YIHAI INTERNATIONAL HOLDING LTD.
頤海國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1579)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "**Board**") of Yihai International Holding Ltd. (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2017 (the "**Reporting Period**"), together with comparative figures for the same period of 2016.

GROUP FINANCIAL HIGHLIGHTS

- Revenue was RMB1,646.2 million in 2017, a 51.3% increase from RMB1,088.0 million in 2016.
- Gross profit was RMB611.8 million in 2017, a 46.7% increase from RMB416.9 million in 2016.
- Net profit was RMB261.1 million in 2017, a 39.9% increase from RMB186.7 million in 2016.
- Net profit attributable to owners of the Company was RMB260.7 million in 2017, a 39.6% increase from RMB186.7 million in 2016.
- Earnings per share (basic and diluted) in 2017 was RMB0.269 and RMB0.267 respectively.

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Assets			
Non-current assets			
Land use rights		35,152	31,738
Property, plant and equipment		180,088	116,141
Intangible assets		5,182	2,803
Deferred tax assets		10,554	6,584
Prepayments for property, plant and equipment		57,095	8,608
Total non-current assets		288,071	165,874
Current assets			
Inventories		147,617	130,496
Trade receivables	4	131,457	67,080
Prepayments and other receivables	5	76,670	38,217
Cash and cash equivalents		1,130,205	1,021,999
Financial assets at fair value through profit or loss		32,671	—
Total current assets		1,518,620	1,257,792
Total assets		1,806,691	1,423,666
Equity			
Share capital	6	68	68
Shares held for employee share scheme		(5)	(5)
Reserves	8	1,501,326	1,266,142
Capital and reserves attributable to owners of the Company		1,501,389	1,266,205
Non-controlling interests		4,420	—
Total equity		1,505,809	1,266,205
Current liabilities			
Trade payables	9	136,582	73,277
Other payables and accruals	10	115,033	54,747
Current tax liabilities		49,267	29,437
Total current liabilities		300,882	157,461
Total liabilities		300,882	157,461
Total equity and liabilities		1,806,691	1,423,666

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	3	1,646,221	1,088,014
Cost of sales of goods	11	(1,034,415)	(671,072)
Gross profit		611,806	416,942
Distribution expenses	11	(164,615)	(127,921)
Administrative expenses	11	(76,415)	(53,841)
Other incomes and gains- net	12	43,748	21,481
Fair value loss of redeemable convertible preferred shares		—	(35,264)
Finance income	13	6,651	33,692
Finance costs	13	(52,095)	—
Finance (costs)/income - net	13	(45,444)	33,692
Profit before income tax		369,080	255,089
Income tax expense	14	(107,990)	(68,369)
Profit for the year		261,090	186,720
Profit attributable to:			
Owners of the Company		260,670	186,720
Non-controlling interests		420	—
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges	8	—	(514)
Other comprehensive income for the year, net of tax		—	(514)
Total comprehensive income		261,090	186,206
Total comprehensive income attributable to:			
– Owners of the Company		260,670	186,206
– Non-controlling interests		420	—
Earnings per share attributable to ordinary equity holders of the Company			
(expressed in RMB per share)			
– Basic	15	0.269	0.234
– Diluted	15	0.267	0.234

NOTES

1. General information

Yihai International Holding Ltd. (the "Company") and its subsidiaries (together the "Group") are principally engaged in the production and sale of hot pot soup flavoring products, hot pot dipping sauce products and Chinese style compound condiment products in the People's Republic of China (the "PRC"), collectively referred to as the "Listed Business".

The Company was incorporated in the Cayman Islands on 18 October 2013 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands.

The Company's global offering of its shares ("the Global Offering") on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") was completed on 13 July 2016.

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 21 March 2018.

2. Basis of preparation

(i) Compliance with IFRS and HKCO

The consolidated financial statements of the Group has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies Ordinance ("HKCO")Cap. 622.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, as modified by revaluation of financial assets at fair value through profit or loss which are carried at fair value.

(iii) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12, and
- Disclosure initiative – amendments to IAS 7.

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

(iv) New standards and interpretations not yet adopted

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018 and have not been applied in preparing these consolidated financial statements:

- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
- Annual Improvements to IFRS Standards 2014-2016 Cycle, and
- Transfers of Investment Property – Amendments to IAS 40.

None of these above new standards and amendments to standards and interpretations is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9 'Financial Instruments'

Nature of change

IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The financial assets held by the Group include investments currently measured at fair value through profit or loss which will continue to be measured on the same basis under IFRS 9. Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard and corporatives for 2017 will not be restated.

IFRS 15 'Revenue from contracts with customers'

Nature of change

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts and the related literature.

The new standard establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that may be affected:

- rights of return IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

The new standard provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

Management expected that the new standard of IFRS 15 will not have significant effect on the financial statement of the Group.

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

IFRS 16 'Leases'

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. The Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Mandatory application date/Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact the Group.

3. Segment information

Breakdown of revenue by product category is as follows:

	Year ended 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Revenue		
Hot pot soup flavoring products		
– Related parties	871,282	583,778
– Third parties	429,921	288,745
Subtotal	1,301,203	872,523
Hot pot dipping sauce products		
– Related Parties	281	104
– Third Parties	93,924	73,856
Subtotal	94,205	73,960
Chinese style compound condiment products		
– Related parties	43,413	18,194
– Third parties	142,860	116,351
Subtotal	186,273	134,545
Self-serving small hotpot products		
– Related parties	104	—
– Third parties	61,341	—
Subtotal	61,445	—
Others		
– Related parties	831	3,652
– Third parties	2,264	3,334
Subtotal	3,095	6,986
Total	1,646,221	1,088,014

Revenue from sales attributable to related parties accounted for 55.6% and 55.7% of the total revenue for the years ended 31 December 2017 and 2016 respectively.

4. Trade receivables

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Third parties	21,352	12,866
Related parties	110,107	54,224
Subtotal	131,459	67,090
Less: provision for impairment (a)	(2)	(10)
Trade receivables — net	131,457	67,080

(a) The majority of the Group's third party sales are conducted through receiving advances from customers before delivering the goods to customers, with only few customers are granted with credit periods ranged from 30 to 90 days. The related party customers of the Group are granted with 30 days credit period. Ageing analysis based on recognition date of the gross trade receivables at the respective balance sheet dates is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 3 months	131,457	66,878
3 to 6 months	—	202
Total	131,457	67,080

The carrying amounts of trade receivables above approximate their fair values.

(b) As at 31 December 2017, no trade receivables were past due but not impaired (2016: RMB 202,000, which related to a number of independent customers for whom there was no significant financial difficulty and based on past experience, the overdue amounts can be recovered). The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
3 to 6 months	—	202

Movements in the provision for impairment of trade receivables are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
As at 1 January	10	—
(Reversal of)/provision for impairment	(8)	10
As at 31 December	2	10

The creation and release of provision for impaired receivables have been included in 'Administrative expenses' in the consolidated statement of comprehensive income.

5. Prepayments and other receivables

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Prepayments		
Prepayments for purchase of raw materials	46,202	24,276
Prepayments for property, plant and equipment	57,095	8,608
Value added tax recoverable	11,499	4,150
Prepayments for legal and professional fees	8,676	1,933
Prepayments for rental and warehouse	5,667	2,032
Others	358	508
Subtotal	129,497	41,507
Less: Non-current portion	(57,095)	(8,608)
Current portion	72,402	32,899
Other receivables		
Deposit for utilities	3,672	3,271
Advance to employees	522	1,595
Related parties	—	390
Others	420	323
Less: provision for impairment (a)	(346)	(261)
Subtotal	4,268	5,318
Total	76,670	38,217

(a) Movements in the provision for impairment of other receivables are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
As at 1 January	261	159
Provision for impairment	85	102
As at 31 December	346	261

6. Share capital

	2017	2016	2017	2016
	Shares	Shares	US$'000	US$'000
Authorised ordinary shares				
On 1 January 2016, 31 December 2016 and 2017	5,000,000,000	5,000,000,000	50,000	50,000

Issued and fully paid ordinary shares

	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares
		US$	RMB'000
At 1 January 2016	488,000,000	4,880	31
Conversion of redeemable convertible preferred shares (a)	54,222,222	542	4
Capitalisation issue (b)	237,777,778	2,378	16
Issuance of ordinary shares upon Global Offering (c)	260,000,000	2,600	17
Issuance of ordinary shares upon exercise of over-allotment option (c)	6,900,000	69	—
At 31 December 2016 and 2017	1,046,900,000	10,469	68

(a) Conversion of redeemable convertible preferred shares

As at 13 July 2016, the redeemable convertible preferred shares have been automatically converted into 54,222,222 ordinary shares (before the capitalisation issue mentioned in Note (b) below) upon listing of the Company's shares on the Main Board of HKSE.

(b) Capitalisation issue

Pursuant to a written resolution of all shareholders of the Company (the "Shareholders") passed on 20 June 2016, conditional upon the share premium account of the Company being credited as a result of the issuance of new shares pursuant to the Global Offering, the directors of the Company (the "Director") were authorised to capitalise an amount of US$2,378 towards paying up in full at par of 237,777,778 ordinary shares of US$0.00001 each for allotment and issue to the persons whose names appear on the register of members of the Company at the close of business on the business day before 13 July 2016 in proportion to their then existing shareholding. Accordingly, 237,777,778 ordinary shares with par value of US$0.00001 each were issued and US$2,378 (equivalent to RMB 15,907) were credited to share capital.

(c) Issuance of new ordinary shares to public upon the Global Offering

On 13 July 2016, the Company completed its Global Offering by issuing 260,000,000 new ordinary shares with nominal value of US$0.00001 each at a price of HK$3.3 per share. Since then, the Company's shares have been listed on the Main Board of the HKSE.

On 12 August 2016, the Company issued additional 6,900,000 new ordinary shares with nominal value of US$0.00001 each at a price of HK$3.3 per share pursuant to the exercise of the over-allotment option of the Global Offering.

The total gross proceeds from the Global Offering were approximately HK$ 880,770,000 (equivalent to approximately RMB 759,301,000), of which US$ 2,669 (equivalent to approximately RMB 17,000) was credited to share capital, HK$ 880,749,000 (equivalent to approximately RMB 759,284,000) was credited to share premium. The share issuance costs relating to the Global Offering amounted to RMB 39,093,000 were recorded in the share premium.

7. Shares held for employee share scheme

	2017	**2016**	**2017**	**2016**
	Shares	**Shares**	**RMB'000**	**RMB'000**
Shares held for employee share scheme	77,220,000	77,220,000	5	5

These shares that are held by the Group's RSU Trustee for the purpose of issuing shares under the Group's RSU scheme (see note 8 for further information). Shares issued to employees are recognised on a first-in-first-out basis.

8. Reserves

	Share premium	Merger reserve (Note a)	Statutory reserve (Note b)	Share-based payment reserve	Hedging reserve (Note d)	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2016	17,649	(445)	8,843	—	514	115,332	141,893
Profit for the year	—	—	—	—	—	186,720	186,720
Shares repurchased (Note c)	(4,161)	—	—	—	—	—	(4,161)
Cash flow hedging	—	—	—	—	(514)	—	(514)
Appropriation to statutory reserves	—	—	14,316	—	—	(14,316)	—
Issuance of new ordinary shares (Note 6 (c))	759,284	—	—	—	—	—	759,284
Capitalisation issue (Note 6 (b))	(16)	—	—	—	—	—	(16)
Conversion of redeemable convertible preferred shares (Note 6 (a))	221,927	—	—	—	—	—	221,927
Share issuance costs (Note 6 (c))	(39,093)	—	—	—	—	—	(39,093)
Share-based payment expense	—	—	—	102	—	—	102
As at 31 December 2016	955,590	(445)	23,159	102	—	287,736	1,266,142
As at 1 January 2017	955,590	(445)	23,159	102	—	287,736	1,266,142
Profit for the year	—	—	—	—	—	260,670	260,670
Appropriation to statutory reserves			30,339	—	—	(30,339)	—
Share-based payment expense	—	—	—	8,510	—	—	8,510
Dividends paid (Note 16)	(33,996)	—	—	—	—	—	(33,996)
As at 31 December 2017	921,594	(445)	53,498	8,612	—	518,067	1,501,326

(a) The merger reserve represented the aggregate difference between the considerations paid and the carrying amounts of the acquired Listed Business pursuant to the completion of the Reorganisation.

(b) The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to equity holders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

(c) In February 2016, the Company adopted restricted share unit ("RSU") scheme repurchased 53,680,000 ordinary shares from JLJH YIHAI Ltd., one of the shareholders of the Company, at a total consideration of US$638,108 (equivalent to RMB 4,166,000). These shares have been held by Vistra Fiduciary (HK) Limited ("RSU Trustee") in trust for the benefit of the participants to the scheme and will be released to participants upon granting and vesting of each RSU. The shares under the RSU Scheme have been changed to 77,220,000 after the capitalisation issue as mentioned in Note 6 (b).

(d) The hedging reserve represented the effective portion of the accumulative change in the fair value of hedging instruments, net of tax, pending subsequent recognition in profit or loss.

9. Trade payables

Trade payables were mainly arising from the purchase of materials. The credit terms of trade payables granted by the vendors are usually 30 to 90 days. At 31 December 2017, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Within 3 months	134,084	70,156
3 to 6 months	1,582	2,576
6 months to 1 year	916	545
Total	136,582	73,277

10. Other payables and accruals

	As at 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Advances from customers	30,823	8,746
Other tax payables	27,490	8,933
Wages, salaries and other employee benefits	25,572	16,019
Sales rebates	16,182	8,755
Suppliers' deposits	9,417	3,281
Payables for legal and professional fees	3,420	135
Payables for construction	806	1,176
Related parties	258	4,045
Listing related expenses	—	2,802
Others	1,065	855
Total	115,033	54,747

11. Expenses by nature

Expenses included in cost of sales, distribution expenses and administrative expenses are analysed as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Cost of inventories recognised as cost of goods sold	909,285	583,667
Employee benefit expenses	183,768	122,303
Transportation and related charges	37,469	19,499
Advertising and other marketing expenses	30,110	33,116
Non-income taxes and surcharges	17,729	12,295
Depreciation of property, plant and equipment	14,471	13,825
Water, electricity and gas expenses	14,108	9,854
Rental expenses	14,001	10,753
Warehouse expenses	12,541	7,061
Legal and professional fees	11,674	5,696
Travel and entertainment expenses	9,027	5,825
Auditor's remuneration		
– Reporting accountant's services in relation to listing	—	1,196
– Audit services	2,055	1,950
– Non-audit services	322	330
Amortisation of intangible assets	851	372
Amortisation of land use rights	773	503
Write-down of inventories	279	152
Provision for impairment of receivables (Note 4 and 5)	77	112
Listing related expenses	—	10,345
Other expenses	16,905	13,980
Total	1,275,445	852,834

12. Other incomes and gains-net

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Government grant	23,008	12,523
Sales of scrap materials	887	517
Change in fair value of financial instruments at fair value through profit or loss	(263)	—
Loss on disposal of property, plant and equipment and intangible assets	(284)	(780)
Consulting service income	—	7,547
Others (a)	20,400	1,674
Total other incomes and gains-net	43,748	21,481

(a) The amount of RMB14 million represented a reward provided by an independent third party, the authorised operator as approved by the local government for planning and construction of an industrial park in the PRC, in which the Company has incorporated an indirectly wholly-owned subsidiary in 2015.

13. Finance income and costs

	Year ended 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Finance Income		
–Foreign exchange gains	—	32,759
–Interest income	6,651	933
Finance costs		
– Net exchange losses	(52,095)	—
Finance (costs)/income-net	(45,444)	33,692

14. Income tax expense

	Year ended 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
Current income tax	111,960	69,085
Deferred tax credit	(3,970)	(716)
Income tax expense	107,990	68,369

(a) Cayman Islands income tax

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and, accordingly, is exempted from payment of local income tax.

(b) Hong Kong income tax

Hong Kong profits tax has not been provided as there are no estimated assessable profits arising in or derived from Hong Kong during the year ended 31 December 2017.

(c) PRC Corporate Income Tax ("CIT")

The income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for the years end 31 December 2017 and 2016, based on the existing legislation, interpretations and practices in respect thereof.

(d) PRC withholding tax (“WHT”)

According the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profit derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be 5%.

According to a shareholder’s resolution of the immediate holding company of the PRC subsidiaries of the Group dated 31 December 2017, the retained earnings of the Group’s subsidiaries incorporated in the PRC as at 31 December 2017 will not be distributed in the foreseeable future. As a result, no deferred tax liability was recognised.

The tax on the Group’s profit before tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	Year ended 31 December	
	2017	**2016**
	RMB’000	**RMB’000**
Profit before income tax	369,080	255,089
Tax calculated at domestic tax rates applicable to profits in the respective countries	108,408	66,703
Expenses not deductible for tax purposes	672	1,666
Income not subject to tax	(1,090)	—
Taxation charge	107,990	68,369

15. Earnings per share

(a) Basic earnings per share

Basic earnings per share for each of the years ended 31 December 2017 and 2016 are calculated by dividing the profit of the Group attributable to the owners of the Company by the weighted average number of ordinary shares in issue less shares held for RSU Scheme during the year.

	Year ended 31 December	
	2017	**2016**
	RMB’000	**RMB’000**
Profit attributable to owners of the Company (RMB’000)	260,670	186,720
Weighted average number of ordinary shares in issue less shares held for RSU Scheme (thousands)	969,680	797,220
Basic earnings per share (RMB cents)	26.9	23.4

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The restricted share granted and assumed vested ("Restricted Shares") are the only dilutive potential ordinary shares during the year ended 31 December 2017. During the year ended 31 December 2016, the RCPS as well as Restricted Shares were the dilutive potential ordinary shares. They were anti-dilutive and the dilutive earnings per share as the same as basic earnings per share.

	Year ended 31 December	
	2017	**2016**
Earnings -		
Profit attributable to owners of the Company (RMB'000)	260,670	186,720
Adjustment for fair value loss of RCPS (RMB'000) (a)	—	35,264
Profit used to determine diluted earnings per share (RMB'000)	260,670	221,984
Weighted average number of ordinary shares in issue for basic earnings per share (thousands)	969,680	797,220
Adjustments for:		
– Assumed conversion of RCPS (thousands)	—	41,458
– Restricted Shares granted and assumed vested (thousands)	5,291	9
Weighted average number of ordinary shares for diluted earnings per share (thousands)	974,971	838,687
Diluted earnings per share (RMB cents)	26.7	23.4

(a) On 14 December 2015, the Company issued 54,222,222 shares of Series A preferred shares with redemption and conversion features ("RCPS"). On 13 July 2016, all RCPS were automatically converted into ordinary shares.

16. Dividends

The total dividends paid in 2017 amounted to RMB36,642,000 or RMB4.97985 cents per share (2016: Nil), of which RMB 2,646,000 were paid to the shares held by the RSU Trustee.

Pursuant to resolution passed on 21 March 2018, the board of directors of the Company proposed a final dividend of RMB4.97985 cents per ordinary share of the Company, amounting to RMB 52.134 million for the year ended 31 December 2017 from the Company's retain earnings account. The final dividend is to be proposed for approval by the shareholders of the Company at the annual general meeting to be held on 27 April 2018.

The aggregate amounts of the dividends paid during 2017 have been disclosed in the consolidated statement of changes in equity in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSES

2017 PERFORMANCE REVIEW

In 2017, the national economy was stable with growth that outperformed expectations. Income of residents increased rapidly with further transformation and upgrading in consumption, and market size of consumer products further expanded. The catering market recorded stable growth, and the overall trend in the condiment industry was upward and optimistic.

In 2017 the Group's business mainly focused on product upgrading and innovation, elaborative marketing, further development of channels, expansion and optimization of production capabilities. For the year ended 31 December 2017, the Group's revenue amounted to RMB1,646.2 million, representing a year-on-year increase of 51.3%. Net profit amounted to RMB261.1 million, representing a year-on-year increase of 39.9%.

In 2017, the Group continued to enhance the efficiency of its terminal points of sales, diversify its marketing activities, develop its low-tier distribution network and launch new products.

For retail sales to third parties, benefiting from the optimization and improvement of sales channels in 2016, the extensive and lower tier of sales channels brought a wider sales terminal network to the Group, and further facilitated the effective management and refined establishment of the terminal points of sales. As at 31 December 2017, the distributors of the Group covered 31 provincial regions in China the Hong Kong, Macau and Taiwan regions and 23 overseas countries and regions.

For sales through e-commerce, the Group continued to reinforce the development and optimization of e-commerce channels. By launching new products online, increasing marketing and promotional efforts, streamlining and regulating the channels, the Group carried out multi-perspective and comprehensive analysis and reform on its e-commerce channels to keep up with the latest developments. As at 31 December 2017, the Group owned 5 flagship stores on e-commerce platforms including Tmall.com and JD.com. The Group's sales revenue from e-commerce channels in 2017 amounted to RMB105.9 million, representing a year-on-year increase of 265.2%.

The Group focused on sales to third-party catering enterprises in 2017 as strategic deployment. Benefiting from the experience of serving Sichuan Haidilao Catering Corporation* (四川海底撈餐飲股份有限公司), Hai Di Lao Holdings Pte. Ltd. and the respective subsidiaries (the "**Haidilao Group**") over the years, the Group had accumulated ample experience in the PRC catering service industry. Through continuously reinforcing the provision of diversified and customized products and services to third-party catering enterprises, the customized customers of the Group's third-party catering enterprises participated in various types of catering services and amounted to 82 as at 31 December 2017, representing a year-on-year increase of 86.4% as compared to 2016. The sales revenue for 2017 amounted to RMB23.43 million, representing a year-on-year increase of 304.0% as compared to 2016.

* *For identification purpose only*

In terms of product portfolio, the Group continued to devote its efforts to improving and upgrading its existing products, as well as on the research and development and launching of new products, including optimizing the packaging and formulae of some core products and the launching of brand new products. During the past year, products that launched successively in the market included spicy red swamp crawfish (catering pack), clear soup hot pot (catering pack) and five different flavors of self-serving small hot pot new products. By optimizing and refreshing existing products together with the launching of new products, the Group's products were undoubtedly better at meeting market demand, and could effectively ease the problems of insufficient products during the low season. In 2017, the Company introduced a total of 3 new hot pot soup flavoring products, 5 Chinese-style compound condiment products and 5 self-serving small hotpot products. As at 31 December 2017, the Company had a total of 44 flavoring products, 6 dipping sauce products, 20 Chinese-style compound condiment products and 5 self-serving small hotpot products.

BUSINESS REVIEW

Throughout the year of 2017, against the macro backdrop of an overall stable development trend of the national economy and an overall optimistic trend in the condiment industry of the PRC, the revenue of the Group amounted to RMB1,646.2 million, representing a year-on-year increase of 51.3%. Net profit amounted to RMB261.1 million, representing a year-on-year increase of 39.9%.

Sales Channels

In 2017, in respect of establishing third-party retail channels, the Group's focus of operation was on continuous penetration in channels of lower tiers, reinforcing the efficiency of terminal sales, developing the methods of terminal sales and expanding the portfolio of third-party retail products. Benefiting from improvement and optimization of distribution channels in 2016, as at 31 December 2017, the Group's distributors covered 31 provincial regions in China, the Hong Kong, Macau and Taiwan regions and 23 overseas countries and regions. Meanwhile, through the selection and screening of existing distributors, reinforcing the product launching capability and efficiency of terminal points of sales, timely capturing the data of market terminals, manipulating the shelf arrangement of product display and providing guidance on the methods of terminal sales, the Group had further improved the refined and in-depth development of the distributor channels, reinforced the marketing measures and efforts, enhanced the optimized management of product shelves and boosted the selling capability of the terminal points of sales.

The Group had further reinforced its management over e-commerce channels, including mainly the development of multiple consumption scenarios which could enhance consumers' loyalty, increase in promotional activities, expansion on online portfolio of new products, improvements in the arrangement of product shelves and the management of pricing systems on the network. While the Group had mastered the sales and marketing of traditional products, the launching of a number of brand new self-serving small hotpot products in the second-half of 2017 was the highlight of the sales from the e-commerce channels. As at 31 December 2017, the Group owned 5 flagship stores on e-commerce platforms including Tmall.com and JD.com. The Group's sales revenue from e-commerce channels in 2017 amounted to RMB105.9 million, representing a year-on-year increase of 265.2%.

Active development of business for third-party catering enterprises was one of the Group's key strategic developments, and significant energy and efforts were contributed in 2017 to provide comprehensive support. Benefiting from the experience of serving the Haidilao Group over the years, the Group had accumulated ample experience in the PRC catering service industry. Through continuously reinforcing the provision of diversified and customized products and services to third-party catering enterprises, the customized customers of the Group's third-party catering enterprises participated in various types of catering services and amounted to 82 as at 31 December 2017, representing a year-on-year increase of 86.4% as compared to 2016. The sales revenue for 2017 amounted to RMB23.43 million, representing a year-on-year increase of 304.0% as compared to 2016.

In terms of sales to related parties (referring to the Haidilao Group and associated companies), because of the benefits from the growth of the catering industry and the hot pot catering consumption market in the PRC, the Haidilao Group achieved not only stable growth in same store revenue but also rapid expansion in the number of stores. In 2017, the Group's revenue from sales to related parties amounted to RMB915.9 million, representing a year-on-year increase of 51.2% as compared to of 2016.

Products

As urbanization in China became more generalized, the consumption level of residents continued to rise, enabling the continuous upgrading in product structure, and the consumers' awareness of the importance of food safety also strengthened over time. Selecting quality products with reputable brand recognition and with guaranteed food quality and safety will be a general development trend in the future. As the largest producer of mid-to-high end hot pot soup flavoring condiments in China, the Company took the lead in capturing the industry trend, further strengthened the research and development and structure upgrading of its products, and continued to supply condiment products which would better meet the needs of consumers.

In 2017, the Group launched new products successively, including spicy red swamp crawfish (catering pack), clear soup hot pot (catering pack) and five new different flavors of self-serving small hotpot products. The development of new products in general still revolved around the two key conceptual lines of improving and upgrading existing products, and developing emerging products to meet market needs. These would not only enable products to better satisfy market demand but would also ease the problems of insufficient products during the low season. Through methods such as the launching of tasting events and creating thematic promotional activities, terminal sales were effectively boosted. The Group also communicated with consumers and promoted its promotional materials by using new social media (such as WeChat).

The table below sets forth the revenue, sales volume and average selling price of the Group by product categories and distribution channels for the periods as indicated:

	Twelve months ended 31 December					
	2017			2016		
	Revenue (RMB'000)	Sales Volume (Tons)	Average Selling Price per Kg (RMB)	Revenue (RMB'000)	Sales Volume (Tons)	Average Selling Price per Kg (RMB)
Hot pot soup flavoring						
Third parties	429,921	14,896	28.9	288,745	9,323	31.0
Related parties	871,282	31,093	27.3	583,778	21,573	27.1
Subtotal	1,301,203	46,799	27.8	872,523	30,896	28.2
Hot pot dipping sauce						
Third parties	93,924	5,059	18.6	73,856	4,290	17.2
Related parties	281	11	25.5	104	6	18.8
Subtotal	94,205	5,070	18.6	73,960	4,296	17.2
Chinese-style compound condiment						
Third parties	142,860	6,007	23.8	116,351	4,962	23.4
Related parties	43,413	1,908	22.8	18,194	706	25.8
Subtotal	186,273	7,915	23.5	134,545	5,668	23.7
Self-serving small hotpot products						
Third parties	61,341	1,359	45.1	—	—	—
Related parties	104	2	52.0	—	—	—
Subtotal	61,445	1,361	45.1	—	—	—
Others[(1)]	3,095	872	3.5	6,986	577	12.1
Total	1,646,221	62,017	26.5	1,088,014	41,437	26.3

Note:

(1) Mainly including the sales of certain products such as golden popcorn (黃金豆) and snail rice noodle (螺螄粉).

The table below sets forth the absolute value of revenue of the Company by product categories and as a percentage in the total revenue of the Company:

	Twelve months ended 31 December			
	2017		2016	
	RMB'000	*% of Revenue*	*RMB'000*	*% of Revenue*
Revenue from hot pot soup flavoring	1,301,203	79.0%	872,523	80.2%
Revenue from hot pot dipping sauce	94,205	5.7%	73,960	6.8%
Revenue from Chinese-style compound condiment	186,273	11.3%	134,545	12.4%
Revenue from self-serving small hotpot products	61,445	3.7%	—	0.0%
Other revenue	3,095	0.3%	6,986	0.6%
Total revenue	1,646,221	100.0%	1,088,014	100.0%

In 2017, the three major product categories of the Group, namely hot pot soup flavoring, hot pot dipping sauce and Chinese-style compound condiment, increased as compared to 2016. In 2017, the Group introduced a total of 3 new hot pot soup flavoring products, 5 new Chinese-style compound condiment products and 5 snack food products. As at 31 December 2017, the Group had a total of 44 flavoring products, 6 dipping sauce products, 20 Chinese-style compound condiment products and 5 self-serving small hotpot products.

FINANCIAL REVIEW

Revenue

The revenue of the Group increased by 51.3% from RMB1,088.0 million for the 12 months ended 31 December 2016 to RMB1,646.2 million for the same period in 2017.

Revenue by product

	Twelve months ended 31 December			
	2017		2016	
	Revenue (RMB'000)	% of hot pot soup flavoring revenue	Revenue (RMB'000)	% of hot pot soup flavoring revenue
Hot pot soup flavoring revenue				
Revenue from third parties	429,921	33.0%	288,745	33.1%
Revenue from related parties	871,282	67.0%	583,778	66.9%
Total revenue from hot pot soup flavoring products	1,301,203	100.0%	872,523	100.0%

Revenue from hot pot soup flavoring products increased by 49.1% from RMB872.5 million for year 2016 to RMB1,301.2 million for the same period in 2017, accounting for 79.0% of the revenue for the 12 months ended 31 December 2017. Of these, revenue from sales of hot pot soup flavoring products to related parties increased by 49.2%, while revenue from sales of hot pot soup flavoring products to third parties increased by 48.9%. The increase in revenue from sales of hot pot soup flavoring products to related parties was mainly due to steady growth in the same-store revenue of Haidilao Group, an increase in the number of Haidilao Group restaurants and the effect of an increase in the prices of products sold to certain related parties in March 2017 due to cost factors of the Group. With further improvements in the refining and penetration of third party sales channels by the Group in 2017, the selling capability of terminal points of sales had increased, the launching of new products received a certain level of market recognition, and the revenue of sales from third parties recorded remarkable rapid growth.

	Twelve months ended 31 December			
	2017		2016	
	Revenue (RMB'000)	% of hot pot dipping sauce revenue	Revenue (RMB'000)	% of hot pot dipping sauce revenue
Hot pot dipping sauce revenue				
Revenue from third parties	93,924	99.7%	73,856	99.9%
Revenue from related parties	281	0.3%	104	0.1%
Total revenue from hot pot dipping sauce products	94,205	100.0%	73,960	100.0%

Revenue from hot pot dipping sauce products increased by 27.3% from RMB74.0 million for the 12 months ended 31 December 2016 to RMB94.2 million for the same period in 2017, accounting for 5.7% of the revenue for the 12 months ended 31 December 2017. Of these, revenue from sales of hot pot dipping sauce products to related parties increased by 170.0%, while revenue from sales of hot pot dipping sauce products to third parties increased by 27.2%. Revenue from sales of hot pot dipping sauce products of the Group is primarily derived from sales to third parties, the rapid growth of which was mainly attributable to the market recognition of the four dipping sauce products on which the Group has focused its marketing efforts. This had driven the increased sales of hot pot dipping sauce products in 2017.

	Twelve months ended 31 December			
	2017		2016	
	Revenue (RMB'000)	% of Chinese-style compound condiment revenue	Revenue (RMB'000)	% of Chinese-style compound condiment revenue
Chinese-style compound condiment revenue				
Revenue from third parties	142,860	76.7%	116,351	86.5%
Revenue from related parties	43,413	23.3%	18,194	13.5%
Total revenue from Chinese-style compound condiment products	186,273	100.0%	134,545	100.0%

Revenue from Chinese-style compound condiment products increased by 38.5% from RMB134.5 million for the 12 months ended 31 December 2016 to RMB186.3 million for the same period in 2017, accounting for 11.3% of the revenue for the 12 months ended 31 December 2017. Of these, revenue from sales of Chinese-style compound condiment products to related parties increased by 138.6%, while revenue from sales of Chinese-style compound condiment products to third parties increased by 22.8%. In respect of sales to related parties, the Group carried out cooperation with certain catering customers in the Shuhai Supply Chain to develop new drivers of revenue growth. The Group introduced several Chinese-style compound condiment products in 2017 to complement the sales of existing improved products of Chinese-style compound condiment, which has driven the increase in revenue from sales of Chinese-style compound condiment products to third parties.

	Twelve months ended 31 December			
	2017		**2016**	
	Revenue (RMB'000)	**% of self-serving small hotpot products revenue**	**Revenue (RMB'000)**	**% of self-serving small hotpot products revenue**
Self-serving small hotpot products revenue				
Revenue from third parties	61,341	99.8%	—	—
Revenue from related parties	104	0.2%	—	—
Total revenue from self-serving small hotpot products	61,445	100%	–	–

Self-serving small hotpot products is a new category of the Group's products in 2017, the revenue from which accounted for 3.7% of total revenue for the twelve months ended 31 December 2017.

Revenue by Distribution Network

	Twelve months ended 31 December			
	2017		2016	
	Revenue (RMB'000)	**% of total revenue**	**Revenue (RMB'000)**	**% of total revenue**
Related-party customers				
Haidilao Group and its affiliates	915,911	55.6%	605,728	55.70%
Third-party customers				
Distributors	587,076	35.7%	442,358	40.70%
E-commerce	105,942	6.4%	28,986	2.70%
Others				
Third-party catering companies	23,434	1.4%	5,836	0.50%
One-off sales events	13,858	0.9%	5,106	0.40%
Total revenue	1,646,221	100.0%	1,088,014	100.00%

Benefiting from the upgrade of and growth in consumption of hot pot catering, Haidilao maintained stable rapid growth in both the number of restaurants and the same store revenue. The Group's sales revenue from sales to related parties, which mainly represents sales to the Haidilao Group, amounted to RMB915.9 million in 2017, representing an increase of 51.2% as compared to 2016.

With further enhanced optimization of third-party sales channels, boosted sales capability of terminal sales points and continuous launch of premium new products of the Group in 2017, sales revenue of third-party manufacturers was significantly increased. Sales revenue from sales to distributors was RMB587.1 million, representing a year-on-year increase of 32.7%; sales revenue from e-commerce channels was RMB105.9 million, representing a year-on-year increase of 265.5%; sales revenue from third-party catering was RMB23.4 million, representing a year-on-year increase of 301.5% from 2016.

Revenue by Geographic Region

The table below presents the revenue of the Company by geographic region for the periods indicated:

	Twelve months ended 31 December			
	2017		2016	
	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue
North China[(2)]	874,665	53.2%	593,427	54.60%
South China[(3)]	715,674	43.4%	473,799	43.50%
Overseas markets	55,882	3.4%	20,788	1.90%
Total	1,646,221	100.0%	1,088,014	100.00%

Note:

(2) Includes Heilongjiang, Jilin, Liaoning, Inner Mongolia, Beijing, Tianjin, Hebei, Shandong, Shanxi, Henan, Ningxia, Shanxi, Gansu, Qinghai, Xinjiang and Tibet.

(3) Includes Jiangsu, Shanghai, Zhejiang, Anhui, Jiangxi, Fujian, Hubei, Hunan, Guangdong, Chongqing, Guizhou, Guangxi, Sichuan, Yunnan and Hainan.

Cost of Sales

The Group's cost of sales, including raw materials, employee benefit expenses, depreciation and amortization and public utilities increased by 54.1% from RMB671.1 million for the 12 months ended 31 December 2016 to RMB1,034.4 million for the same period in 2017. The overall unit cost of raw materials increased significantly in 2017 compared to the same period of 2016, mainly indicating that the unit price of soybean oil, pepper, chili, and packaging materials increased significantly.

Gross Profit and Gross Profit Margin

	Twelve months ended 31 December			
	2017		2016	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*
Hot pot soup flavoring products	471,003	36.2%	328,037	37.6%
Third parties	227,928	53.0%	161,832	56.0%
Related parties	243,075	27.9%	166,205	28.5%
Hot pot dipping sauce products	38,072	40.4%	25,381	34.3%
Third parties	37,931	40.4%	25,338	34.3%
Related parties	141	50.1%	43	41.4%
Chinese-style compound condiment products	79,157	42.5%	63,078	46.9%
Third parties	66,649	46.7%	56,282	48.4%
Related parties	12,508	28.8%	6,796	37.4%
Self-serving small hotpot products	21,260	34.6%	—	—
Third parties	21,217	34.6%	—	—
Related parties	43	41.6%	—	—
Others	2,312	74.7%	446	6.4%
Total	611,804	37.2%	416,942	38.3%

The Group's gross profit increased by 46.7% from RMB416.9 million for the year of 2016 to RMB611.8 million for the year of 2017, while the gross profit margin decreased slightly from 38.3% for the year of 2016 to 37.2% for the year of 2017. The slight decrease is due to: 1) overall cost pressure; third-party catering business enlarged during 2017, whose gross margin is mush lower than retail sales; and 3) some distributors select to have sales rebate replenishment rather than have expense subsidies from the Group.

Distribution Expenses

The Group's distribution expenses increased by 28.7% from RMB127.9 million for the year of 2016 to RMB164.6 million for the year of 2017. The Group's distribution expenses as a percentage of the Group's revenue decreased from 11.8% for 2016 to 10.0% for the year of 2017. The decrease in distribution expenses was mainly because some distributors select to request stock replenishment with expense subsidies in the channel.

Administrative Expenses

The Group's administrative expenses increased by 42% from RMB53.8 million for the year of 2016 to RMB76.4 million for the year of 2017. The Group's administrative expenses as a percentage of the Group's revenue decreased from 4.9% for 2016 to 4.6% for the year of 2017, with relatively stable ratio of administrative expense.

Other Incomes and Gains

The Group's other incomes and gains-net increased by 103.3% from RMB21.5 million for the year of 2016 to RMB43.7 million for the year of 2017, mainly due to government grants received by the Group.

Finance loss - net

The Group's finance income-net decreased by 234.7% from RMB33.7 million for the year of 2016 to a finance loss-net of RMB45.4 million for the year of 2017, mainly due to exchange loss caused by depreciation of Hong Kong dollar.

Profit before Tax

As a result of the foregoing, the Group's profit before tax increased by 44.7% from RMB255.1 million for the year of 2016 to RMB369.1 million for the year of 2017.

Income Tax Expense

The Group's income tax expense increased by 57.9% from RMB68.4 million for the year of 2016 to RMB108.0 million for the year of 2017. The effective tax rate decreased from 26.8% for the year of 2016 to 29.3% for the year of 2017, mainly due to non-tax deductible exchange loss for the year.

Net profit for the Year

As a result of the foregoing, net profit of the Group increased by 39.9% from RMB186.7 million for the year of 2016 to RMB260.7 million for the year of 2017. Basic earnings per share increased from RMB0.234 for the the year of 2016 to RMB0.269 for the year of 2017 and net profit margin decreased from 17.2% for the year of 2016 to 15.9% for the year of 2017.

Capital Liquidity and Financial Resources

For the twelve months ended 31 December 2017, the Group's business was mainly funded by the cash generated from its operation. The Group intended to apply internal resources, income derived from organic and sustainable development for the purpose of funding its expansion and business operation.

Cash and Cash Equivalents

As at 31 December 2017, the Group's cash and cash equivalents were primarily denominated in RMB and HK dollars and, to a less extent, in US dollars. Its cash and cash equivalents amounted to approximately RMB1,130.2 million (31 December 2016: RMB1,022.0 million).

Asset-liability Ratio

As at 31 December 2017, the Group's asset-liability ratio(4) was 16.7% (31 December 2016: 11.1%). Such increase was mainly due to increase in trade payables, advance from customers and other tax payable. The Group did not have any bank borrowings.

Note:

(4) The asset-liability ratio is calculated by dividing total liabilities by total assets at the end of each financial period.

Inventories

The Group's inventories consist primarily of raw materials, work-in-progress and finished goods. As at 31 December 2017, the Group had inventories of approximately RMB147.6 million (31 December 2016: RMB130.5 million). The turnover days of inventories decreased from 63.4 days for the year ended 31 December 2016 to 49.1 days for the twelve months ended 31 December 2017. The decrease in the turnover days of inventories was mainly due to the fact that the Group increased its control over the efficiency of inventories in 2017.

Trade Receivables

Trade receivables represent amounts due from customers in respect of sales of goods in the ordinary course of business. As at 31 December 2017, we had trade receivables of approximately RMB131.5 million (31 December 2016: RMB67.1 million). The change was mainly due to an increase in sales by the Group to related parties and certain third parties (such as customized catering products) at the end of 2017. The turnover days of trade receivables increased slightly from 21.8 days for the year ended 31 December 2016 to 22.0 days for the twelve months ended 31 December 2017.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. As at 31 December 2017, we had trade payables of approximately RMB136.6 million (31 December 2016: RMB73.3 million), which was due to the effects of low and peak seasons for production and sales and the seasonal procurement cycle. The turnover days of trade payables increased from 31.2 days for the year ended 31 December 2016 to 37.0 days for the twelve months ended 31 December 2017.

Contingent Liabilities

As at 31 December 2017, the Company did not have any contingent liabilities.

Charge of Assets

As at 31 December 2017, the Company did not charge any fixed assets as securities for borrowings.

Borrowings

As at 31 December 2017, the Company did not have any bank borrowings.

Debt-to-equity Ratio

As at 31 December 2017, the Company's debt-to-equity[(5)] was zero.

Note :

(5) Debt-to-equity ratio is calculated by dividing total debt by total equity. Total debt is defined as including interest-bearing liabilities which are not incurred during the routine process of business.

Foreign Exchange Risk and Hedging

The Group mainly operates in the PRC with most of the transaction denominated and settled in RMB. However, the Group has certain cash denominated in HK dollar and US dollar, which is exposed to foreign currency exchange risks. The Group has not hedged its foreign currency exchange risks, but will closely monitor the exposure and will take measures when necessary to make sure the foreign exchange risks are manageable.

Employees and Remuneration Policy

As at 31 December 2017, the Group had a total of 1,919 employees (including temporary workers), comprising of 1,370 staff members for production, 334 staff members for marketing and 215 staff members for administration and management functions respectively.

For the twelve months ended 31 December 2017, the Group's incurred total staff costs (including salaries, wages, allowance, benefits and equity incentive plan costs) of RMB183.8 million.

Material Acquisitions and Disposals

On 11 July 2017, Yihai (Shaghai) Food Co., Ltd.*(頤海(上海)食品有限公司) ("**Yihai Shanghai**") and Xinpai (Shanghai) Catering Management Co., Ltd* (新派(上海)餐飲管理有限公司) ("**Xinpai Shanghai**") entered into an agreement pursuant to which Yihai Shanghai and Xinpai Shanghai would form a joint venture in the PRC to engage in the manufacture and sales of self-serving small hotpot products. Upon the formation of the joint venture, Yihai Shanghai and Xinpai Shanghai would be interested in 60% and 40% of the registered capital of the joint venture, respectively.

Xinpai Shanghai is controlled as to approximately 62.70% interest by the controlling shareholders of the Company, Mr. Zhang Yong and Ms. Shu Ping, and is therefore a connected person of the Company. Accordingly, the formation of the joint venture constitutes a connected transaction of the Company for the purpose of the Listing Rules.

FUTURE PROSPECT

Industry and Business Outlook

In 2017, the national economy maintained steady development in general. The concept of consumption upgrade was constantly strengthened and the catering industry remained stable. The overall trend of the PRC condiment industry was positive. Through organic growth and external development, the Group will continue to optimize and deepen sales channels actively, enhance terminal sales capacity, expand its product mix, brand mix and develop new business models, so as to constantly enhance its market share and industry position of the Group.

In terms of product research and development, the Group will not only continue to upgrade and improve existing products, constantly try and put efforts in supplementing and broadening existing product types, but also continue to develop diversified products with new brand, new tastes and concepts, expand its existing business, supplement diversified dining scenarios, and stimulate and attract more consumption groups by following changes in market trend.

In terms of the establishment of channels, through the tidying and cherry-picking of channels in 2017, in 2018, the Group will further put efforts in the establishment of channels, expand the penetration rate of channels, introduce new retail ideas and at the same time expand the construction of catering channels for third-party manufacturers on the basis of ongoing expansion of retail channels of third-party manufacturers.

In terms of terminal sales, the Group will continue to further enhance optimized shelf management, improve the display of basic shelves, strengthen the flexibility and effectiveness of tasting events and promotion, and intensively explore the means and methods of improving terminal sales capacity and efficiency.

* *for identification purposes only*

Material Investments and Prospect

In order to ease the increasing pressure from production capacity utilization rate, the Group mainly adopted three measures in 2017.

Firstly, continuing the construction of the Bazhou Project in Hebei. The total investment amount of the Group's Bazhou Project is expected to be RMB300 million. Phase I is expected to be completed and put into operation at the end of 2018, while Phase II is expected to be completed and put into use in 2020. It is expected that Phase I will provide a production capacity of 35,000 tons. The Bazhou Production Base not only effectively increases the Group's existing production capacity, but also optimizes the Group's product portfolio by effectively expanding the production lines for new products, and it can maximise the upgrade to the Group's storage facilities. The project is located in the centre of Northern China, which enables the Group to better control and manage logistics costs. As of 31 December 2017, the construction of the Bazhou Production Base was still steadily carried out as scheduled.

Secondly, a new production line was installed in the existing factory in Chengdu, Sichuan. The new production line in the factory in Chengdu was put into production in the first half of 2017, and timely provided additional production capacity of approximately 3,000 tons to the Group, which effectively eased the existing production pressure.

Thirdly, the new conclusion for construction of the Anhui Maanshan project. The Group in the first half of 2017 entered into agreements with the local government of Maanshan in Anhui. The Group can install new production lines in the factory to be leased in order to release new production capacity, so as to ease the pressure from sharp increase in the demand for production capacity during peak seasons. As Maanshan is in Eastern China, it also helps the Group better control and manage logistics costs. As of 31 December 2017, the Maanshan Production Base has started trial production.

Future Plans for Material Investments

The Group will continue to extensively identify potential strategic investment opportunities and continuously seek to acquire potential high-quality target businesses that create synergies for the Group in relation to aspects including product research and development, product portfolio, channel expansion or cost control.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Compliance with the Corporate Governance Code

The Company has applied the principles and code provisions as set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the HKSE (the "**Listing Rules**") and has complied with the code provisions in the Corporate Governance Code for the year ended 31 December 2017.

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all Directors and the Directors have confirmed that they have complied with the Model Code for the year ended 31 December 2017.

The Company's employees, who are likely to be in possession of inside information of the Company, have also been subject to the Model Code. No incident of non-compliance of the Model Code by the employees was noted by the Company for the year ended 31 December 2017.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2017.

Audit Committee

The audit committee of the Board (the "**Audit Committee**") has three members comprising our non-executive Director, namely Mr. Shi Yonghong (Chairman of the Board), and two independent non-executive Directors, namely Mr. Yau Ka Chi (chairman of the Audit Committee) and Ms. Ye Shujun, with terms of reference in compliance with the Listing Rules.

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Company and the Group and discussed matters in relation to internal control and financial reporting with the management. The Audit Committee considers that the annual financial results for the year ended 31 December 2017 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

Auditor

The auditor of the Company, PricewaterhouseCoopers, has agreed that the figures in respect of the Group's annual results for the year ended 31 December 2017 contained in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the year.

Use of Proceeds from the Global Offering

The net proceeds from the Global Offering amounted to approximately HK$720.2million, which will be used for (1) constructing Phase I of the Company's Bazhou Production Base located in Bazhou, Hebei Province; (2) potential strategic acquisition opportunities; (3) promoting the Company's products and brand; (4) enhancing our research and development capabilities; and (5) working capital and general corporate purposes.

As at 31 December 2017, the Company cumulatively used 10.56% of the proceeds from the Global Offering.

The Restricted Share Unit Scheme

The Company has approved and adopted a RSU Scheme by a resolution of the Shareholders on 24 February 2016 and a resolution of the Board on 24 February 2016. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new shares.

Pursuant to the RSU Scheme, the restricted share units (the "**RSU(s)**") do not carry any right to vote at general meetings of the Company. No grantee of the RSU Trustee shall enjoy any of the rights of a shareholder by virtue of the grant of an award of the RSUs (the "**Award**"), unless and until such shares underlying the Award are actually transferred to the RSU Grantee upon vesting of the RSU. Unless otherwise specified by the Board in its entire discretion, an RSU Grantee does not have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any shares underlying an Award. Please refer to the section headed "Appendix IV — Statutory and General Information" of the prospectus of the Company dated 30 June 2016 for details.

The Company approved and granted 9,140,000 RSUs pursuant to the RSU Scheme on 28 December 2016. Please refer to the announcement of the Company dated 28 December 2016 for details.

Save as disclosed above, as at 31 December 2017, no RSU had been granted or agreed to be granted by the Company pursuant to the RSU Scheme.

Events After the End of the 31 December 2017

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2017 and up to the date of this announcement.

FINAL DIVIDEND

The Board resolved to propose to the Shareholders in the forthcoming annual general meeting (the "**AGM**") on Friday, 27 April 2018 for the distribution of a final dividend of RMB4.97985 cents per share for the year ended 31 December 2017. The final dividend is expected to be paid on or about Thursday, 17 May 2018 to the Shareholders whose names are listed in the register of members of the Company on Monday, 7 May 2018, in an aggregate of approximately RMB52.134 million. The final dividend will be distributed in Hong Kong dollars and will be calculated based on the average benchmark exchange rate of RMB against Hong Kong dollar announced by the People's Bank of China in the five working days prior to but excluding the date of the Board meeting held on Wednesday, 21 March 2018. The proposal for the distribution of the final dividend above is subject to the consideration and approval of the Shareholders at the AGM.

CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE

The register of members of the Company will be closed from Sunday, 22 April 2018 to Friday, 27 April 2018, both days inclusive, in order to determine the eligibility of the Shareholders to attend and vote at the AGM to be held on Friday, 27 April 2018. The Shareholders whose names appear on the register of members of the Company at the close of business on Friday, 20 April 2018 (the "**Record Date**") will be entitled to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer 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 Friday, 20 April 2018.

The register of members of the Company will also be closed from Friday, 4 May 2018 to Monday, 7 May 2018, both days inclusive, in order to determine the entitlement of the Shareholders to the final dividend. The Shareholders whose names appear on the register of members of the Company at the close of business on Monday, 7 May 2018 will be entitled to the final dividend. In order to be eligible to be entitled to the final dividend, 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 Thursday, 3 May 2018.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the HKSE (***www.hkexnews.hk***) and the Company (***www.yihchina.com***).

The annual report for the year ended 31 December 2017 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the Shareholders and published on the websites of the HKSE and the Company in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the Shareholders, management team, employees, business partners and customers of the Company for their support and contribution to the Group.

By Order of the Board
Yihai International Holding Ltd.
Shi Yonghong
Chairman

Hong Kong, 21 March 2018

As at the date of this announcement, the executive directors of the Company are Ms. Dang Chunxiang and Mr. Sun Shengfeng; the non-executive directors of the Company are Mr. Shi Yonghong, Mr. Zhang Yong, Mr. Gou Yiqun and Mr. Pan Di; and the independent non-executive directors of the Company are Mr. Yau Ka Chi, Mr. Qian Mingxing and Ms. Ye Shujun.*

* *Mr. Gou Yiqun has resigned from his position as non-executive director of the Company on even date.*