:

- (i) The 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 management of the Company;
- (ii) The team of senior management of the Group organizes and runs internal control tests regularly to evaluate the completeness and effectiveness of the internal control measures in relation to continuing connected transactions;
- (iii) The Company has set up a specialized team of experienced employees specializing in restaurant decoration to assess, amongst others, the professional qualification, team size, design capabilities, construction capabilities and historical experience of decoration service providers. 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 service providers. As at the date of this circular, Shuyun Dongfang, together with eight third party decoration service providers have passed the supplier review process of our Group and have been added into the "Qualified Supplier List" maintained by our Group. The Company will select decoration service provider 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 rapid expansion of our restaurant network, we will adhere to our supplier selection criteria to ensure fair competition between Shuyun Dongfang and other third party suppliers;
- (iv) 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;

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## LETTER FROM THE BOARD

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- (v) The team of senior management of the Group collects and reviews continuing connected transactions each month in order to guarantee (i) the connected parties have fulfilled the terms of the agreements in relation to continuing connected transactions during the relevant month; and (ii) the actual transaction amounts incurred and estimated to be incurred between the Company and the connected parties are within the annual caps;
- (vi) The relevant personnel of the business department of the Company will conduct regular checks on the market price for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the pricing basis for the relevant continuing connected transactions. The marketing team will from time to time (on a regular basis and/or prior to price negotiation) gather market intelligence by way of research 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) The independent non-executive Directors conduct annual review of continuing connected transactions and provide annual confirmations in the Company's annual report on whether the continuing connected transactions are conducted (i) in the Group's ordinary course of business; (ii) in accordance with normal commercial terms or better and on terms that are fair and reasonable; (iii) in accordance with the terms of the relevant agreements; and (iv) in the interests of the Company and the Shareholders as a whole;
- (viii) The audit committee of the Company conducts review of the annual financial statements, annual report, interim financial statements and interim report which include the disclosure and analysis of the implementation of continuing connected transactions and opine on continuing connected transactions as disclosed in such financial statements and reports, including whether the terms of the continuing connected transactions are fair and reasonable and whether the transaction amounts are within the relevant annual caps; and
- (ix) To assist the Company in complying with the applicable rules listed in chapter 14A of the Listing Rules, the external auditor of the Company performs work in accordance with the regulations in the "Hong Kong Standard on Assurance Engagements 3000 — "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information"" and with reference to the "Practice Note 740 — Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of 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.

### NOTICE OF EXTRAORDINARY GENERAL MEETING

Set out on pages 46 to 47 of this circular is the notice of Extraordinary General Meeting at which, inter alia, an ordinary resolutions will be proposed to Shareholders to consider and approve the Shuyun Dongfang Agreements and the Revised Annual Caps.



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## LETTER FROM THE BOARD

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### FORM OF PROXY

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

### VOTING AT THE EXTRAORDINARY GENERAL MEETING

In accordance with the Listing Rules, Mr. Zhang Yong will abstain from voting on the ordinary resolution to approve the Shuyun Dongfang Agreements and the Revised Annual Caps at the Extraordinary General Meeting. There is no other Shareholder who has any material interest in the proposed resolution, and therefore none of the Shareholders is required to abstain from voting on such resolution.

Pursuant to Rule 13.39(4) of the Listing Rules and Article 66 of the Articles of Association, a resolution put to vote at any general meeting is to be decided by way of a poll, except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

On a poll, every Shareholder present in person or by proxy or (being a corporation) by its duly authorized representative shall have one vote for each share registered in his/her/its name in the register of members. A Shareholder entitled to more than one vote need not use up all his/her/its votes nor cast all the votes in the same way.

### RECOMMENDATION OF THE BOARD

The Board considers that the proposed ordinary resolution for the Shuyun Dongfang Agreements and the Revised Annual Caps are in the best interests of the Company and the Shareholders as a whole, and accordingly, recommends all the Shareholders to vote in favour of the resolution to be proposed at the Extraordinary General Meeting.

### RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the terms of the Shuyun Dongfang Agreements and the Revised Annual Caps, and First Shanghai has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders.

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## LETTER FROM THE BOARD

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The Independent Financial Adviser considers the Shuyun Dongfang Agreements and the Revised Annual Caps are on normal commercial terms and in the ordinary and usual course of business of the Group. The Independent Financial Adviser also considers that the Shuyun Dongfang Agreements and the Revised Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The full text of the letter from the Independent Financial Adviser issued by First Shanghai containing its recommendation in respect of the Shuyun Dongfang Agreements and the Revised Annual Caps is set out on pages 18 to 39 of this circular.

The Independent Board Committee, having taken into account the advice of First Shanghai, considers the terms of the Shuyun Dongfang Agreements and the Revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the Extraordinary General Meeting to approve the Shuyun Dongfang Agreements and the Revised Annual Caps. The full text of the letter from the Independent Board Committee is set out on page 17 of this circular.

Yours faithfully,  
By Order of the Board  
**Haidilao International Holding Ltd.**  
**Zhang Yong**  
*Chairman*



**H AidILAO INTERNATIONAL HOLDING LTD.**

**海底捞国际控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 6862)**

October 28, 2019

*To the Shareholders*

Dear Sir or Madam,

We have been appointed as the Independent Board Committee to advise you in connection with the Shuyun Dongfang Agreements and the Revised Annual Caps, details of which are set out in the letter from the Board contained in the circular issued by the Company to the Shareholders dated October 28, 2019, of which this letter forms part.

We wish to draw your attention to the letter from the Independent Financial Adviser as set out on pages 18 to 39 of the circular. Terms defined in the circular shall have the same meanings when used herein, unless the context otherwise requires.

Having considered the information set out in the letter from the Board, the terms of the Shuyun Dongfang Agreements, the Revised Annual Caps and the advice of First Shanghai in relation thereto as set out on pages 18 to 39 of the circular, we are of the view that the Shuyun Dongfang Agreements are on normal commercial terms and conducted in the ordinary and usual course of the business of the Group. We are also of the view that the Shuyun Dongfang Agreements and the Revised Annual Caps are in the interests of the Company and the Shareholders as a whole, and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the Extraordinary General Meeting to approve the Shuyun Dongfang Agreements and the Revised Annual Caps.

Yours faithfully,

**Haidilao International Holding Ltd.**

**Dr. Chua Sin Bin      Mr. Hee Theng Fong      Mr. Qi Daqing**

*Independent Non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter to the Independent Board Committee and the Independent Shareholders received from the Independent Financial Adviser setting out its opinion regarding the new continuing connected transactions and proposed renewal of annual caps under the Shuyun Dongfang Agreements in respect of 2019 and 2020, for the purpose of inclusion in this circular.*



**First Shanghai Capital Limited**

19th Floor

Wing On House

71 Des Voeux Road Central

Hong Kong

October 28, 2019

*To the Independent Board Committee and  
the Independent Shareholders*

Haidilao International Holding Ltd.  
7th Floor, No. 1 Building  
No. 398 Yard, Zhongdong Road  
Dongxiaokou Town  
Changping District  
Beijing  
China

Dear Sirs,

### **NEW CONTINUING CONNECTED TRANSACTIONS AND PROPOSED RENEWAL OF ANNUAL CAPS UNDER THE SHUYUN DONGFANG AGREEMENTS IN RESPECT OF 2019 AND 2020**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the new continuing connected transactions and proposed renewal of annual caps under each of the existing Master Decoration Project Management Service Agreement as well as the new Master Decoration Project General Contract Service Agreement, in respect of 2019 and 2020, details of which are contained in the circular to the Shareholders dated October 28, 2019 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those ascribed in the Circular.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Reference is made to the Prospectus in relation to, inter alia, the engagement of Shuyun Dongfang for the provision of decoration project management and related services to the Group.

As disclosed in the Prospectus, the Company and Shuyun Dongfang, each for itself and on behalf of its subsidiaries, entered into the Master Decoration Project Management Service Agreement. At the time of the listing of the Shares on the Main Board of the Stock Exchange in September 2018 (the “**Listing**”), the Stock Exchange granted a waiver to the Company in respect of, inter alia, the non-exempt continuing connected transactions between the Group and Shuyun Dongfang (the “**Continuing Connected Transactions**”) from strict compliance with the announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules (the “**Waiver**”). Pursuant to the Waiver, the transactions contemplated under the Master Decoration Project Management Service Agreement are subject to the respective annual caps for the financial year ended December 31 (the “**Year(s)**”), 2018 and the two Years 2019 and 2020.

The Company has closely monitored the transactions contemplated under the Master Decoration Project Management Service Agreement. With the continued development of the business of the Group and based on internal estimates of demand and the current prospects forecast of the Group’s operations, the Board considers that the existing annual caps in respect of the two Years 2019 and 2020 under the Master Decoration Project Management Service Agreement will not be able to satisfy the significant increase in the demand for the decoration project management and related services, of the Group for the two Years 2019 and 2020.

As at the Latest Practicable Date, the actual transaction amounts for these transactions under the Master Decoration Project Management Service Agreement have not exceeded the annual caps for the Year 2019, but are currently anticipated to exceed the existing annual caps by the end of Year 2019.

The Board proposes that the existing annual caps for the transactions contemplated under the Master Decoration Project Management Service Agreement in respect of 2019 and 2020 be revised for the two Years of 2019 and 2020.

### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Mr. Zhang Shuoyi is the sole shareholder and sole director of Shuyun Dongfang. Mr. Zhang Shuoyi is the brother of Mr. Zhang Yong, the executive Director and controlling shareholder of the Company. Therefore, Shuyun Dongfang is an associate of Mr. Zhang Yong and a connected person of the Company, and the transactions under the Shuyun Dongfang Agreements 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 revised annual caps of the Shuyun Dongfang Agreements is more than 5%, the transactions under the Shuyun Dongfang Agreements are subject to the announcement, circular, independent shareholders’ approval, annual review and reporting requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In accordance with the Listing Rules, Mr. Zhang Yong will abstain from voting on the ordinary resolution to approve the Shuyun Dongfang Agreements and the Revised Annual Caps at the Extraordinary General Meeting.

### THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising Dr. Chua Sin Bin, Mr. Hee Theng Fong and Mr. Qi Daqing, being all the three independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Shuyun Dongfang Agreements (including the Revised Annual Caps).

As the independent financial adviser, we have been appointed to advise the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Shuyun Dongfang Agreements (including the Revised Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in relation to the ordinary resolution to be proposed for approving the Shuyun Dongfang Agreements (including the Revised Annual Caps) at the Extraordinary General Meeting.

### OUR INDEPENDENCE

Independent Shareholders should note that, within the past two years from the Latest Practicable Date, we were engaged as the independent financial adviser by a connected person of the Company, namely Yihai International Holding Ltd. (Stock Code: 1579) (“**Yihai**”), for two occasions mainly in relation to the provision of independent financial advice to the then independent board committee and independent shareholders of Yihai for (i)(a) renewal of annual caps for continuing connected transactions in respect of 2019 and 2020 and (b) continuing connected transactions for sale and purchase of products with the Joint Venture; and (ii) continuing connected transactions in respect of (1) purchase of Shuhai Ingredients from Shuhai Supply Chain and (2) revision of annual caps under the Shuhai Sales Agreement and the Framework Sales and Purchase Agreements in respect of 2019 and 2020, as detailed in the circulars of Yihai dated July 19, 2018 and June 14, 2019, respectively.

Yihai is a leading and fast-growing compound condiment manufacturer in the PRC, and the key supplier of hot pot soup flavouring products for the Haidilao Group in the PRC, and its products have been significantly contributing to the successful growth of the Haidilao Group.

Given (i) our independent roles in the previous two engagements; (ii) none of the members of our parent group is a direct party to or has material interest in each of the Shuyun Dongfang Agreements; and (iii) our independent financial advisory fees for this present engagement in addition to the previous two engagements represented an insignificant percentage of revenue of our parent group, we consider that the previous two engagements by Yihai would not affect our independence to form our opinion this time in respect of the Shuyun Dongfang Agreements (including the Revised Annual Caps).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **BASIS OF OUR ADVICE**

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company (the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and Management for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and Management, nor have we conducted an independent investigation into the business and affairs of the Group and Shuyun Dongfang.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion and recommendation regarding the Shuyun Dongfang Agreements (including the Revised Annual Caps), we have taken into consideration the following principal factors and reasons:

#### **1. Background information of the Group**

The Group (or commonly known as “Haidilao” in the PRC) is principally engaged in the hot pot restaurant operations under the well-known brand name and trademark of “Haidilao (海底捞)”, delivery business and sales of condiment products and food ingredients located in the PRC and overseas.

Haidilao is a globally leading and fast-growing Chinese cuisine restaurant brand focusing on hot pot cuisine. The Group’s “Haidilao” brand has become a cultural phenomenon in Chinese cuisine that is synonymous with an unparalleled level of service and dining experience.

According to an independent industry report prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., being a global market research and consulting company (the “**Frost & Sullivan**”

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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**Report**”) at time of Listing in 2018, Haidilao was ranked first in the Chinese cuisine restaurant market in the PRC and globally in terms of revenue in 2017. Haidilao was also the fastest-growing major Chinese cuisine restaurant brand in the PRC and globally, with a strong revenue growth rate of approximately 59.5% from Year 2017 to 2018. As at the end of Year 2018, the Group owned and operated 466 hot pot restaurants, which comprised 430 hot pot restaurants in the PRC, and 36 hot pot restaurants in Taiwan, Hong Kong and internationally in Singapore, South Korea, Japan, Canada and the United States of America.

Haidilao had served more than 163 million guests for the Year 2018. The Group’s pursuit of the perfect Haidilao dining experience has become the foundation of its brand and the guiding principle of its business. The Group is a pioneer in the industry to offer services that make the dining experience more attentive, personal, comfortable and fun, that deliver to its guests that extra warmth and sincere attention services that have now become iconic to Haidilao. The Group also seeks to provide a high quality, diversified, and dynamic menu, and is constantly developing new menu items, soup bases and dipping sauces, and customizing its menu to different taste preferences to enhance guest experience.

In respect of operating performance in financial terms, the Group had achieved a strong growth in its business operation over the past few Years. For the Year 2018, the Group recorded revenue of approximately RMB16,969.1 million, representing a year-on-year increase of approximately 59.5% when compared to that of RMB10,637.1 million in the Year 2017; while its net profit attributable to owners of the Company hit a record high at approximately RMB1,645.9 million for the Year 2018, representing a year-on-year increase of approximately 60.1% when compared to that of RMB1,027.8 million in the Year 2017.

### 2. Background of Shuyun Dongfang

Shuyun Dongfang is principally engaged in providing decoration related services.

### 3. Principal terms of the Shuyun Dongfang Agreements

Set out below is a summary of the key terms of each of the Shuyun Dongfang Agreements, comprising the Master Decoration Project Management Service Agreement and the Master Decoration Project General Contract Service Agreement. Independent Shareholders should refer to the “Letter from the Board” of the Circular for further details.

	<b>The Master Decoration Project Management Service Agreement</b>	<b>The Master Decoration Project General Contract Service Agreement</b>
Date of agreement :	September 1, 2018	October 8, 2019
Parties :	1. the Company 2. Shuyun Dongfang	1. the Company 2. Shuyun Dongfang



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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	<b>The Master Decoration Project Management Service Agreement</b>	<b>The Master Decoration Project General Contract Service Agreement</b>
Terms	<ul style="list-style-type: none"><li>• an initial term of three years commencing from the Listing Date;</li><li>• may be renewed for a further term of three years from time to time, unless the Company notifies Shuyun Dongfang to the contrary with 30 days' written notice prior to the expiry of the agreement's term; and</li><li>• the parties may amend the terms of the agreement based on the then prevailing circumstances.</li><li>• No term has been modified or changed since the parties entered into the agreement.</li></ul>	<ul style="list-style-type: none"><li>• will expire upon the third anniversary of the Listing Date;</li><li>• may be renewed for a further term of three years from time to time, unless the Company notifies Shuyun Dongfang to the contrary with 30 days' written notice prior to the expiry of the agreement's term; and</li><li>• the parties may amend the terms of the agreement based on the then prevailing circumstances.</li></ul>
Nature of transactions	<ul style="list-style-type: none"><li>• 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 the Group.</li></ul>	<ul style="list-style-type: none"><li>• Shuyun Dongfang agreed to provide decoration project general contract services to the Group in connection with the interior decoration and renovation of the PRC restaurants, including but not limited to selecting and engaging subcontractors to carry out the decoration work and purchasing plants and equipment for the projects.</li></ul>
Pricing basis	<ul style="list-style-type: none"><li>• 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.</li></ul>	<ul style="list-style-type: none"><li>• The general contract service fee will be determined based on the total cost and the quality of the decoration services with reference to the prevailing market rate of such decoration project general contract service.</li></ul>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Pricing terms*

As mentioned in the above, the project management service fee under the existing Master Decoration Project Management Service Agreement 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; whilst the same under the new Master Decoration Project General Contract Service Agreement will be determined based on the total cost and the quality of the decoration services with reference to the prevailing market rate of such decoration project general contract service.

Based on the Group's current business plan, there will be around 36 and 57 new hot pot restaurants in overseas countries to be opened and managed by Dongfang Shuyun in each of the two Years 2019 and 2020, respectively, for which, according to the Management's past experience in dealing similar decoration project management work, an average fixed decoration project management service fee of around RMB700,000 (i.e. RMB640,000 and RMB750,000 for PRC domestic and overseas decoration projects respectively) per new hot pot restaurant will be incurred despite of the possible variations in floor area, geographical locations and decoration requirements because such factors would not very largely affect their project management work. According to some public forum websites in the PRC, such as <https://www.jiandanhome.com>, the prevailing decoration project management fee is generally marked up between 8% to 12% on the construction/ decoration value of each decoration project, which we consider can provide for Independent Shareholders' broad understanding about decoration project management fee level in the industry. Based on our independent review on the Prospectus, the Group's projected average decoration project management service fee payable for each hot pot restaurant for each of the two Years 2019 and 2020 is basically consistent with the Group's similar historical data/ information as disclosed in the Prospectus, where capital expenditure for opening a new hot pot restaurant over the past few Years and in the coming two Years of 2019 and 2020 is expected to be remain relatively stable at RMB8 million to RMB10 million with an average of around RMB9 million, depending on the floor areas occupied (i.e. typically between 600 m<sup>2</sup> and 1,100 m<sup>2</sup>) and complexity of decoration works. On such basis, it can be inferred that the projected decoration project management fee payable by the Group to Shuyun Dongfang for each new hot pot restaurant at around 7.8% (i.e. RMB700,000 / RMB9,000,000) on total construction/ decoration value is slightly lower than the low end of such range of market rates between 8% and 12%, and shall be favourable to the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Given that there is no publicly available financial information on the privately-owned fitting-out work and service companies in Hong Kong and/or the PRC, we consider that it is appropriate to provide the overall gross profit margin of the fitting-out work and service industry in the Greater China Region, where Shuyun Dongfang is currently engaged in, for Independent Shareholders' broad understanding about the profit margins of the industry, even though their size of operation in terms of revenue and client base are relatively larger than that of Shuyun Dongfang. Based on our independent research from the Stock Exchange's website at <http://www.hkex.com.hk>, we have noted that there are not more than ten listed companies engaging in the provision of fitting-out works and services in the PRC, Hong Kong and Macau to industrial and commercial clients, including but not limited to hotels and restaurants, which had their gross profit margins within a wider range of 13% to 27% of their respective revenue during the Years 2017 and 2018 and were higher than that to be

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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charged by Shuyun Dongfang to the Group under the Master Decoration Project General Contract Agreement at between approximately 8.0% to 11.4% on estimated capital expenditure for each new hot pot restaurant for the two Years 2019 and 2020, depending on its floor areas to be occupied and complexity of decoration works. We have independently reviewed the Group's sample contracts in relation to the provision of decoration project general contract services entered into between the Group and Shuyun Dongfang and its independent third party contractors, and noted that the terms for transactions contemplated under the Master Decoration Project General Contract Agreement are no less favourable to the Group than the terms for similar transactions entered into between the Group and independent third party contractors. Based on this observation, we consider that the pricing terms under the Shuyun Dongfang Agreements shall be no less favourable to the Group and in the interests of the Company and the Shareholders as a whole, and fair and reasonable so far as the Independent Shareholders as a whole.

### *Payment terms*

Regarding the payment terms pursuant to the existing Master Decoration Project Management Service Agreement and the new Master Decoration Project General Contract Service Agreement, it has been customarily between the Group and Shuyun Dongfang to make (i) full payment of decoration project management fee upon completion of the decoration work for a hot pot restaurant; and (ii) a prepayment at design stage plus three to four progress payments for each decoration project under general contract service arrangement until their completion. Based on our independent research from the public website at [www.ttfanwen8.com](http://www.ttfanwen8.com), where a lot of typical decoration project agreement samples are available for public reference, and we have noted that decoration project contractor fee and/or management fee are commonly settled by four instalments which are negotiable, on a case-by-case basis, between the contracting parties to decoration project contracting and/or management agreements. Based on such observation, we consider that the payment terms under the Shuyun Dongfang Agreements are generally comparable to the prevailing market norm and no favourable to the Shuyun Dongfang, and therefore are on normal commercial terms, fair and reasonable.

#### **4. Reasons for and benefits of the Continuing Connected Transactions**

Shuyun Dongfang primarily conducts the provision of decoration project management service business. The Group has been engaging Shuyun Dongfang to provide decoration project management for the interior decoration and renovation of its restaurants since its establishment in 2006. Due to the long-term and stable business relationship, Shuyun Dongfang has been very familiar with the Group's requirements of decoration projects and has been providing satisfactory project management services in a timely and cost-efficient manner. Based on the quotations obtained by the Company, as at the time of the Circular, the fee charged by Shuyun Dongfang for both decoration project management services and decoration project general contract services will not be more than the fee charged by other third party suppliers for providing the same/similar services.

As disclosed in the Prospectus, the Group has tried two different transaction arrangements with Shuyun Dongfang in the past, i.e., the general contract arrangement and the project management arrangement. Please refer to the "Letter from the Board" of the Circular for more details regarding the Group's past experience for engaging Shuyun Dongfang and other third party suppliers as decoration project contractors over the past few years.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Considering the Group's past experience under both transaction arrangements with Shuyun Dongfang and with other third party suppliers, the Group decided to adopt the general contract arrangement going forward for its PRC restaurants for the following reasons:

- Shuyun Dongfang has obtained all necessary licences to provide decoration project general contract services in the PRC;
- The general contract arrangement enables Shuyun Dongfang to monitor and manage the projects more actively and closely, and ensure that the designs of the Group's restaurants to be implemented and executed effectively and cost-efficiently; and
- Under the general contract arrangement, Shuyun Dongfang is responsible for the overall project management and supervision of the fitting-out works which could avoid potential disputes between the Group and the subcontractors.

For the Group's overseas restaurants, since Shuyun Dongfang has not obtained the relevant licences required for general contractor, the Group will continue with project management arrangement. Thus, the existing Master Decoration Project Management Service Agreement will continue to be effective and will be applicable to the Group's transactions with Shuyun Dongfang in relation to the interior decoration and renovation of the overseas restaurants. Shuyun Dongfang will keep stable business relationship with suitable local subcontractors and manage, coordinate and supervise the local subcontractors at work sites to ensure the decoration projects of the Group's overseas restaurants can be completed and delivered timely and with high quality.

In light of the above, the Directors believe that the continuous procurement of such services from Shuyun Dongfang will be beneficial to the Group.

### 5. Assessment of the principal terms of the Shuyun Dongfang Agreements

Based on the historical actual transaction amounts incurred and paid by the Group to Shuyun Dongfang, which had fluctuated significantly, in particular between the Years 2016 and 2017 by almost 38.6 times from approximately RMB32.6 million to RMB1,290.2 million, respectively. Based on our clarification with the Management, we were advised that prior to December 2016, the Group had engaged Shuyun Dongfang as the project management service provider and paid Shuyun Dongfang a project management service fee.

Starting from December 2016 to November 2017, the Group engaged Shuyun Dongfang as the contractor in the decoration projects and paid the total cost of the relevant projects to Shuyun Dongfang. Shuyun Dongfang then engaged sub-contractors to carry out the decoration work and purchased plants and equipment for the Group's decoration projects. In order to enhance the Group's cost and quality management of the decoration projects, the Group then revised the transaction arrangement with Shuyun Dongfang since November 2017. Under the then revised arrangement, the Group has engaged Shuyun Dongfang as the project management service provider, responsible for

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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selecting sub-contractors according its requirements and supervising the work of the sub-contractors. Accordingly, the Group shall pay Shuyun Dongfang a project management service fee for each project, which is 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.

Due to the previous change of transaction arrangement since November 2017 as set out above, the historical actual transaction amounts paid by the Group during the Year 2017 substantially reflected the total costs of the decoration projects paid to Shuyun Dongfang of approximately RMB1,290.2 million, in which Shuyun Dongfang acted as the contractor. In Year 2018, Shuyun Dongfang was re-designated as a project management service provider, so the relevant project management service fee drastically reduced to approximately RMB737.6 million despite of many more (i.e. 200 in the Year 2018 versus 98 in the Year 2017) new hot pot restaurants opened and decorated during the Year 2018, because of its role of project management service provider instead of a contractor; while the existing proposed annual caps previously set for the Years 2019 and 2020 at approximately RMB145.4 million and RMB197.4 million, respectively, by assuming Shuyun Dongfang's role as a project management service provider for the coming periods.

However, the Group now plans to restore the previous transaction arrangement by engaging Shuyun Dongfang as a contractor again in connection with the interior decoration and renovation of its PRC restaurants instead of a project management service provider, as if that role played by Shuyun Dongfang in the Year 2017; and to a lesser extent, continue the existing transaction arrangement by engaging Shuyun Dongfang as a project management service provider for the Group's overseas restaurants. As a consequence, Shuyun Dongfang will substantially act as a contractor, and in turn engage sub-contractors to carry out the decoration work and purchase plants and equipment for the projects of the Group in connection with its vast number of new hot pot restaurants to be opened in the PRC; while the Group will then pay (i) the total costs of the PRC decoration projects and (ii) project management service fee for overseas projects, to Shuyun Dongfang for the coming two Years of 2019 and 2020. As a consequence of such transformation of transaction arrangements, the proposed revised annual caps for decoration project and general contract management fees payable to Shuyun Dongfang for the two Years 2019 and 2020 will be significantly increased.

Based on our understanding from the Management, there have been advantages and disadvantages between the project management arrangement and general contract arrangement at different development stages of the Group, the Group initially engaged Shuyun Dongfang as general contractor from December 2016 to November 2017, but which it could not meet the Group's faster pace of opening many more hot pot restaurants at that time, Shuyun Dongfang came across bottlenecks in terms of project execution capability and manpower, which resulted in prolonged construction period, unsatisfactory quality and higher cost. However, since the Group had not engaged any third party general contract service providers before, and the schedule for decorating its new restaurants was fairly tight, the Group was unable to identify and reach agreements with, in a relatively short timeframe, alternative third party suppliers to provide services for its decoration projects.

In view of these difficult experience and in order to catch up a high speed in expansion in the future under the new organizational structure, since November 2017, the Group had switched the transaction arrangement to project management arrangement, under which Shuyun Dongfang could improve efficiency by running multiple projects at the same time and also enhance the quality control

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on decoration projects. Under the project management arrangement, the cost control and project quality have been improved as compared with that under the previous general contract arrangement for the period from December 2016 to November 2017. On the other hand, the Group has also been identifying and engaging other third party suppliers to provide general contract services since January 2018. In Year 2018, the decoration projects of 11 new hot pot restaurants were completed by third party suppliers; whilst decoration projects of the other 165 new hot pot restaurants were managed by Shuyun Dongfang for completion pursuant to the project management arrangement. Following the adoption of project management arrangement with Shuyun Dongfang at a stage of rapid expansion, with a large number of restaurants decorated in the fourth quarter of Year 2018, the Group has gradually been aware of the deficiency of the project management arrangement. Nevertheless, Shuyun Dongfang has at the same time enhanced its general contract service capacity by (i) conducting organizational structure optimization and salary and evaluation system adjustment, which significantly improved the staff work efficiency; (ii) continuously enhancing its technical and project management capability by engaging many more qualified project managers through internal training and external recruitment; (iii) establishing stable relationships with competent suppliers nationwide, including more than ten design companies, more than 20 construction teams and hundreds of decoration material suppliers; and (iv) establishing a customized project construction management platform (工程營建管理平台) for the Group in order to deliver better services its customers.

Based on the above consideration, the Group has decided to adopt the general contract arrangement with Shuyun Dongfang going forward for its PRC restaurants after considering its past experience under the both transaction arrangements, the Management believes that the general contract arrangement is more suitable for the Group's current development stage. The Management would like to clarify that the Group has entered a stage of unprecedented rapid development, during which period the Group constantly discovered and solved problems arising from its cooperation with Shuyun Dongfang. The adoption of project management arrangement in November 2017 and the currently proposed adoption of the general contract arrangement are both after detailed analysis, thorough discussions and due consideration of the Management and are in line with the Group's development plan and business strategy at different stages. The Management is confident that Shuyun Dongfang shall have the adequate execution capacity and resources to undertake and complete the decoration projects to be assigned by the Group in an efficient and more cost-effective manner when returning to the general contract arrangement. Based on the above understanding, we are of the view that the Group's re-adoption of general contract arrangement to smoothly and efficiently manage the new openings of hot pot restaurants to be realistic under the present stage of development, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Having considered the above mechanism for setting the transaction amount for the provision of decoration project management and related services and general contract services from Shuyun Dongfang, to the Group as well as the payment terms thereunder, we are of the view that the Continuing Connected Transactions pursuant to the Shuyun Dongfang Agreements are on normal commercial terms, have been and will be conducted in the ordinary and usual course of business of the Group, and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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### 6. The historical transaction amounts, existing annual caps and the proposed revised annual caps for each of the Shuyun Dongfang Agreements

#### *Historical transaction amounts*

The table below sets out the historical transaction amounts in relation to the provision of decoration project management and related services pursuant to the Shuyun Dongfang Agreements during the periods indicated below:

	<b>For the Year ended</b>					
	<b>Increase</b>		<b>Increase</b>		<b>Decrease</b>	
	<b>2016 from 2015</b>		<b>2017 from 2016</b>		<b>2018 from 2017</b>	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
<b>Historical transaction amounts</b>						
Decoration project management and related services ( <i>Note 1</i> )	32,605	185.3	1,290,206	3,857.1	737,573	(42.8)

*Notes:*

- Prior to December 2016, the Group had engaged Shuyun Dongfang as the project management service provider and paid Shuyun Dongfang a project management service fee. Starting from December 2016 to November 2017, the Group engaged Shuyun Dongfang as the contractor in the decoration projects and paid the total cost of the relevant projects to Shuyun Dongfang. Shuyun Dongfang then engaged sub-contractors to carry out the decoration work and purchased plants and equipment for the Group's decoration projects. On such basis, there had been significant fluctuation in the historical actual transaction amounts paid by the Group to Shuyun Dongfang in relation to the provision of decoration project management and related services. Starting from December 2017, the Group re-designated Shuyun Dongfang as a project management service provider again, and paid it a project management service fee instead.



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*The existing annual caps and proposed Revised Annual Caps*

	For the Year ended/ ending				
			Increase/ (decrease)		
	2018	2019	from 2018	2020	from 2019
	<i>RMB'000</i>	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Existing annual caps</b>					
Decoration project management and related services ( <i>Note 1</i> )	<u>978,300</u>	<u>145,400</u>	<u>(85.1)</u>	<u>197,400</u>	<u>35.8</u>
<b>Actual/ estimated transaction amounts</b>					
<b><i>Decoration project general contract services</i></b>					
		1,250,000		3,600,000	
Estimated capital expenditure as general contract fee for each PRC domestic project	<i>(Note 2)</i>	9,000		9,000	0.0
Number of projects commenced in the previous Year and brought forward to this Year		—		143	N/A
Number of projects require payment for the remaining 60% of the total project costs		—		72	N/A
Number of projects require payment for the remaining 20% of the total project costs		—		71	N/A
Sub-total		—	<i>(Note 4)</i>	516,600	N/A
Number of projects to be commenced and completed in the same Year and require payment for 100% of the total project costs		50		215	330.0
Sub-total	<i>(Note 3)</i>	450,000		1,935,000	330.0
Number of projects to be commenced in the Year and carried forward to next Year		143		208	45.5
Number of projects require payment for 40% of the total project costs		72		104	44.4
Number of projects require payment for 80% of the total project costs		71		104	46.5
Sub-total	<i>(Note 4)</i>	770,400	<i>(Note 5)</i>	1,123,200	45.8



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	For the Year ended/ ending				
	Increase/ (decrease)			Increase/ (decrease)	
	2018 RMB'000	2019 RMB'000	from 2018 %	2020 RMB'000	from 2019 %
<b><i>Decoration project management and related services</i></b>	737,573	150,000	(79.7)	50,000	(66.7)
Number of PRC domestic projects brought forward from previous Year		127		—	(100.0)
Number of PRC domestic projects to be commenced and completed in the same Year		47		—	(100.0)
Project management fee for each PRC domestic project		640		640	0.0
Sub-total	<i>(Note 6)</i>	111,360		—	(100.0)
Number of overseas projects to be commenced and completed in the same Year		36		57	58.3
Project management fee per overseas project		750		750	0.0
Sub-total	<i>(Note 7)</i>	27,000		42,750	58.3
Buffer and miscellaneous	<i>(Note 8)</i>	41,240		32,450	178.8
<b>Total</b>	737,573	1,400,000	89.8	3,650,000	160.7
<b>Utilisation rate of the existing annual caps</b>					
Decoration project management and related services	75.4%	N/A		N/A	
<b>Number of hot pot restaurants</b>					
Number of new hot pot restaurants to be opened during the Year <i>(Note 9)</i>	200	355	77.5	570	60.6
Number of hot pot restaurants as at year end date	466	821	76.2	1,391	69.4

*Notes:*

- Starting from December 2016 to November 2017, the Group engaged Shuyun Dongfang as the contractor in the decoration projects and paid the total cost of the relevant projects to Shuyun Dongfang. Shuyun Dongfang then engaged sub-contractors to carry out the decoration work and purchased plants and equipment for the Group's decoration projects. Starting from December 2017, the Group has restored the existing transaction arrangement from a contractor to a project

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management service provider again in connection with the interior decoration and renovation of its PRC restaurants as if that role played by Shuyun Dongfang in the Year 2017; and to a lesser extent, continue the existing transaction arrangement by engaging Shuyun Dongfang as a project management service provider for the Group's overseas restaurants. As a consequence, Shuyun Dongfang will substantially act as a contractor and in turn engage sub-contractors to carry out the decoration work and purchase plants and equipment for the Group's projects in connection with its vast number of new hot pot restaurants to be opened in the PRC while the Group will then pay (i) the total costs of the PRC decoration projects and (ii) project management service fee for overseas projects, to Shuyun Dongfang for the coming two Years of 2019 and 2020. On such basis, the Group shall pay very much larger amounts of decoration project management and general contract service fee to Shuyun Dongfang in the coming two Years 2019 and 2020; while such fee paid to Shuyun Dongfang for each new hot pot restaurant on the basis of a project management provider for Year 2018 was much lower than that on a general contractor basis.

2. The capital expenditure for each PRC decoration project is estimated to be around RMB9.0 million for each of the two Years 2019 and 2020, which is consistent with the Group's past experience in decoration for new hot pot restaurants over the years.
3. It is currently estimated that there will be 50 and 215 decoration projects to be commenced and completed within the Years 2019 and 2020, respectively, the proposed Revised Annual Caps for these decoration project general contract services would amount to RMB450 million (i.e. RMB9,000,000 x 50 projects) and RMB1,935 million (i.e. RMB9,000,000 x 215 projects), respectively.
4. It is currently estimated that there will be a total of 143 cross-year decoration projects to be conducted during the Year 2019, of which, approximately 72 and 71 will require progress payments of 40% (i.e. at design stage) and 80% (i.e. at construction stage), respectively, of the total cost of a decoration project to be made to Shuyun Dongfang by end of that Year. Such cross-year decoration projects would then be carried forward to the Year 2020 for further completion, so the remaining 60% and 20% of the total cost of projects payable to Shuyun Dongfang would be settled by end of Year 2020. The proposed Revised Annual Cap for these cross-year decoration projects on progressive payment basis are estimated to be approximately RMB770.4 million for the Year 2019, which is calculated as RMB9,000,000 x (40% x 72 projects + 80% x 71 projects) = RMB770,400,000; while the same for the Year 2020 would be approximately RMB516.6 million, which is calculated as RMB9,000,000 x (60% x 72 projects + 20% x 71 projects) = RMB516,600,000. Based on our discussion with and understanding from the Management, the basis of 50% of the cross-year projects being at the design stage and the remaining 50% being at the construction stage was determined with reference to the Group's past experience in dealing decoration projects with similar proportions during the Years from 2016 to 2018.
5. Similarly, it is currently estimated that there will be a total of 208 decoration projects to be conducted during the Year 2020, of which, approximately 104 and 104 will require progress payments of 40% (i.e. at design stage) and 80% (i.e. at construction stage), respectively, of the total cost of a decoration project to be made to Shuyun Dongfang by end of that Year whilst such cross-year decoration projects would then be carried forward to the Year 2021 for further completion. The proposed Revised Annual Cap for these cross-year decoration projects on progressive payment basis is estimated to be approximately RMB1,123.2 million for the Year 2020, which is calculated as RMB9,000,000 x (40% x 104 projects + 80% x 104 projects) = RMB1,123,200,000.
6. In respect of decoration project management and related services, it is currently estimated that there will be 127 decoration projects to be brought forward from the Year 2018 and completed in the Year 2019, and 47 decoration projects to be commenced and completed within the Year 2019, for each of which, a project management fee of RMB640,000 would be required to be settled by end of Year 2020 upon their completion. On such basis, the proposed Revised Annual Caps are set at RMB111.36 million (i.e. RMB640,000 x 174 projects in total) for the Year 2019; whilst there would be no similar decoration projects to be conducted in the Year 2020, because the Group's new decoration projects will be transformed to Shuyun Dongfang by way of general contract arrangements, so project management fee for new hot pot restaurants to be opened in the PRC would no longer be incurred commencing from the Year 2020.

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7. The Group has current business plan to open 36 and 57 new hot pot restaurants in overseas countries in the Years 2019 and 2020 respectively, so the proposed Revised Annual Caps under the Master Decoration Project Management Service Agreement would be RMB27.0 million (i.e. RMB750,000 x 36 projects) and RMB42.75 million (i.e. RMB750,000 x 57 projects) for each of the two Years 2019 and 2020, respectively, on the basis of a project management fee of RMB750,000 payable for each decoration project in overseas countries.
8. There are buffers of approximately RMB41.2 million and RMB32.5 million for each of the two Years 2019 and 2020 respectively, accounting for merely 2.9% and 0.9% of the respective total annual caps, to cope with any probable unanticipated increase in transaction amounts which we consider to be prudent, fair and reasonable.
9. It is currently anticipated that there will be 355 and 570 new hot pot restaurants to be opened in each of the two Years 2019 and 2020, respectively, the construction works of which should have been commenced in either the previous Year or that Year, and then completed by end of Years 2019 and 2020, as the case maybe.
10. Based on the Group's past experience, there would be around 35% of the decoration projects to be completed in the following Year after commencement of the relevant decoration works in that Year, whilst around 60% to 70% decoration projects will be allocated to Shuyun Dongfang taking into account the increasing involvement of the third party decoration service providers.

### ***Basis of determination of the proposed Revised Annual Caps***

Based on the Group's latest unaudited management accounts for the six months ended June 30, 2019, the actual transaction amounts for the provision of the decoration project management and related services under the Shuyun Dongfang Agreements had not exceeded the existing annual caps for the Year 2019.

Considering (i) the above-mentioned transformation of the transaction arrangement between the Group and Shuyun Dongfang; (ii) the rapid development of the Group's businesses and expansion of its nation-wide and overseas restaurant network; and (iii) the acquisition of Youdingyou, the Board considers that the existing annual caps in respect of the Years 2019 and 2020 for the transactions under the Shuyun Dongfang Agreements will not be able to satisfy the significant increase in the demand for the decoration services for opening new and/or renovating existing hot pot restaurants, of the Group for the two Years 2019 and 2020. The proposed Revised Annual Caps have been estimated based on the following factors:

- the decoration project general contract service fee rate and the decoration project management service fee rate agreed by Shuyun Dongfang and the Group and the expected fluctuation in the rates;
- the anticipated expansion of the Group's restaurant network in China and overseas, specifically, the estimated number of new hot pot restaurants that the Group plans to open and decorate, and the estimated number of existing hot pot restaurants that it plans to renovate;
- the past experience of the Group in restaurant decoration projects and the major terms and payment schedule for the general contract services and project management services agreed by Shuyun Dongfang and the Group; and

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- the historical transaction amounts with Shuyun Dongfang under both transaction arrangements and the service capacity of Shuyun Dongfang in providing general contract services and project management services.

The increase in the proposed Revised Annual Caps for the Year 2019 as compared to that of the Year 2020 is due to the expected organic growth of the Group.

### *Assessment of the proposed Revised Annual Caps*

In assessing the fairness and reasonableness of the proposed Revised Annual Caps under the Shuyun Dongfang Agreements for the two Years 2019 and 2020, we have reviewed the Group's (i) business plan for opening new hot pot restaurants; and (ii) schedules of forecasted capital expenditures and/or project management fees to be incurred for decoration projects of new and existing hot pot restaurants prepared by the Company, for the two Years 2019 and 2020, which is used to determine the proposed Revised Annual Caps under the Shuyun Dongfang Agreements and prepared based on the forecasted transaction arrangement and amounts between the Group and Shuyun Dongfang.

Based on our independent review of the Prospectus, the Group had 146, 176 and 273 hot pot restaurants as at December 31, 2015 to 2017, respectively. According to the Group's business strategy and plan as disclosed in the Prospectus, by leveraging with the net proceeds of approximately HK\$7,269.4 million from the Listing in September 2018, it will continue to expand its restaurant network by increasing restaurant density and further expanding geographical coverage etc. following the Listing. The Group previously planned to open 180 to 220 new hot pot restaurants in the Year 2018, it ultimately attained its target of opening 200 new hot pot restaurants during the Year 2018, and having 466 hot pot restaurants by the end of Year 2018. Based on this observation, we consider that the Group's history of implementation/ execution of business plans and forecasts is provable and realistic.

Based on our independent review of the Group's consolidated cash flow statement as disclosed in the Prospectus, it had very strong capability to generate operating cash inflows before movements on working capital of approximately RMB799.3 million, RMB1,634.5 million and RMB1,978.4 million for each of three Years from 2015 to 2017, respectively. In addition to the considerable sum of net cash proceeds of approximately HK\$7,269.4 million obtained from the Listing, we are of the view that the Group's business forecasts of opening many more, i.e. 288 to 355 for Year 2019 and 455 to 570 for the Year 2020, hot pot restaurants in the coming two Years shall be attainable and reliable, in particular consideration of its available financial and human resources.

Based on our independent review of the Frost & Sullivan Report, Haidilao ranked first, among the five largest industry players, in the hot pot restaurant market in the PRC during the three Years from 2015 to 2017, with about 2.2% market share in terms of revenue in Year 2017. According to the Frost & Sullivan Report, Haidilao and the other four industry players have also been focusing on hot pot restaurant market in the PRC with nationwide hot pot restaurants wide-spread across the major cities in the PRC, similar targeted customers in favour of hot pot dining and competitive with each other with respect to food quality and consistency, value of money, ambiance, service, location, supply chain and availability of trained employees. However, when comparing with the other four largest industry players, Haidilao had accumulated a network of only 254 hot pot restaurants over the 25 years

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since its opening the first hot pot restaurant in Jianyang, Sichuan Province, the PRC in 1994; whilst the other four industry players founded their Chinese cuisine companies between 1998 and 2007 with 440 to 760 hot pot restaurants up to Year 2017. Based on this observation, we have noted that Haidilao started its hot pot restaurant operation earliest in 1994 when comparing with other four industry players, but having the least number of 254 hot pot restaurants up to Year 2017, and accordingly, concur with Haidilao's current business strategy to open many more hot pot restaurants in the coming two Years 2019 and 2020 in order to keep abreast of its existing market position, in particular consideration of its table turnover rate was likely to be saturated at five times in both Years 2017 and 2018 when compared to that of its competitors at around two to three times in the Year 2017. As at December 31, 2018, the Group had 466 hot pot restaurants, among which 430 were located in 109 cities in the PRC and 36 were located in Taiwan, Hong Kong and overseas countries; while its same store sales increased by about 6.2% from RMB7,630.0 million to RMB8,106.5 million for the Year 2018, and the average spending per guest slightly increased from RMB97.7 in Year 2017, to RMB101.1 in Year 2018 and RMB104.4 for the six months ended June 30, 2019. The Management also considers that as the per capita annual disposable income of urban households in the PRC increase, consumers are expected to enhance their lifestyle and upgrade consumption, which will promote dining-out culture and increase demand for mid- to high-end restaurants with better services, like Haidilao. On such scenario, it may prove that there is still significant potential to increase the Group's penetration and solidify its market presence in wider geographical locations in the PRC and overseas, and it shall be a reasonable business consideration for the Group to continue to open new hot pot restaurants in a faster pace in the coming years.

Based on our clarification with and understanding from the Management, the Group currently sets the upper limit of its hot pot restaurant network expansion plan with maximum of around 355 and 570 hot pot restaurants to be opened in each of the two Years 2019 and 2020, respectively, with respective average of around 30 and 47 hot pot restaurants to be opened each month during the period. During the six months June 30, 2019, the Group has opened 130 new hot pot restaurants, which accounted for approximately 37.1% of the expected maximum number of new hot pot restaurants to be opened for the Year 2019.

In assessing the Group's such aggressive business expansion plan, we shall look into factors whether (a) the Group has adequate resources to implement it; and (b) the overall hot pot catering market has enough room to accommodate its expansion effort/ results. Further to our independent review of the Frost & Sullivan Report regarding the competitive landscape of the Chinese cuisine and hot pot catering market in the PRC, it stated that Haidilao had its relatively shorter "new store pay-back period" of 8 to 15 months when compared to that of the industry average of 15 to 20 months. Taking into account of the combined factors attributable to the Group's present situations, including but not limited to, its (i) leading market position with very famous and favourable brand name in the PRC's hot pot catering market; (ii) historical successful operating performance in terms revenue and profit growth over at least the past few Years from 2015 to 2018; (iii) affluent financial resources with net cash proceeds over RMB7,000 million obtained from the Listing in 2018 coupled with its persistent strong capability to generate operating cash inflow over the past few Years; (iv) average capital expenditure of RMB9.0 million for opening a new hot pot restaurant with relatively shorter "new store pay-back period" of merely 8 to 15 months that would never be detrimental to the Group's overall working capital position; (v) adequate human resources by employee-oriented corporate

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culture and staff training system as detailed in the Prospectus; and (vi) the out-performed hot pot catering market in the PRC when compared to other catering sectors in the same industry as analysed in more details below, we do not consider the Group's business expansion plan to be infeasible and unjustifiable, and therefore shall be fair and reasonable.

According to the Annual Report, the Group will continue to strategically expand its restaurant network by further increasing its restaurant density and further expanding geographical coverage. Leveraging with the Group's (i) sturdy and persistent cash flow position coupled with bank deposit and cash balances of approximately RMB5,942.2 million as at December 31, 2018; and (ii) historical tremendous CAGR in terms of opening new hot pot restaurants of approximately 77.1% from Year 2015 (i.e. opened 36 new hot pot restaurants) to Year 2018 (i.e. opened 200 hot pot restaurants), we consider that the Group's business plan for opening a maximum of 925 (355 in Year 2019 whilst 570 in Year 2020) new hot pot restaurants in the coming two Years shall be not be infeasible, and therefore is fair and reasonable.

We (i) have reviewed the Group's business expansion forecasts with the expected number of new hot pot restaurants to be opened in the coming two Years from 2019 to 2020 and discussed with the Management about the proposed annual caps' setting basis; (ii) have noted that the Group's projected average decoration project management service fee payable for each hot pot restaurant for each of the two Years 2019 and 2020 is basically consistent with the Group's similar historical data/information, where capital expenditure for opening a new hot pot restaurant over the past few Years and in the coming two Years of 2019 and 2020 is expected to be remain relatively stable at RMB8 million to RMB10 million depending on the floor areas occupied (i.e. typically between 600 m<sup>2</sup> and 1,100 m<sup>2</sup>) and complexity of decoration works; and (iii) are not aware of any anomaly and/or unreasonableness behind. Based on the Prospectus and further clarification from the Management, we understand that the Group had past practice to engage Shuyun Dongfang to be the contractor for decorating new/renovating existing hot pot restaurants, which in turn engaged sub-contractors to carry out the decoration work and purchased plants and equipment for the Group's decoration projects. On this general contractor arrangement, the Group's payment of general contractor service fee to Shuyun Dongfang would substantially represent its capital expenditure in nature.

Based on our understanding from the Management's experience in the PRC's hot pot catering market, as food ingredients are freshly cooked at the diners' tables, hot pot is a healthy option among Chinese cuisines, and often preferred as PRC customers increasingly value food quality and nutrition. Based on our independent review of the 2018 中國餐飲業年度報告 (2018 China Restaurant Industry Survey Report) published by 中國飯店協會 (China Restaurant Association), the total revenue generated from the hot pot catering market in the PRC had out-performed with annual growth rate of about 24% for the Year 2017 when compared to that of approximately 10.7% attributable to the catering industry in the PRC as a whole. People having hot pot meals in the PRC has been growing popular over the years and is expected to keep this trend in the near future. According to the 中國產業信息網 (China Industry Information Website) at [www.chyxx.com](http://www.chyxx.com), revenue generated from hot pot dining has become the largest sector among various dining forms/ styles in the PRC's catering industry. On such basis, we consider that the Group's past revenue and historical development trend for opening new hot pot restaurants over the years may provide a reliable reference or comparable basis for forecasting the future pace of business development in the coming few years. Having considered the Group's historical growth rate of opening new hot pot restaurants, we concur with the



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Directors' forecasts for opening many more hot pot restaurants in the PRC and overseas for the coming two Years up to December 31, 2020, and therefore are of the view that the proposed renewal of annual caps pursuant to the Shuyun Dongfang Agreements shall be realistic, practicable, fair and reasonable.

With reference to the Group's tremendous CAGR historically in terms of opening new hot pot restaurants of approximately 77.1% from Year 2015 (i.e. opened 36 new hot pot restaurants) to Year 2018 (i.e. opened 200 new hot pot restaurants), coupled with its more aggressive business expansion plan following the Listing with a larger number of new hot pot restaurants, comprising respective (i) 319 versus 36 in the PRC and overseas countries; and (ii) 513 versus 57 in the PRC and overseas countries, to be opened in the coming two Years from 2019 to 2020, the proposed revised annual caps of approximately RMB1,400 million and RMB3,650 million for the provision of decoration project management and related services and general contract services by Shuyun Dongfang pursuant to the Shuyun Dongfang Agreements for each of the two Years of 2019 and 2020, respectively, are realistic and comprehensible, and therefore fair and reasonable.

If we re-compute the CAGR in terms of the Group's number of opening new hot pot restaurants every Year, by linking up the historical number of new hot pot restaurants already opened for the past four Years from 2015 to 2018, with the business plan of opening a maximum of additional 355 and 570 new hot pot restaurants for the two Years 2019 and 2020, respectively, the projected CAGR would account for approximately 73.7% for the six Years from 2015 to 2020, which would be very closely comparable to the historical CAGR of approximately 77.1% between the four Years from 2015 to 2018 with a slight deviation of merely 3.4 percentage points. As supported by the Frost & Sullivan Report with our independent detailed analysis, it shall be necessary and expedient for the Group to open many more hot pot restaurants in order to keep abreast of its existing market position. On such basis, we are of the view that the Group's business plan of opening new hot pot restaurants in the coming two Years of 2019 and 2020 shall not be unjustifiable, and therefore are prudent, fair and reasonable.

Having considered the above factors and analysis, we are of the view that the rationale behind and basis adopted by the Management in determining the proposed Revised Annual Caps for provision of decoration project management and related and general contract services under the Shuyun Dongfang Agreements are justifiable, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Group and the Shareholders as a whole.

However, the Independent Shareholders should note that the above proposed Revised Annual Caps for provision of decoration project management and general contract and related services under the Shuyun Dongfang Agreements relate to future events and do not represent a forecast of transaction amounts to be incurred as a result of the Continuing Connected Transactions.

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### 7. Internal control measures to govern the Continuing Connected Transactions

The Company has to establish appropriate and adequate internal control measures to govern the implementation of the Continuing Connected Transactions, which are then subject to annual review requirements.

Based on our independent review of the Company's internal control guidelines and the Annual Report, the Group has established the following steps and procedures:

- The 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 Management;
- The team of senior management of the Group organizes and runs internal control tests regularly to evaluate the completeness and effectiveness of the internal control measures in relation to continuing connected transactions;
- 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;
- The team of senior management of the Group collects and reviews continuing connected transactions each month in order to guarantee (i) the connected parties have fulfilled the terms of the agreements in relation to continuing connected transactions during the relevant month; and (ii) the actual transaction amounts incurred and estimated to be incurred between the Company and the connected parties are within the annual caps; and
- The relevant personnel of the business department of the Company will conduct regular checks on the market price for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the pricing basis for the relevant continuing connected transactions. The marketing team will from time to time (on a regular basis and/or prior to price negotiation) gather market intelligence by way of research 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.

With these internal control measures, the independent non-executive Directors could therefore assess and give the confirmations in respect of the above implementation status on a yearly basis.

In view of the above, the Board considers that sufficient and effective internal control measures are in place to ensure that the Continuing Connected Transactions contemplated under the Shuyun Dongfang Agreements on the basis that the pricing of each of the services thereunder will closely follow the prevailing comparable market rates from time to time and ensure that such pricing terms



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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would not be detrimental to the interests of the Group, we therefore are of the view that the terms provided by Shuyun Dongfang will be conducted on normal commercial terms or better, and at prices not more favourable to the relevant members of Shuyun Dongfang than transactions entered into with independent third parties, and hence will not be prejudicial to the interests of the Group and the Shareholders as a whole. Meanwhile, after consideration of the internal control procedures and further discussion with the Management regarding the actual implementation, we are of the view that the Group has established sufficient internal control measures to ensure that the Continuing Connected Transactions will be conducted on normal commercial terms (including the pricing basis) which are no less favourable than those available from independent third parties to the Group.

As disclosed in the Annual Report, the independent non-executive Directors have confirmed that the above Continuing Connected Transactions for the Year 2018 were entered into by the Group: (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreement (including the pricing principle and guidelines set out therein) governing them and on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In addition, the auditors of the Group had reviewed the Continuing Connected Transactions for the Year 2018 and confirmed to the Board that the Continuing Connected Transactions: (i) have received the approval of the Board; (ii) were in accordance with the pricing policies of the Group; (iii) were entered into in accordance with the relevant agreement governing the transaction; and (iv) have not exceeded the relevant annual caps.

### RECOMMENDATION

Having taken into account the principal factors and reasons as referred to the above, we are of the view that each of (i) the Master Decoration Project Management Service Agreement; and (ii) the Master Decoration Project General Contract Service Agreement, including the Revised Annual Caps, is conducted in the ordinary and usual course of business of the Group and on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolution(s) to be proposed at the Extraordinary General Meeting to approve the Shuyun Dongfang Agreements (including the Revised Annual Caps) and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**First Shanghai Capital Limited**  
**Nicholas Cheng**  
*Director*

#### *Note:*

Mr. Nicholas Cheng has been the Responsible Officer of Type 6 (advising on corporate finance) regulated activity under the SFO and has over 17 years of experience in corporate finance industry. He has been participating in the provision of independent financial advisory services for, and completed numerous connected transactions involving companies listed in Hong Kong.

**RESPONSIBILITY STATEMENT**

This circular, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

**DISCLOSURE OF INTERESTS**

As of the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

*(i) Interest in the Company*

<b>Name of Director/Chief Executive</b>	<b>Capacity/Nature of Interest</b>	<b>Number of Ordinary Shares</b>	<b>Approximate percentage of shareholding in the total issued share capital (%)</b>
Mr. Zhang Yong (張勇) <sup>(Note 1, 2, 3 and 6)</sup>	Founder of a discretionary trust Interest in a controlled corporation Interest of spouse Beneficiary of a trust	3,636,001,243 (L)	68.60% (L)
Ms. Shu Ping (舒萍) <sup>(Note 1, 2 and 3)</sup>	Founder of a discretionary trust Interest in a controlled corporation Interest of spouse Beneficiary of a trust	3,636,001,243 (L)	68.60% (L)
Mr. Shi Yonghong (施永宏) <sup>(Note 4 and 5)</sup>	Founder of a discretionary trust Interest in a controlled corporation	868,924,027 (L)	16.39% (L)

(L) denotes a long position

*Notes:*

- (1) Ms. Shu Ping is the spouse of Mr. Zhang Yong. Therefore, Ms. Shu Ping is deemed to be interested in the Shares in which Mr. Zhang Yong is interested and Mr. Zhang Yong is deemed to be interested in the Shares in which Ms. Shu Ping is interested under the SFO.

- (2) ZY NP Ltd. is an investment holding company incorporated in the BVI. The entire share capital of ZY NP Ltd. is wholly owned by UBS Trustees (B.V.I.) Limited as the trustee of the Apple Trust. Apple Trust is a discretionary trust set up by Mr. Zhang Yong as the settlor and protector on August 22, 2018 for the benefit of himself and Ms. Shu Ping. Mr. Zhang Yong (as the founder of the Apple Trust) and UBS Trustees (B.V.I.) Limited are taken to be interested in the Shares held by ZY NP Ltd. for the under the SFO.
- (3) SP NP Ltd. is an investment holding company incorporated in the BVI. The entire share capital of SP NP Ltd. is wholly owned by UBS Trustees (B.V.I.) Limited as the trustee of the Rose Trust. Rose Trust is a discretionary trust set up by Ms. Shu Ping as the settlor and protector on August 22, 2018 for the benefit of herself and Mr. Zhang Yong. Ms. Shu Ping (as the founder of the Rose Trust) and UBS Trustees (B.V.I.) Limited are taken to be interested in the Shares held by SP NP Ltd. for the under the SFO.
- (4) SYH NP Ltd. is an investment holding company incorporated in the BVI. The entire share capital of SYH NP Ltd. is wholly owned by UBS Trustees (B.V.I.) Limited as the trustee of the Cheerful Trust. Cheerful Trust is a discretionary trust set up by Mr. Shi Yonghong and Ms. Li Haiyan as the settlors and protectors on August 22, 2018 for their own benefit and the benefit of their families. Mr. Shi Yonghong and Ms. Li Haiyan (as the founders of the Cheerful Trust) and UBS Trustees (B.V.I.) Limited are taken to be interested in the Shares held by SYH NP Ltd. for the under the SFO.
- (5) LHY NP Ltd. is an investment holding company incorporated in the BVI. The entire share capital of LHY NP Ltd. is wholly owned by UBS Trustees (B.V.I.) Limited as the trustee of the Cheerful Trust. Cheerful Trust is a discretionary trust set up by Mr. Shi Yonghong and Ms. Li Haiyan as the settlors and protectors on August 22, 2018 for their own benefit and the benefit of their families. Mr. Shi Yonghong and Ms. Li Haiyan (as the founders of the Cheerful Trust) and UBS Trustees (B.V.I.) Limited are taken to be interested in the Shares held by LHY NP Ltd. for the under the SFO.
- (6) NP United Holding Ltd. is an investment holding company incorporated in the BVI and is owned as to approximately 51.778% by ZY NP Ltd. and 16.074% by each of SP NP Ltd., SYH NP Ltd. and LHY NP Ltd., respectively. Therefore, Mr. Zhang Yong, ZY NP Ltd. and UBS Trustees (B.V.I.) Limited are deemed to be interested in the Shares in which NP United Holding Ltd is interested under the SFO.

(ii) *Interest in associated corporations*

Name of Director/Chief Executive	Name of Associated Corporation	Capacity/Nature of Interest	Percentage of Shareholding in the Associated Corporation
Mr. Zhang Yong <sup>(Note 2)</sup>	Fuhai (Shanghai) Food Technology Co., Ltd. <i>(Note 1)</i>	Founder of a discretionary trust Interest in a controlled corporation	60%
Ms. Shu Ping <sup>(Note 2)</sup>	Fuhai (Shanghai) Food Technology Co., Ltd. <i>(Note 1)</i>	Founder of a discretionary trust Interest in a controlled corporation	60%

- (1) Fuhai (Shanghai) Food Technology Co., Ltd. is held as to 40% by the Shanghai Xinpai and 60% by Yihai (Shanghai) Food Co., Ltd., a wholly-owned subsidiary of Yihai, and therefore is an associated corporation of the Company under the SFO.
- (2) Yihai is held as of approximately 59% by ZYSP YIHAI Ltd. The entire share capital of ZYSP YIHAI Ltd. is wholly owned by UBS Trustees (B.V.I.) Limited as the trustee of the ZYSP Trust, a discretionary trust set up by Mr. Zhang and Ms. Shu Ping as the settlors and protectors on June 1, 2016 for their own benefit. Mr. Zhang and Ms. Shu (as founders of the ZYSP Trust) are deemed to be interested in the shares of Fuhai (Shanghai) Food Technology Co., Ltd. held by Yihai (Shanghai) Food Co., Ltd. under the SFO.

Save as disclosed above, as of the Latest Practicable Date, none of the Directors or chief executives of the Company and their respective associates has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or which will be required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

### SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the followings are the persons, other than the Directors or chief executives of the Company, who had interests or short positions in the Shares and underlying Shares which would be required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Total number of shares	Approximate Percentage of Shareholding (%)
UBS Trustees (B.V.I.) Limited <i>(Note 1, 2, 4, 5 and 6)</i>	Trustee	4,504,925,270 (L)	85.00% (L)
Ms. Li Haiyan <i>(李海燕)(Note 3, 4 and 5)</i>	Founder of a discretionary trust Interest in a controlled corporation	868,924,027 (L)	16.39%(L)
NP United Holding Ltd. <i>(Note 6)</i>	Beneficial owner	1,801,970,108 (L)	34.00% (L)
ZY NP Ltd. <i>(Note 1 and 6)</i>	Beneficial owner Interest in a controlled corporation	3,201,539,229 (L)	60.41% (L)
SP NP Ltd. <i>(Note 2)</i>	Beneficial owner	434,462,014 (L)	8.20% (L)
SYH NP Ltd. <i>(Note 4)</i>	Beneficial owner	434,462,014 (L)	8.20% (L)
LHY NP Ltd. <i>(Note 5)</i>	Beneficial owner	434,462,014 (L)	8.20% (L)

(L) denotes a long position

#### Notes:

- (1) ZY NP Ltd. is an investment holding company incorporated in the BVI. The entire share capital of ZY NP Ltd. is wholly owned by UBS Trustees (B.V.I.) Limited as the trustee of the Apple Trust. Apple Trust is a discretionary trust set up by Mr. Zhang Yong as the settlor and protector on August 22, 2018 for the benefit of himself and Ms. Shu Ping. Mr. Zhang Yong (as the founder of the Apple Trust) and UBS Trustees (B.V.I.) Limited are taken to be interested in the Shares held by ZY NP Ltd. for the under the SFO.
- (2) SP NP Ltd. is an investment holding company incorporated in the BVI. The entire share capital of SP NP Ltd. is wholly owned by UBS Trustees (B.V.I.) Limited as the trustee of the Rose Trust. Rose Trust is a discretionary trust set up by Ms. Shu Ping as the settlor and protector on August 22, 2018 for the benefit of herself and Mr. Zhang Yong. Ms. Shu Ping (as the founder of the Rose Trust) and UBS Trustees (B.V.I.) Limited are taken to be interested in the Shares held by SP NP Ltd. for the under the SFO.

- (3) Ms. Li is the spouse of Mr. Shi. Therefore, Ms. Li is deemed to be interested in the Shares in which Mr. Shi is interested and Mr. Shi is deemed to be interested in the Shares in which Ms. Li is interested under the SFO.
- (4) SYH NP Ltd. is an investment holding company incorporated in the BVI. The entire share capital of SYH NP Ltd. is wholly owned by UBS Trustees (B.V.I.) Limited as the trustee of the Cheerful Trust. Cheerful Trust is a discretionary trust set up by Mr. Shi Yonghong and Ms. Li Haiyan as the settlors and protectors on August 22, 2018 for their own benefit and the benefit of their families. Mr. Shi Yonghong and Ms. Li Haiyan (as the founders of the Cheerful Trust) and UBS Trustees (B.V.I.) Limited are taken to be interested in the Shares held by SYH NP Ltd. for the under the SFO.
- (5) LHY NP Ltd. is an investment holding company incorporated in the BVI. The entire share capital of LHY NP Ltd. is wholly owned by UBS Trustees (B.V.I.) Limited as the trustee of the Cheerful Trust. Cheerful Trust is a discretionary trust set up by Mr. Shi Yonghong and Ms. Li Haiyan as the settlors and protectors on August 22, 2018 for their own benefit and the benefit of their families. Mr. Shi Yonghong and Ms. Li Haiyan (as the founders of the Cheerful Trust) and UBS Trustees (B.V.I.) Limited are taken to be interested in the Shares held by LHY NP Ltd. for the under the SFO.
- (6) NP United Holding Ltd. is an investment holding company incorporated in the BVI and is owned as to approximately 51.778% by ZY NP Ltd. and 16.074% by each of SP NP Ltd., SYH NP Ltd. and LHY NP Ltd., respectively. Therefore, Mr. Zhang Yong, ZY NP Ltd. and UBS Trustees (B.V.I.) Limited are deemed to be interested in the Shares in which NP United Holding Ltd is interested under the SFO.

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

## QUALIFICATION AND CONSENT

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

<b>Name</b>	<b>Qualification</b>
First Shanghai	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO

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

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

**LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

**MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Company since December 31, 2018, being the date to which the latest published audited financial statement of the Company have been made up.

**SERVICE CONTRACT OF THE DIRECTORS**

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any member of the Group referred to in Rule 13.68 of the Listing Rules (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

**INTERESTS OF DIRECTORS**

- (a) The Directors are not aware of any Director or his respective associates having, as at the Latest Practicable Date, any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would be required to be disclosed under the Listing Rules.
- (b) Save as disclosed in the section headed “Connected Transactions” of the Prospectus, the announcement of the Company in relation to the acquisition of the entire equity interest of Beijing Youdingyou Catering Co., Ltd. (北京優鼎優餐飲股份有限公司) and this circular, no Director was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant to the business of the Group taken as a whole.
- (c) Save as disclosed in the section headed “Connected Transactions” of the Prospectus and the announcement of the Company in relation to the acquisition of the entire equity interest of Beijing Youdingyou Catering Co., Ltd. (北京優鼎優餐飲股份有限公司), since December 31, 2018, being the date of the latest published audited consolidated accounts of the Company, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or which are proposed to be acquired, disposed of by or leased to, any member of the Group.

**GENERAL**

- (a) The Company’s share registrar is Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (b) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text in the case of any inconsistency.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on Monday to Friday (other than public holidays) at the Company's principle place of business in Hong Kong at 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong, from the date of this circular up to and including November 11, 2019:

- (a) the Master Decoration Project Management Service Agreement entered into between the Company and Shuyun Dongfang;
- (b) the Master Decoration Project General Contract Service Agreement entered into between the Company and Shuyun Dongfang;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 17 of this circular;
- (d) the letter of advice issued by First Shanghai, being the Independent Financial Adviser, the text of which is set out on pages 18 to 39 of this circular; and
- (e) the written consent referred to in the subsection headed "Qualification and Consent" of this Appendix.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### HAIDILAO INTERNATIONAL HOLDING LTD.

海底捞国际控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 6862)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Extraordinary General Meeting (the “EGM”) of Haidilao International Holding Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) will be held at 08-36/43, Paya Lebar Square, 60 Paya Lebar Road, Singapore 409051 on Monday, November 18, 2019 at 10:00 a.m. for the following purposes. Persons entitled to attend and vote at the Extraordinary General Meeting are also allowed to attend and vote through the video-conference system which will be located at the Company’s principal place of business in Hong Kong at 40/F, Sunlight Tower, 248 Queen’s Road East Wanchai, Hong Kong:

#### AS ORDINARY RESOLUTION

To consider and, if thought fit, to pass the following resolution with or without amendments as an ordinary resolution:

“**THAT**

- (a) the master decoration project management service agreement (the “**Master Decoration Project Management Service Agreement**”) dated September 1, 2018 entered into between the Company and Beijing Shuyun Dongfang Decoration Project Co., Ltd. (北京蜀韻東方裝飾工程有限公司) (“**Shuyun Dongfang**”), each for itself and on behalf of its subsidiaries, in relation to the provision of decoration project management and related services to the our Group, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (b) the master decoration project general contract service agreement (the “**Master Decoration Project General Contract Service Agreement**”, together with the Master Decoration Project Management Service Agreement, the “**Shuyun Dongfang Agreements**”) dated October 8, 2019 entered into between the Company and Shuyun Dongfang, each for itself and on behalf of its subsidiaries, in relation to the provision of decoration project general contract services to the our Group, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (c) the proposed annual caps in relation to the transactions contemplated under the Shuyun Dongfang Agreements as specified below be and are hereby approved, ratified and confirmed;

**For the year ending December 31,**

**2019**

RMB1,400,000,000

**2020**

RMB3,650,000,000



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (d) any director of the Company be and is hereby authorized for and on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he may in his discretion consider necessary or desirable or expedient for the purpose of or in connection with the Shuyun Dongfang Agreements and to make and agree such variations of a non-material nature in or to the terms of the Shuyun Dongfang Agreements as he may in his discretion consider to be desirable and in the interests of the Company.”

By order of the Board  
Haidilao International Holding Ltd.  
**Mr. Zhang Yong**  
*Chairman*

October 28, 2019

*Notes:*

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies (if such member is the holder of two or more shares) to attend and to vote instead of them. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member of the Company from attending the EGM and vote in person. In such event, his form of proxy will be deemed to have been revoked.
- (2) Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- (3) A form of proxy for use at the meeting is enclosed.
- (4) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, must be deposited at the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.
- (5) The voting at the EGM will be taken by poll.
- (6) The register of members of the Company will be closed from Wednesday, November 13, 2019 to Monday, November 18, 2019, both days inclusive, in order to determine the eligibility of the shareholders to attend and vote at the EGM. The shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, November 12, 2019 will be entitled to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong before 4:30 p.m. on Tuesday, November 12, 2019.