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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board of directors (the "**Board**") of Yihai International Holding Ltd. (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**" or "**We**") for the six months ended 30 June 2019 (the "**Reporting Period**"), together with comparative figures for the same period of 2018.

GROUP FINANCIAL HIGHLIGHTS

- Revenue was RMB1,655.8 million for the six months ended 30 June 2019, a 64.9% increase from RMB1,004.0 million for the six months ended 30 June 2018.
- Gross profit was RMB624.1 million for the six months ended 30 June 2019, a 72.0% increase from RMB362.8 million for the six months ended 30 June 2018.
- Net profit was RMB292.4 million for the six months ended 30 June 2019, a 54.1% increase from RMB189.8 million for the six months ended 30 June 2018.
- Net profit attributable to the owners of the Company was RMB270.4 million for the six months ended 30 June 2019, a 46.5% increase from RMB184.6 million for the six months ended 30 June 2018.
- Earnings per share (basic) was RMB27.88 cents for the six months ended 30 June 2019, a 46.4% increase from RMB19.04 cents for the six months ended 30 June 2018.

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		423,928	308,616
Right-of-use assets	3	113,912	—
Land use rights		—	75,034
Intangible assets		6,769	5,309
Deferred income tax assets		19,237	23,889
Other assets		198,053	156,027
Financial assets at fair value through profit or loss		52,161	12,000
Total non-current assets		814,060	580,875
Current assets			
Inventories		204,936	275,815
Other current assets		180,661	213,178
Trade receivables	5	215,947	206,893
Other financial assets at amortised cost		7,246	5,368
Cash and cash equivalents		1,163,926	1,179,910
Total current assets		1,772,716	1,881,164
Total assets		2,586,776	2,462,039
Equity			
Equity attributable to owners of the Company			
Share capital	6	68	68
Shares held for employee share scheme		(5)	(5)
Reserves		2,130,477	2,005,127
Capital and reserves attributable to owners of the Company		2,130,540	2,005,190
Non-controlling interests		56,554	34,531
Total equity		2,187,094	2,039,721
Liabilities			
Non-current liabilities			
Lease liabilities	3	28,891	—
Total non-current liabilities		28,891	—
Current liabilities			
Trade payables	7	201,611	188,659
Contract liabilities		12,877	45,350
Lease liabilities	3	9,481	—
Other payables and accruals		109,277	103,616
Current income tax liabilities		37,545	84,693
Total current liabilities		370,791	422,318
Total liabilities		399,682	422,318
Total equity and liabilities		2,586,776	2,462,039

The above interim condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Comprehensive Income

	Note	Unaudited Six months ended 30 June 2019 RMB'000	 2018 RMB'000
Revenue	4	1,655,755	1,003,952
Cost of sales	8	(1,031,658)	(641,104)
Gross profit		624,097	362,848
Distribution expenses	8	(163,989)	(87,477)
Administrative expenses	8	(113,822)	(55,536)
Other income and gains – net	9	32,063	30,776
Operating profit		378,349	250,611
Finance income	10	8,541	4,329
Finance costs	10	(1,386)	—
Finance income – net	10	7,155	4,329
Profit before income tax		385,504	254,940
Income tax expense	11	(93,113)	(65,114)
Profit for the period		292,391	189,826
Profit attributable to:			
Owners of the Company		270,368	184,584
Non-controlling interests		22,023	5,242
Other comprehensive income for the period		—	—
Total comprehensive income		292,391	189,826
Total comprehensive income attributable to:			
– Owners of the Company		270,368	184,584
– Non-controlling interests		22,023	5,242
Earnings per share attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	12	27.88	19.04
– Diluted	12	27.69	18.88

The above interim condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Notes to the Interim Condensed Consolidated Financial Information

1. General information

YIHAI INTERNATIONAL HOLDING LTD. (the "Company") and its subsidiaries (together the "Group") are principally engaged in the production and sales of hot pot condiment, Chinese-style compound condiment, and convenient ready-to-eat food products in the People's Republic of China (the "PRC").

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 Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 31119, 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 interim condensed consolidated financial information are presented in Renminbi ("RMB"), unless otherwise stated.

This interim condensed consolidated financial information has been reviewed, not audited.

2. Basis of preparation

This interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" ("IAS34").

The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial statements. Accordingly, this interim condensed consolidated financial information is to be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018 which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the estimation of income tax (see note 11) and the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 16 "*Leases*".

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 3 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

3. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 "*Leases*" on the Group's financial information and discloses the new accounting policies that have been applied from 1 January 2019 in note 3(b) below.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "*Leases*". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's applicable incremental borrowing rates as of 1 January 2019. The weighted average lessee's incremental borrowing rates (applicable to borrowings with similar repayment periods) as applied to the lease liabilities on 1 January 2019 were 4.75% and 4.90%.

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	23,834
Discounted using the lessee's incremental borrowing rates of at the date of initial application	22,794
Less: short-term leases recognised on a straight-line basis as expense	(6,428)
Lease liabilities recognised as at 1 January 2019	16,366
Of which are:	
Current lease liabilities	5,958
Non-current lease liabilities	10,408

The right-of-use assets were measured on a modified retrospective basis while adoption IFRS 16. The right-of use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

In addition, the Group's land use rights as previously presented as a separate item in the consolidated balance sheet has also been classified as part of the right-of-use assets with effect from 1 January 2019.

The recognised right-of-use assets relate to the following types of assets:

	Unaudited 30 June 2019 RMB'000	**1 January 2019 RMB'000**
Land use rights	74,227	75,034
Properties and warehouses	39,685	16,917
	113,912	91,951

3. Changes in accounting policies (continued)

(a) Adjustments recognised on adoption of IFRS 16 (continued)

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by RMB91,951,000
- land use rights – decrease by RMB75,034,000
- other current assets – decrease by RMB551,000
- lease liabilities – increase by RMB16,366,000

The net impact on the retained earnings as of 1 January 2019 is immaterial for warranting any adjustment.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

- reliance on previous assessments on whether leases are onerous;

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 "*Determining whether an Arrangement contains a Lease*".

3. Changes in accounting policies (continued)

(b) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses and has land use rights under long-term lease agreements. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases (including land use rights) are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

3. Changes in accounting policies (continued)

(b) The Group's leasing activities and how these are accounted for (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Extension and termination options

Extension and termination options are included in some property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

4. Revenue and segment information

Management determines the operating segments based on the reports reviewed by the chief operating decision makers ("CODM") that are used to make strategic decisions. The Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the manufacturing and sales of hot pot condiment, Chinese-style compound condiment, convenient ready-to-eat food products and others to third party and related party customers, which are considered as one segment. The Group's principal market is the PRC and its sales to overseas customers contributed to less than 5% of the total revenues. Accordingly, no geographical information is presented.

Breakdown of revenue by product category is as follows:

	Unaudited Six months ended 30 June	
	2019	**2018**
	RMB'000	**RMB'000**
Revenue		
Hot pot condiment		
– Related parties	693,889	523,407
– Third parties	393,870	245,653
Subtotal	1,087,759	769,060
Chinese-style compound condiment		
– Related parties	13,530	12,180
– Third parties	186,488	110,192
Subtotal	200,018	122,372
Convenient ready-to-eat food products		
– Related parties	1,159	3,231
– Third parties	339,967	104,457
Subtotal	341,126	107,688
Others		
– Related parties	46	1,222
– Third parties	26,806	3,610
Subtotal	26,852	4,832
Total	1,655,755	1,003,952

Revenue from sales to related parties accounted for approximately 42.8% of the Group's total revenue for the six months ended 30 June 2019 (2018: 53.8%).

5. Trade receivables

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Third parties	38,247	42,122
Related parties	177,730	164,801
	215,977	206,923
Less: provision for impairment	(30)	(30)
Trade receivables – net	215,947	206,893

The majority of the Group's third party sales are conducted through receiving advances from customers before delivering the goods to customers, with only a few customers who 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:

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Within 3 months	184,103	202,929
3 to 6 months	31,844	3,964
	215,947	206,893

6. Share capital

	2019 Shares	2018 Shares	2019 US$'000	2018 US$'000
Ordinary shares of US$0.00001 each – Authorised on 1 January 2018, 31 December 2018 and 30 June 2019	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 US$	Equivalent nominal value of ordinary shares RMB'000
On 1 January 2018, 31 December 2018 and 30 June 2019	1,046,900,000	10,469	68

7. Trade payables

Trade payables mainly arose from the purchase of materials. The credit terms of trade payables granted by the vendors are usually 30 to 90 days.

The ageing analysis of trade payables based on invoice dates is as follows:

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Within 3 months	190,260	172,376
3 to 6 months	4,462	9,759
6 months to 1 year	6,889	6,524
	201,611	188,659

8. Expenses by nature

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

	Unaudited Six months ended 30 June	
	2019	**2018**
	RMB'000	**RMB'000**
Changes in inventories of finished goods and work in progress	151,785	89,526
Raw materials and consumables used	771,143	475,482
Employee benefit expenses	186,042	103,980
Transportation and related charges	45,371	24,279
Advertising and other marketing expenses	42,382	13,844
Depreciation of property, plant and equipment	15,110	15,278
Travel and entertainment expenses	14,793	5,712
Warehouse expenses	14,752	9,384
Utilities	14,271	10,212
Technical supporting fees, professional fees and other services fees	13,568	6,566
Taxes and surcharges	13,188	9,236
Rental expenses	4,800	7,832
Depreciation of right-of-use assets	4,927	—
Maintenance	3,613	2,797
Amortisation of land use rights	—	488
Amortisation of intangible assets	764	548
Write-down of inventories	416	24
Other expenses	12,544	8,929
Total	1,309,469	784,117

9. Other income and gains-net

	Unaudited Six months ended 30 June 2019 RMB'000	2018 RMB'000
Government grants	22,836	20,835
Interest income from financial assets at fair value through profit or loss	2,759	3,939
Sales of scrap materials	2,189	956
Net foreign exchange gains	1,985	4,038
Change in fair value of financial assets at fair value through profit or loss	161	412
Loss on disposal of property, plant and equipment	(738)	(67)
Others	2,871	663
Total other income and gains – net	32,063	30,776

10. Finance income-net

	Unaudited Six months ended 30 June 2019 RMB' 000	2018 RMB' 000
Finance income		
– Interest income	8,541	4,329
Finance costs		
– Interest of lease liabilities	(1,386)	—
Finance income – net	7,155	4,329

11. Income tax expense

	Unaudited Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Current income tax	88,461	65,724
Deferred income tax expense/(credit)	4,652	(610)
Income tax expense	93,113	65,114

(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 been provided at the rate of 16.5% on the Group's estimated assessable profit for the six months ended 30 June 2019. The Group did not have any estimated assessable profits arising in or derived from Hong Kong during the six months ended 30 June 2018.

(c) Singapore income tax

The Group set up a wholly owned subsidiary in Singapore on 18 February 2019, Singapore profits tax has been provided at the rate of 17% on the estimated assessable profit for the six months ended 30 June 2019.

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

The income tax provision of the Group in respect of operations in the PRC has been calculated at the CIT rate of 25% on the estimated assessable profits for the six months ended 30 June 2019 and 2018, based on the existing legislation, interpretations and practices in respect thereof.

(e) 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 WHT at the rate of 10%. 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%.

The Group has no plan to distribute the retained earnings of the Group's subsidiaries incorporated in the PRC as at 30 June 2019 in the foreseeable future. As a result, no deferred income tax liability has been recognised in this respect.

12. Earnings per share

(a) Basic earnings per share

Basic earnings per share for each of the six months ended 30 June 2019 and 2018 is 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 the shares as held for the Group's Restricted Share Unit Scheme (the "RSU Scheme") during the reporting period.

	Unaudited Six months ended 30 June	
	2019	**2018**
Profit attributable to owners of the Company (RMB' 000)	270,368	184,584
Weighted average number of ordinary shares in issue less shares held for the RSU Scheme (thousands)	969,801	969,680
Basic earnings per share (RMB cents)	27.88	19.04

(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 shares granted and assumed vested ("Restricted Shares") are the only dilutive potential ordinary shares as at 30 June 2019 and 2018.

	Unaudited Six months ended 30 June	
	2019	**2018**
Earnings		
Profit attributable to owners of the Company (RMB' 000)	270,368	184,584
Weighted average number of ordinary shares in issue for calculating basic earnings per share (thousands)	969,801	969,680
Adjustments for:		
– Restricted Shares granted and assumed vested (thousands)	6,581	8,021
Weighted average number of ordinary shares and potential ordinary shares for calculating diluted earnings per share (thousands)	976,382	977,701
Diluted earnings per share (RMB cents)	27.69	18.88

13. Dividends

During the six months ended 30 June 2019, the total dividends paid amounted to RMB148,643,000 or RMB15.2952 cents per share (2018: RMB48,291,000 or RMB4.9822 cents per share) (which are net of the dividend of RMB11,297,000 (2018: RMB3,867,000) attributable to the shares held for the RSU Scheme).

PERFORMANCE REVIEW FOR FIRST HALF OF 2019

In the first half of 2019, despite the complicated situations domestically and internationally, the national economy maintained an overall balance and a steady development trend. The consumption prices of residents rose moderately, consumption growth accelerated generally, and internal consumption upgrades continued to advance. Under the policies of continuously promoting reform and innovation, deepening supply-side structural reform, optimizing business environment, and large-scale tax reduction and fee reduction, the vitality of market players has been continuously stimulated. In the first half of 2019, the catering market grew steadily and the general trend of the condiment industry was improving.

In the first half of 2019, the Group's major businesses focused on continuous and deeper development of the national sales network, enhancing channel sales capabilities, expanding product and brand portfolios under multi-branding structure constantly, promoting and enhancing internal incentive mechanism constantly, and supplementing and optimizing supply capabilities continuously. For the six months ended 30 June 2019, the Group's revenue reached RMB1,655.8 million, representing a year-on-year increase of 64.9%; net profit amounted to RMB292.4million, representing a year-on-year increase of 54.1%.

In terms of non-related party offline channels, such channels benefited from the continued development of lower-tier channels and innovation, effective incentives for internal sales staff and enhancement of external distributors' service quality, such that sales from third party channels increased continuously as a result. As of 30 June 2019, the Group's distributors had covered over a total of 31 provincial areas in China, the regions of Hong Kong, Macau and Taiwan, as well as49 overseas countries and regions.

For sales through e-commerce, the Group's self-operated flagship stores are the main locations for brand interaction, and its brand image is enhanced through the featured promotion activities of various marketing events. Consumer online consumption experience was enhanced by improving delivery efficiency and customer service levels. For the six months ended 30 June 2019, the amount of online sales of the Group increased by 46.9% year-on-year from RMB80.2 million for the same period of 2018 to RMB117.8 million.

In terms of products, motivated by the "project-based system for products", the Group launched new products constantly, and developed 29 new products during the first half of the year. The Group actively developed new products based on existing three main categories of the existing key products such as hot pot condiments, Chinese-style compound condiments and convenient ready-to-eat food products.

Regarding staff incentives, the Group constantly and actively created an incentive system in line with its own features, and the "Partner Fission" mechanism in terms of sales was introduced in the first half of 2019 to address various issues such as talent bottlenecks and momentum endurance faced in the deeper development of sales channels.

For sales to related parties, in the first half of 2019, the Group continued to promote hot pot soup bases under "Thousand People Thousand Flavors" series in the restaurants for Haidilao International Holding Ltd., whose shares are listed on The Stock Exchange of Hong Kong Limited (stock code: 6862), and its subsidiaries (the "**Haidilao Group**"), and to improve hot pot soup base formulae for local requirements to assist Haidilao Group to expand in overseas stores. In addition, the Group continues to help develop and innovate a variety of local featured hot pot soup flavorings based on consumer taste trends.

In terms of replenishing and optimizing supply capacity, the Group continued to expand its production capacities in the first half of 2019 based on market demands and its own development needs. In the first half of 2019, the new plant located in Bazhou, Hebei Province began trial production. It is expected that Phase I of the Bazhou project will be completed and put into operation during this year, and that Phase II of the Bazhou project will be completed and put into operation next year. Phase II of the new production base located in Maanshan, Anhui Province is also under construction. During the Reporting Period, the Group signed a land purchase agreement in Luohe, Henan Province, and the construction project of the Luohe production base will begin construction in the second half of 2019. The successive construction and commissioning of new plants is expected to alleviate the pressure on capacity utilization brought about by the rapid development of the Group's business. The Group will also gradually increase the overall production efficiency and reduce personnel costs by introducing fully automated production lines in new production bases. In addition, with the introduction of new products in the future, the new factory can also meet the needs of the Group by introducing corresponding new types of production lines.

BUSINESS REVIEW

In the first half of 2019, although domestic and international economic situation remained complicated and severe, global economic growth has slowed down with increasing external instability and uncertainties, insufficient and imbalanced domestic development is still a prominent problem, and the economy faces a new downward pressure. Nevertheless, in the first half of the year, Chinese economy remained generally on track, with continuing overall stable, steady and progressive development. With the deeper promotion of supply-side structural reforms, the continuous optimization of economic structure, the higher increase in income of residents, the steady rise in market sales, and the increase in growth rate of online retail sales and market share, under the environment, the catering industry and retail sales have grown steadily, the condiment industry continues to develop in growth trend. For the six months ended 30 June 2019, the Group recorded revenue of RMB1,665.8 million, representing a year-on-year increase of 64.9%; net profit amounted to RMB292.4 million, representing a year-on-year increase of 54.1%.

Sales Channels

The Group not only provides hot pot condiment products to the Haidilao Group, one of our related parties, but also acts as a solution provider of cooking flavorings for Chinese family cooking customers, catering service providers and food industry companies, while also selling hot pot condiments, Chinese-style compound condiments and convenient ready-to-eat food products through third party channels such as distributors, e-commence platforms and catering clients.

Enhancing the sales capabilities of third-party retail channels is still one of the key strategies of the Group. Further developing the sales network, increasing the number of distributors, improving the sales efficiency of individual sales outlets, enhancing the management capabilities of distributors, and optimizing the incentive mechanism for internal sales personnel are the various main directions of the Group's sales strategy.

In the first half of 2019, in order to solve the talent bottleneck and incentive continuity problems that may be encountered in the channel development process, we have implemented the "partner fission" system based on the existing "partnership" incentive system. Relying on the "apprenticeship system", through authorizing the partner to train assistants, the assistant gradually becomes the "apprentice partner", and shares the profit of the "master partner's" business unit together. This maintains the continuous supply of manpower required for the channel development, propelling the "master partner" to develop beyond the old regional business, and forming the driving force of further developing into new channels.

The "partnership" incentive system is an incentive system for internal sales staff that the Group started to implement since the beginning of 2018. This system replaced the previous appraisal method of achieving sales target ratio. The result performance of each sales staff will be linked to the operating profit of the business unit managed by him/her, and they will be authorized to use channel fees. With this strategy, as "partner", sales staff gained sufficient business autonomy, the passion to work of sales staff was greatly encouraged, and the growth in sales amount and utilization efficiency of fees were notably enhanced.

In addition to the "partnership" incentive system for internal sales, in the first half of 2019, we also provided incentives for external distributors by improving the efficiency and satisfaction of our delivery services for distributors. The Group has always been very strict with channel inventory control. In order to further precisely manage and directly motivate distributors, the Group has established five regional logistics warehouses in the first half of this year, and plans to establish more regional warehouses in the second half of the year, so as to shorten the delivery cycle and reduce the minimum volume of distributors' orders, which allows the distributors to have more flexible ordering, and at the same time reduce the distributor inventory, to ensure the healthy development of the channel, and effectively ensure the freshness of the terminal products. Additionally, the Group began a small range trial direct delivery to the KA hypermarket channel since the first half of the year to directly reduce the storage link, and reached "zero inventory" for specific types of distributors. At present, the strategy is in good trial operation and gains positive feedback from distributors.

For the development of e-commerce channels, the Group continued to enhance communication with consumers and provide a more intimate shopping experience for consumers with strengthening the consumer interactive experience as a strategic direction and establishing the flagship store as the main brand interactive platform. In optimizing the shopping experience for consumers, the Group established a number of logistics warehouses to enhance the shopping experience of consumers. For online marketing, the Group formulated targeted marketing campaigns based on different festivals and promotional events, and achieved sound performance during key promotional periods such as "New Year Goods Festival", "38 Queen Festival", "Foodaholic Festival", "618", etc. On non-self-operated online platforms such as supermarket of JD.com and Tmall.com, in addition to continuously participating in platform promotion activities, the Group also promotes sales through large sets of products and matching gifts, in order to enhance the key e-commerce clients sales and customer experience. For the six months ended 30 June 2019, the Group had 5 flagship stores on e-commerce platforms such as Tmall.com and JD.com. The sales revenue generated from e-commerce channels by the Group in the first half of 2019 was RMB117.8 million, representing a year-on-year increase of 46.9%.

Benefiting from providing services to Haidilao Group and its associated companies over the years, the Group accumulated extensive experience in the catering service industry in China. For sales of standard packaged catering products, the Group continued to focus on developing products in line with demand of the catering market, expanding the product portfolio for catering products and increasing the number of catering distributors online and offline, and promoting our brand and products through various forms of activities such as tastings, exhibitions and samples distributions. Regarding the sales of customized catering products, since the first half of 2019, due to the reasons such as the economies of scale, the Group no longer provides services directly to third party catering clients, instead, such services and sales would be performed through Shuhai (Beijing) Supply Chain Management Co., Ltd. ("**Shuhai Supply Chain**") and its subsidiaries (the "**Shuhai Supply Chain Group**"). Due to this business reform, for the six months ended 30 June 2019, revenue from third-party catering sales reached RMB11.3 million, representing a decrease of 43.5% as compared to the same period of 2018.

For sales to related parties (referring to the Haidilao Group and its associated companies), with the background of the steady growth in the catering industry and hot pot catering consumption market in the PRC, the Haidilao Group recorded sustained and stable growth in restaurant business for the first half of this year. For the six months ended 30 June 2019, the Group's revenue from sales to related parties was RMB708.6 million, representing an increase of 31.2% as compared to the same period of 2018.

Products

In the first half of 2019, the Group continued to focus on the multi-brand strategy that was implemented last year, actively developed various sub-brand products, began to break the boundaries of the existing categories, and motivated employees to form groups to develop more products that are in line with market trends by the "project-based system for products". At the same time, we continued to improve formulae of the existing core products and upgrade the packaging, aiming to continuously stabilize the market leading position of our core products. For the six months ended 30 June 2019, the Company had new additions of a total of 7 Chinese-style compound condiment products, 3 hot pot soup flavoring products, 1 self-serving small hot pot product, 3 self-serving rice products, 3 ready-to-eat sauce products, 4 snack products and 8 standardized catering pack products.

The "project-based system for products" is a new product development strategy that the Group has implemented since 2018. Under the incentive mechanism, relying on the Group's strong research and development platform and channel support, employees can organize a team to initiate new product ideas by themselves, and the team completes the entire process of new product development projects from approval to launching. The project team will receive corresponding rewards after the products generate profit. This policy gives all employees the opportunity to develop new products, and improves the efficiency of new product development and the enthusiasm of employees to explore the market. At present, the mechanism is working well, and the number of new products launched has also increased during the Reporting Period.

For the portfolio of retail products, in the first half of 2019, the Group focused on promoting crawfish condiments, ready-to-eat sauces and self-serving products. In the compound condiments category, which is the main category combating hot pot seasonality, the Group introduced three crawfish condiments based on the existing four flavors, and also started to sell marinade condiment products in the first half of the year. Taking chilies from all over China as the main raw material, the Group also launched three new flavors of the ready-to-eat sauces in the first half of the year, which gradually were put into the offline channel sales in the first half of this year. In the convenient ready-to-eat category, the Group conducted optimizations and upgrades on the packaging and condiments of all self-serving products again, and launched three new self-serving rice products according to the using needs of self-serving products.

For hot pot soup flavoring products of related parties, in the first half of 2019, in addition to continued promotion of hot pot soup flavorings under the "Thousand People Thousand Flavors" series for Haidilao Group, the Group also collaborated with the Haidilao Group to upgrade the formulae for various hot pot soup flavorings according to consumers' feedback, and the Group and Haidilao Group co-developed a variety of new taste hot pot soup flavorings, such as curry hot pot soup flavorings and coconut milk hot pot soup flavorings. In addition, in order to meet the special needs of Haidilao Group overseas stores, the Group has also improved the hot pot soup flavorings formulae in some countries such as United Kingdom, Canada, Australia and Southeast Asia.

For the six months ended 30 June 2019, the Company added a total of 7 Chinese-style compound condiment products, 3 hot pot soup flavoring products, 1 self-serving small hot pot product, 3 self-serving rice products, 3 ready-to-eat sauce products, 4 snack products and 8 standardized catering pack products. As at 30 June 2019, the Company had a total of 59 hot pot condiment products, 35 Chinese-style compound condiment products, and 11 convenient ready-to-eat food products.

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

	For the six months ended 30 June					
	2019			2018		
	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 condiment(1)						
Third parties	**393,870**	**13,656**	**28.8**	245,653	8,698	28.2
Related parties	**693,889**	**27,805**	**25.0**	523,407	19,766	26.5
Subtotal	**1,087,759**	**41,461**	**26.2**	769,060	28,464	27.0
Chinese-style compound condiment(2)						
Third parties	**186,488**	**7,338**	**25.4**	110,192	4,383	25.1
Related parties	**13,530**	**581**	**23.3**	12,180	431	28.3
Subtotal	**200,018**	**7,919**	**25.3**	122,372	4,814	25.4
Convenient ready-to-eat food products(3)						
Third parties	**339,967**	**7,495**	**45.4**	104,457	2,814	37.1
Related parties	**1,159**	**26**	**44.6**	3,231	65	49.7
Subtotal	**341,126**	**7,521**	**45.4**	107,688	2,879	37.4
Others(4)	**26,852**	**4,307**	**6.2**	4,832	601	8.0
Total	**1,655,755**	**61,208**	**27.1**	1,003,952	36,758	27.3

Notes:

(1) Mainly including the Group's sales of products such as hot pot soup flavoring and hot pot dipping sauce

(2) Mainly including the Group's sales of products such as Chinese-style compound condiment and ready-to-eat sauce

(3) Mainly including the Group's sales of products such as self-serving small hot pot and self-serving rice

(4) Mainly including the Group's sales of products such as snack food, raw materials (such as soybean oil), golden popcorn and snail rice noodle

The table below sets forth the revenue in absolute terms and the percentage of the total revenue of the Group, by product categories, for the periods as indicated:

	For the six months ended 30 June			
	2019		2018	
	(RMB'000)	**% of revenue**	(RMB'000)	% of revenue
Revenue from hot pot condiment	**1,087,759**	**65.7%**	769,060	76.6%
Revenue from Chinese-style compound condiment	**200,018**	**12.1%**	122,372	12.2%
Revenue from convenient ready-to-eat food products	**341,126**	**20.6%**	107,688	10.7%
Other revenue	**26,852**	**1.6%**	4,832	0.5%
Total revenue	**1,655,755**	**100.0%**	1,003,952	100.0%

For the six months ended 30 June 2019, the three major product categories of the Group, namely hot pot condiments, Chinese-style compound condiments and convenient ready-to-eat food products, realized faster growth when compared to the corresponding period in 2018. For the six months ended 30 June 2019, the Company had new additions of a total of 7 Chinese-style compound condiment products, 3 hot pot soup flavoring products, 1 self-serving small hot pot product, 3 self-serving rice products, 3 ready-to-eat sauce products, 4 snack products and 8 standardized catering pack products. As at 30 June 2019, the Company had a total of 59 hot pot condiment products, 35 Chinese-style compound condiment products and 11 convenient ready-to-eat food products.

FINANCIAL REVIEW

Revenue

The revenue of the Group increased by 64.9% from RMB1,004.0 million for the six months ended 30 June 2018, to RMB1,655.8 million for the same period in 2019.

Revenue by product

	For the six months ended 30 June			
	2019		2018	
	Revenue (RMB'000)	**% of revenue from hot pot condiment**	Revenue (RMB'000)	% of revenue from hot pot condiment
Revenue from hot pot condiment				
Revenue from third parties	**393,870**	**36.2%**	245,653	31.9%
Revenue from related parties	**693,889**	**63.8%**	523,407	68.1%
Total revenue from hot pot condiment	**1,087,759**	**100.0%**	769,060	100.0%

Revenue from hot pot condiment products increased by 41.4% from RMB769.1 million for the six months ended 30 June 2018 to RMB1,087.8 million for the same period in 2019, accounting for 65.7% of the revenue for the six months ended 30 June 2019. Of these, revenue from sales of hot pot condiment products to related parties increased by 32.6%, while revenue from sales of hot pot condiment products to third parties increased by 60.3%. The increase in revenue from sales of hot pot condiment products to related parties was mainly due to the effects of steady growth in the same store revenue of Haidilao Group and an increase in the number of restaurants. With further refined management of third-party distributor channels by the Group, innovation of the incentive mechanism for internal sales staff, development of lower-tier sales regions, effective innovation of channel marketing, enhancement in efficiency of terminal points of sales, and the launch of new products, continuous rapid growth was recorded in third-party sales.

	For the six months ended 30 June			
	2019		2018	
	Revenue (RMB'000)	**% of Chinese-style compound condiment revenue**	Revenue (RMB'000)	% of Chinese-style compound condiment revenue
Revenue from Chinese-style compound condiment				
Revenue from third parties	**186,488**	**93.2%**	110,192	90.0%
Revenue from related parties	**13,530**	**6.8%**	12,180	10.0%
Total revenue from Chinese-style compound condiment	**200,018**	**100.0%**	122,372	100.0%

Revenue from Chinese-style compound condiment products increased by 63.4% from RMB122.4 million for the six months ended 30 June 2018 to RMB200.0 million for the same period in 2019, accounting for 12.1% of the revenue for the six months ended 30 June 2019. Of these, revenue from sales of Chinese-style compound condiment products to related parties increased by 11.1%, while revenue from sales of Chinese-style compound condiment products to third parties increased by 69.2%. In respect of sales to related parties, the Group supplied products and services to certain catering customers in the Shuhai Supply Chain on a continuous basis. During the first half of the year, the Group continued to develop and improve existing individual products with strong performance in the third-party business of Chinese-style compound condiment products, researching and developing new products to satisfy the trend of market tastes, and coordinating various types of marketing activities with consistent product characteristics and market positioning, so that product innovation was maintained while continuous growth in sales amount was recorded.

	For the six months ended 30 June			
	2019		2018	
	Revenue (RMB'000)	**% of self-serving small hot pot products revenue**	Revenue (RMB'000)	% of self-serving small hot pot products revenue
Revenue from convenient ready-to-eat food products				
Revenue from third parties	**339,967**	**99.7%**	104,457	97.0%
Revenue from related parties	**1,159**	**0.3%**	3,231	3.0%
Total revenue from convenient ready-to-eat food products	**341,126**	**100.0%**	107,688	100.0%

For the six months ended 30 June 2019, sales of convenient ready-to-eat food products grew rapidly, and the Group continued to upgrade the formulae and optimize the flavoring of self-serving small hot pot products, launching 3 self-serving rice products in different flavorings in the first half of 2019. Benefiting from the continued development of distributors' channels and the continued expansion of new channels such as convenience stores, railway stations and tourist attractions, along with advertisement, featured promotional activities and sales promotion plans during holiday seasons, revenue from convenient ready-to-eat food products increased substantially and continuously as a result. For the six months ended 30 June 2019, revenue from convenient ready-to-eat food products increased by 216.7% from RMB107.7 million for the same period in 2018 to RMB341.1 million, accounting for 20.6% of revenue for the six months ended 30 June 2019.

Revenue by distribution network

	For the six months ended 30 June			
	2019		2018	
	Revenue (RMB'000)	**% of total revenue**	Revenue (RMB'000)	% of total revenue
Related party customers				
Haidilao Group and its affiliates	**708,624**	**42.8%**	540,040	53.8%
Third party customers				
Distributors	**805,954**	**48.7%**	363,170	36.1%
E-commerce	**117,750**	**7.1%**	80,231	8.0%
Others				
Third party catering enterprises	**11,315**	**0.7%**	20,006	2.0%
One-off sales activities	**12,112**	**0.7%**	505	0.1%
Total revenue	**1,655,755**	**100.0%**	1,003,952	100.0%

With continuous stable growth and consumption upgrade in the hot pot catering industry in China, the sales amount of the Company to the Haidilao catering business continued to record a stable growth in the first half of 2019. Benefiting from sustained and rapid growth in the number of Haidilao restaurants, the Group recorded sales revenue of RMB708.6 million in the sales to related parties (mainly referring to sales to the Haidilao Group) for the six months ended 30 June 2019, representing a year-on-year increase of 31.2%.

For sales revenue from third party distributors, the Group continued to strengthen the overall sales capability of products through continuously expanding the distribution networks to the frontline and increasing the coverage of the points of sales, improving the in-house sales incentive mechanism and enhancing service quality to gain the distributors' satisfaction. Innovative channels were created in line with the product features to enhance the potential of channel development. In e-commerce, while advantages of the flagship store continued to be promoted, self-operated strong online platforms such as Tmall.com and JD.com were also relied upon to maintain rapid growth in sales volume. For the six months ended 30 June 2019, sales revenue derived from sales generated through distributor channels amounted to RMB806.0 million, representing a year-on-year increase of 121.9%. Sales revenue from e-commerce channels amounted to RMB117.8 million, representing a year-on-year increase of 46.9%. Sales revenue from third party catering enterprises amounted to RMB11.3 million, representing an decrease of 43.5% as compared to the same period in 2018.

Revenue by geographic region

The table below sets forth the revenue by geographic regions of the Group for the periods as indicated:

	Six months ended 30 June			
	2019		2018	
	(RMB'000)	**% of revenue**	(RMB'000)	% of revenue
Northern China[5]	**790,110**	**47.7%**	520,684	51.9%
Southern China[6]	**797,090**	**48.1%**	454,834	45.3%
Overseas markets	**68,555**	**4.2%**	28,434	2.8%
Total	**1,655,755**	**100.0%**	1,003,952	100.0%

Notes:

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

(6) 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 utilities, increased by 60.9% from RMB641.1 million for the six months ended 30 June 2018 to RMB1,031.7 million for the corresponding period of 2019.

Gross Profit and Gross Profit Margin

	Six months ended 30 June			
	2019		2018	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
Hot pot condiment	**411,367**	**37.8%**	270,518	35.2%
Third parties	**224,602**	**57.0%**	131,475	53.5%
Related parties	**186,765**	**26.9%**	139,043	26.6%
Chinese-style compound condiment	**95,541**	**47.8%**	58,193	47.6%
Third parties	**92,251**	**49.5%**	54,660	49.6%
Related parties	**3,290**	**24.3%**	3,533	29.0%
Convenient ready-to-eat food products	**111,804**	**32.8%**	32,628	30.3%
Third parties	**111,408**	**32.8%**	31,536	30.2%
Related parties	**396**	**34.2%**	1,092	33.8%
Others	**5,385**	**20.1%**	1,509	31.2%
Total	**624,097**	**37.7%**	362,848	36.1%

The Group's gross profit increased by 72.0% from RMB362.8 million for the six months ended 30 June 2018 to RMB624.1 million for the corresponding period of 2019, and the gross profit margin increased from 36.1% for the six months ended 30 June 2018 to 37.7% for the corresponding period of 2019. Increase in gross profit was mainly due to improved production efficiency, increased percentage of sales of products with higher gross profit and increased sales prices of certain products.

Distribution Expenses

The Group's distribution expenses increased by 87.4% from RMB87.5 million for the six months ended 30 June 2018 to RMB164.0 million for the corresponding period of 2019. The Group's distribution expenses as a percentage of the Group's revenue increased from 8.7% for first half of the year of 2018 to 9.9% for the corresponding period of 2019. The increase in distribution expenses was mainly due to the increase in the cost of storage and transportation resulting from the establishment of multi-regional warehouses to improve distribution efficiency and services in order to deepen cooperation with distributors and further deepening in terminal promotions.

Administrative Expenses

The Group's administrative expenses increased by 105.0% from RMB55.5 million for the six months ended 30 June 2018 to RMB113.8 million for the corresponding period of 2019. The Group's administrative expenses as a percentage of the Group's revenue increased from 5.5% for the first half of 2018 to 6.9% for the corresponding period of 2019. The increase in the administrative expenses was mainly due to the related pre-operating expenses of Bazhou Factory, Maanshan Phase II Factory and Luohe Factory incurred in the course of construction as well as the increase in administrative expenses due to business development.

Other Incomes and Gains

The Group's other incomes and gains increased by 4.2% from RMB30.8 million for the six months ended 30 June 2018 to RMB32.1 million for the corresponding period of 2019, mainly due to government grants received by the Group.

Finance Income – net

The Group's finance income increased by 67.4% from net gain of RMB4.3 million for the six months ended 30 June 2018 to net gain of RMB7.2 million for the corresponding period of 2019. As evidenced by the sufficiency of capital, the Group was maintaining a more mature and stable control over the use of capital and recorded a significant growth in bank deposit interest income as compared to the corresponding period last year.

Profit before Tax

As a result of the foregoing, the Group's profit before income tax increased by 51.2% from RMB254.9 million for the six months ended 30 June 2018 to RMB385.5 million for the corresponding period of 2019.

Income Tax Expense

The Group's income tax expense increased by 43.0% from RMB65.1 million for the six months ended 30 June 2018 to RMB93.1 million for the corresponding period of 2019. The effective tax rate decreased from 25.5% for the six months ended 30 June 2018 to 24.2% for the corresponding period of 2019, mainly due to a non-taxable exchange gains from the appreciation of the Hong Kong dollar and the US dollar against RMB in Hong Kong and interest income of deposits.

Net Profit for the Period

As a result of the foregoing, net profit of the Group increased by 54.1% from RMB189.8 million for the six months ended 30 June 2018 to RMB292.4 million for the corresponding period of 2019. Basic earnings per share increased from RMB19.04 cents for the six months ended 30 June 2018 to RMB27.88 cents for the corresponding period of 2019, and net profit margin decreased from 18.9% for the six months ended 30 June 2018 to 17.7% for the corresponding period of 2019.

Capital Liquidity and Financial Resources

For the six months ended 30 June 2019, the Group's business was mainly funded by the cash generated from its operation. The Group intended to apply internal resources, through income derived from organic and sustainable developments, to fund its expansion and business operation.

Cash and Cash Equivalents

As of 30 June 2019, the Group's cash and cash equivalents were primarily denominated in RMB, HK dollars and US dollars. Its cash and cash equivalents amounted to approximately RMB1,163.9 million (31 December 2018: RMB1,179.9 million).

Asset-Liability Ratio

As of 30 June 2019, the Group's asset-liability ratio[7] was 15.5% (31 December 2018: 17.2%). This decrease was mainly due to the decrease in contract liabilities and current income tax liabilities. The Group did not have any bank borrowings.

Note:

(7) 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 of 30 June 2019, the Group had inventories of approximately RMB204.9 million (31 December 2018: RMB275.8 million). The turnover days of inventories decreased from 46.4 days for the year ended 31 December 2018 to 41.9 days for the six months ended 30 June 2019. 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 the first half of 2019.

Trade Receivables

Trade receivables represent amounts due from customers in respect of sales of goods in the ordinary course of business. As of 30 June 2019, we had trade receivables of approximately RMB215.9 million (31 December 2018: RMB206.9 million). This change was mainly due to an increase in sales by the Group to related parties and certain third parties (such as e-commerce platform) in the first half of 2019. The turnover days of trade receivables increased slightly from 22.7 days for the year ended 31 December 2018 to 23.0 days for the six months ended 30 June 2019.

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 of 30 June 2019, we have trade payables of approximately RMB201.6 million (31 December 2018: RMB188.7 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 decreased from 35.6 days for the year ended 31 December 2018 to 34.0 days for the six months ended 30 June 2019.

Contingent Liabilities

As of 30 June 2019, the Group did not have any contingent liabilities.

Charge of Assets

As of 30 June 2019, the Group did not charge any fixed assets as securities for borrowings.

Borrowings

As of 30 June 2019, the Group did not have any bank borrowings.

Debt-to-Equity Ratio

As of 30 June 2019, the Group's debt-to-equity[(8)] ratio was 1.8%.

Note:

(8) 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 HKD and USD, and is so 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 of 30 June 2019, the Group had a total of 2,260 employees (including temporary workers), comprising of 1,829 employees in production, 310 employees in marketing and 121 employees in administration and management functions respectively.

For the six months ended 30 June 2019, the Group's incurred total staff costs (including salaries, wages, allowance, benefits and costs of equity incentive plan) of RMB186.0 million.

The remuneration of the employees includes salaries and allowances. The Group provides training to its staff to enhance technical and product knowledge. The Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly.

Material Acquisitions and Disposals

During the six months ended 30 June 2019, the Group had no material acquisitions nor any disposals of subsidiaries, associates and joint ventures.

FUTURE PROSPECTS

Industry and Business Outlook

In the first half of 2019, the global economic growth and the expansion of world trade have slowed down, and certain domestic long-standing structural contradictions have become prominent, causing downward pressure on the economy. In the second half of the year, the National Bureau of Statistics expects the external environment to remain relatively complicated and downward pressure on the domestic economy to persist. However, the fundamentals of stable economic development remain unchanged, and there is still room for policy options, and for the domestic market to continue to grow. On the whole, it is conducive to achieving the main established goals of the economic and social development for the year.

In terms of product development, the Group continued to define the application scenarios and product categories based on multiple sub-brands, and adopted the thematic slogan "Easy & Tasty" to create products, brands and corporate image. Through structural innovation of products, the business boundaries were further widened. New products were launched and old products were eliminated on an on-going basis for the product categories of hot pot condiments, Chinese-style compound condiments, convenient ready-to-eat food products and snack products. While reinforcing the market position of existing individual products with strong trends, the Group's research and development and market exploration capabilities were also utilized to enrich the matrix of product portfolio. In developing new products, we will continue to adopt the "project-based system" as an incentive strategy. Special and unique local recipes and foreign flavors will be used as guidance for introducing differentiated products continuously. A strict product discontinuation system will also be adopted to adjust the product portfolio in a timely manner, for cultivating large individual products and eliminating under-performing products, so as to enhance comprehensive product competitiveness.

In terms of channel development, the Group will continue optimizing lower-tier sales channels, strengthening sales capabilities of sales points and developing new channel models through internal organic growth and outward extension development in order to increase the market share and industrial position of the Group continuously. Meanwhile, staff incentive policies will be further optimized and improved to encourage internal sales staff and external distributors, and to increase the coverage density by points of sales and sales efficiency of individual locations. For e-commerce platforms, through the addition of AI customer service robots and strengthening further cooperation with after-sale customer service of Cainiao Logistics, customer service experience will be optimized and customer service staff will be streamlined to enhance the departmental operational efficiency.

In terms of marketing, the Group will continue to pursue active online and offline promotions. By considering the product features of each sub-brand and adopting the cost effective marketing channel, the efficiency of marketing in the various terminals will be improved. Meanwhile, the Group will continue to deepen its cooperation relationship with distributors, and effectively explore channel space and distributors potential by taking measures such as improving delivery efficiency through several regional warehouses and "zero inventory".

For the overseas business, the Group will start the planning of the establishment of overseas branches and gradually transfer some foreign trade products to overseas factories for production or processing to reduce production and transportation costs, as well as making regional adjustments to flavors of our products in line with the objective to research and develop local products.

In terms of supply chains, we will introduce two fully automatic production lines for the first time in the newly constructed factory at Bazhou. In the next few years, several factories will be built and commenced for operation. We expect to continue investing in refining our production as well as research and development of automatic equipment.

Material Investments and Prospects

In order to ease the pressure from a continuously increasing production capacity utilization rate, the Group mainly adopted the following measures in the first half of 2019:

Firstly, the factory construction for new plants located in Bazhou, Hebei province, China was basically completed. The factory plant of Phase I in the Bazhou project was basically completed in 2018. As at the first half of 2019, the project began trial production. The south workshop included in Phase I of the Bazhou factory project has commenced mass production in August 2019, the north workshop will commence mass production at the end of 2019; More than 70,000 tonnes of production capacity is expected to be provided, including the special production line for developing soup flavorings for the "Thousand People Thousand Flavors" series of Haidilao restaurants and the production line for retail products of hot pot soup flavorings. The project is located at the central area of Northern China, which will be helpful to the Group in controlling and managing logistic costs and the pressure on production capacity during peak seasons.

Secondly, a contract was entered into for the new construction of Phase II Maanshan condiment production base located in Anhui province, China. The Group entered into a land acquisition agreement with the local government of Maanshan in Anhui province in August 2018, and the project is expected to be completed and will commence trial production in 2022 to provide an addition of approximately 200,000 tonnes of production capacity. The factory will be equipped with condiment production equipment and quality monitoring devices at advanced technological levels in accordance with local and overseas standards to enhance the overall production line efficiency of the Group.

Thirdly, the Group entered into a land acquisition agreement with the Linying County Government in Luohe, Henan province in the first half of 2019. The Phase I of Luohe production base is expected to commence construction in the second half of 2019 and will be completed and put into trial production by the end of 2020. The capacity for Phase I is expected to reach 80,000-100,000 tons, and the designed capacity for the Phase II will be 200,000 tons which is expected to be completed and put into trial production in 2021.

Future Plans for Material Investments

The Group will continue to extensively identify potential strategic investment opportunities and 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.

OTHER INFORMATION

Interim dividend

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2019 to the Shareholders.

Event after the end of the Reporting Period

There has been no material event after the end of the Reporting Period which requires disclosure in this announcement.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

Model Code for Securities Transactions

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 Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). Specific enquiries have been made to all the directors of the Company (the "**Directors**") and the Directors have confirmed that they have complied with the Model Code during the six months ended 30 June 2019.

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 for securities transactions. No incident of non-compliance of the Model Code by the employees was noted by the Company during the six months ended 30 June 2019.

Compliance with the Corporate Governance Code

The Company has adopted and applied the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules. During the six months ended 30 June 2019, the Company has complied with the mandatory code provisions in the Corporate Governance Code.

Audit Committee

The audit committee of the Company (the "**Audit Committee**") has three members comprising all independent non-executive Directors, being Mr. Yau Ka Chi (chairman), Mr. Qian Mingxing 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 Group and has discussed matters in relation to internal controls and financial reporting with the management, including the review of the unaudited condensed consolidated interim financial results of the Group for the six months ended 30 June 2019. The Audit Committee considers that the interim financial results for the six months ended 30 June 2019 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

Publication of Interim Results Announcement and Interim Report

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

The interim report for the Reporting Period 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 Stock Exchange and the Company in due course.

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

Hong Kong, 20 August 2019

As at the date of this announcement, the executive directors of the Company are Mr. Shi Yonghong, Ms. Dang Chunxiang, Mr. Sun Shengfeng, Ms. Shu Ping and Mr. Guo Qiang; the non-executive director of the Company is Mr. Zhang Yong; and the independent non-executive directors of the Company are Mr. Yau Ka Chi, Mr. Qian Mingxing and Ms. Ye Shujun.