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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 2020

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 2020 (the "**Reporting Period**"), together with comparative figures for the same period of 2019.

GROUP FINANCIAL HIGHLIGHTS

- Revenue was RMB2,218.1 million for the six months ended 30 June 2020, a 34.0% increase from RMB1,655.8 million for the six months ended 30 June 2019.
- Gross profit was RMB879.8 million for the six months ended 30 June 2020, a 41.0% increase from RMB624.1 million for the six months ended 30 June 2019.
- Net profit was RMB445.8 million for the six months ended 30 June 2020, a 52.5% increase from RMB292.4 million for the six months ended 30 June 2019.
- Net profit attributable to the owners of the Company was RMB398.9 million for the six months ended 30 June 2020, a 47.5% increase from RMB270.4 million for the six months ended 30 June 2019.
- Earnings per share (basic) was RMB40.67 cents for the six months ended 30 June 2020, a 45.9% increase from RMB27.88 cents for the six months ended 30 June 2019.

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		555,566	483,393
Right-of-use assets		162,115	151,435
Intangible assets		19,168	17,649
Other financial assets at amortised cost		120,000	–
Deferred income tax assets		17,245	25,445
Other assets		214,390	194,949
Financial assets at fair value through profit or loss		32,301	84,893
Total non-current assets		1,120,785	957,764
Current assets			
Inventories		265,361	297,334
Other current assets		129,872	168,879
Trade receivables	5	154,887	269,175
Other financial assets at amortised cost		8,955	7,762
Financial assets at fair value through profit or loss		167,532	89,596
Term deposits with initial term over three months and within one year		344,404	484,845
Cash and cash equivalents		1,269,163	1,036,396
Total current assets		2,340,174	2,353,987
Total assets		3,460,959	3,311,751
Equity			
Equity attributable to owners of the Company			
Share capital	6	68	68
Shares held for employee share scheme		(4)	(4)
Other reserves		739,267	949,757
Retained earnings		2,062,947	1,664,028
Capital and reserves attributable to owners of the Company		2,802,278	2,613,849
Non-controlling interests		167,614	114,298
Total equity		2,969,892	2,728,147

	Note	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Liabilities			
Non-current liabilities			
Lease liabilities		21,630	26,361
Deferred income tax liabilities		381	381
Total non-current liabilities		22,011	26,742
Current liabilities			
Trade payables	7	195,899	207,490
Contract liabilities		71,618	46,224
Lease liabilities		10,778	12,790
Other payables and accruals		128,762	183,517
Current income tax liabilities		61,999	106,841
Total current liabilities		469,056	556,862
Total liabilities		491,067	583,604
Total equity and liabilities		3,460,959	3,311,751
Net current assets		1,871,118	1,797,125

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

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Unaudited Six months ended 30 June 2020 RMB'000	2019 RMB'000
Revenue	4	2,218,133	1,655,755
Cost of sales	8	(1,338,370)	(1,031,658)
Gross profit		879,763	624,097
Distribution expenses	8	(210,882)	(163,989)
Administrative expenses	8	(151,529)	(113,822)
Other income and gains – net	9	56,784	32,063
Operating profit		574,136	378,349
Finance income	10	12,363	8,541
Finance costs	10	(774)	(1,386)
Finance income – net	10	11,589	7,155
Profit before income tax		585,725	385,504
Income tax expense	11	(139,908)	(93,113)
Profit for the period		445,817	292,391
Profit attributable to:			
Owners of the Company		398,919	270,368
Non-controlling interests		46,898	22,023
		445,817	292,391
Other comprehensive income			
Items that may be reclassified to profit of loss			
– Currency translation differences		(7,231)	–
Other comprehensive income for the period, net of tax		(7,231)	–
Total comprehensive income		438,586	292,391
Total comprehensive income attributable to:			
– Owners of the Company		392,082	270,368
– Non-controlling interests		46,504	22,023
		438,586	292,391
Earnings per share attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	12	40.67	27.88
– Diluted	12	40.67	27.69

The above interim condensed consolidated statement of profit or loss and other 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 2020 has been prepared in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" ("IAS 34").

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 2019 which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those described in the Group's annual consolidated financial statements for the year ended 31 December 2019, as described in those annual consolidated financial statements except for the estimation of income tax (see Note 11) using the tax rate that would be applicable to expected total annual earnings and the adoption of amended standards and revised conceptual framework which become effective for the current reporting period.

(a) New and amended standards adopted by the Group

A number of amended standards and revised conceptual framework became applicable for the current reporting, as followed:

Amendments to IAS 1 and IAS 8	*Definition of Material*
Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 7 and IFRS 9	*Interest Rate Benchmark Reform*
Revised Conceptual Framework for Financial Reporting	

The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amended standards and revised conceptual framework.

The Group also elected to early adopt amendment to IFRS 16 "COVID-19 - Related Rent Concessions" (which is mandatory for reporting period on or after 1 June 2020):

Amendment to IFRS 16 on COVID-19 - Related Rent Concessions provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications.

The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all rent concessions that meet the above conditions in respect of lease arrangements for which lease liabilities are recognised. During the six months ended 30 June 2020, an amount of RMB707,000 is recognised in profit or loss as reduction of rental expense to reflect changes in lease liabilities that arise from rent concessions.

Except the impact on the early adoption of amendment to IFRS 16 as mentioned above, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting the abovementioned amended standards and revised conceptual framework.

(b) Impact of standards issued but not yet applied by the Group

Certain new and amended standards and annual improvements have been published that are not mandatory for the current reporting period and have not been early adopted by the Group. These new and amended standards and annual improvements are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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 for the six months ended 30 June 2020 and 2019. Accordingly, no geographical information is presented.

Breakdown of revenue by product categories is as follows:

	Unaudited Six months ended 30 June 2020 RMB'000	2019 RMB'000
Revenue		
Hot pot condiment		
– Related parties	469,224	693,889
– Third parties	746,245	393,870
Subtotal	1,215,469	1,087,759
Chinese-style compound condiment		
– Related parties	15,746	13,530
– Third parties	283,752	186,488
Subtotal	299,498	200,018
Convenient ready-to-eat food products		
– Related parties	13,668	1,159
– Third parties	654,495	339,967
Subtotal	668,163	341,126
Others		
– Related parties	388	46
– Third parties	34,615	26,806
Subtotal	35,003	26,852
Total	2,218,133	1,655,755

Revenue from sales to related parties accounted for approximately 22.5% and 42.8% of the Group's total revenue for the six months ended 30 June 2020 and 2019 respectively.

5. TRADE RECEIVABLES

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Third parties	17,603	57,480
Related parties	137,675	214,272
	155,278	271,752
Less: allowances for impairment of trade receivables	(391)	(2,577)
	154,887	269,175

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 2020 RMB'000	Audited 31 December 2019 RMB'000
Within 3 months	152,900	266,855
3 to 6 months	2,378	4,897
	155,278	271,752

The movement in the impairment allowance for trade receivables during the period is as follows:

	Unaudited Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Opening balance	2,577	30
Provision for impairment allowance of trade receivables	180	–
Reversal of impairment allowance as trade receivables collected during the period	(2,366)	–
Closing balance	391	30

6. SHARE CAPITAL

	Number of shares (thousands)	Approximate amount US$' 000
Ordinary shares of US$0.00001 each		
– Authorised on 30 June 2020 and 31 December 2019	5,000,000	50

Issued and fully paid ordinary shares:

	Number of ordinary shares (thousands)	Nominal value of ordinary shares US$	Equivalent nominal value of ordinary shares RMB' 000
On 30 June 2020 and 31 December 2019	1,046,900	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 2020 RMB' 000	Audited 31 December 2019 RMB' 000
Within 3 months	193,220	204,803
3 to 6 months	1,552	2,449
6 months to 1 year	1,127	238
	195,899	207,490

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 2020 RMB'000	2019 RMB'000
Changes in inventories of finished goods and work in progress	30,126	81,192
Raw materials and consumables used	1,169,858	841,736
Employee benefit expenses	252,365	186,042
Transportation and related charges	71,105	45,371
Advertising and other marketing expenses	37,431	42,382
Depreciation of property, plant and equipment	28,000	15,110
Warehouse expenses	18,562	14,752
Taxes and surcharges	17,099	13,188
Costs of utilities	14,246	14,271
Technical supporting fees, professional fees and other services fees	12,908	13,568
Travel and entertainment expenses	11,553	14,793
Depreciation of right-of-use assets	8,416	4,927
Rental expenses	6,122	4,800
Maintenance costs	4,322	3,613
Amortisation of intangible assets	2,572	764
Net reversal of impairment losses on financial assets	(2,210)	–
Write-down of inventories	609	416
Other expenses	17,697	12,544
Total	1,700,781	1,309,469

9. OTHER INCOME AND GAINS – NET

	Unaudited Six months ended 30 June 2020 RMB'000	2019 RMB'000
Government grants	34,957	22,836
Net foreign exchange gains	19,612	1,985
Investment income from financial assets at fair value through profit or loss	7,464	2,759
Sales of scrap materials	3,077	2,189
Changes in fair value of financial assets at fair value through profit or loss	2,834	161
Donation	(12,523)	(186)
Loss on disposal of property, plant and equipment	(329)	(738)
Others	1,692	3,057
Total other income and gains – net	56,784	32,063

10. FINANCE INCOME – NET

	Unaudited Six months ended 30 June 2020 RMB'000	2019 RMB'000
Finance income		
– Interest income	12,363	8,541
Finance costs		
– Interest of lease liabilities	(774)	(1,386)
Finance income -net	11,589	7,155

11. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June 2020 RMB'000	2019 RMB'000
Current income tax	131,708	88,461
Deferred income tax charges	8,200	4,652
Income tax expense	139,908	93,113

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended to 30 June 2020 is approximately 23.9% (six months ended 30 June 2019: 24.2%).

12. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share for each of the six months ended 30 June 2020 and 2019 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 RSU Scheme during the reporting period.

	Unaudited Six months ended 30 June 2020	2019
Profit attributable to owners of the Company (RMB'000)	398,919	270,368
Weighted average number of ordinary shares in issue less shares held for the RSU Scheme (thousands)	980,952	969,801
Basic earnings per share (RMB cents)	40.67	27.88

(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.

No diluted earnings per share has been presented since there was no potential dilutive ordinary share in issue for the six months period ended 30 June 2020.

	Unaudited Six months ended 30 June	
	2020	**2019**
Earnings		
Profit attributable to owners of the Company (RMB'000)	398,919	270,368
Weighted average number of ordinary shares in issue for calculating basic earnings per share (thousands)	980,952	969,801
Adjustments for:		
– Restricted Shares granted and assumed vested (thousands)	–	6,581
Weighted average number of ordinary shares and potential ordinary shares for calculating diluted earnings per share (thousands)	980,952	976,382
Diluted earnings per share (RMB cents)	40.67	27.69

13. DIVIDENDS

During the six months ended 30 June 2020, the total dividends paid amounted to RMB203,653,000 or RMB20.660 cents per share (six months ended 30 June 2019: RMB148,643,000 or RMB15.2952 cents per share) (which are net of the dividend of RMB13,829,000 (six months ended 30 June 2019: RMB11,297,000) attributable to the shares held for the RSU Scheme).

2020 INTERIM PERFORMANCE REVIEW

In 2020, facing severe challenges brought by COVID-19 pandemic, and the complicated and volatile domestic and international environment, China economy at first drop and then rose up in the first half of the year. In the second quarter, the economic growth turned from negative to positive, showing the main indicators in the recovery growth. Due to the steady recovery of economy in operation and strong basic livelihood security, it was expected that the overall market condition would improve, and the overall social situation would remained stable. In the first half of the year, the total retail sales of social consumer goods amounted to RMB17,225.6 billion, representing a year-on-year decrease of 11.4%. As the situation of the pandemic prevention and control continued to improve, the resumption of work, production, business activities and market was accelerated. The catering industry was significantly affected by the pandemic, and as at the reporting date, the overall income showed a return to grow. By contrast, fueled by the "Stay-at-Home Economy", revenue from household consumption of compound condiment products and convenient food increased against the economy downtrend amid the pandemic.

In the first half of 2020, the Group's major businesses focused on continuous development of domestic and international sales channels, enhancing sales capabilities of channels, improving and enhancing the internal incentive mechanism continuously, as well as supplementing and optimizing the supply capabilities persistently. For the six months ended 30 June 2020, the Group's revenue reached RMB2,218.1 million, representing a year-on-year increase of 34.0%; net profit amounted to RMB445.8 million, representing a year-on-year increase of 52.5%.

In respect of the establishment of third-party sales channels, benefiting from the continuous development and penetration in both domestic and international markets, effective incentives for internal sales personnel, and increased importance on the satisfaction level of external distributors and point-of-sales services, the revenue from distributors continued to record rapid growth. As at 30 June 2020, the Group's distributors had covered 31 provincial regions in China, Hong Kong, Macau and Taiwan, as well as 49 overseas countries and regions.

In terms of products, the Group continued to innovate and expand its product offerings, and developed 26 new products based on the three main categories of the existing products, i.e., hot pot condiments, Chinese-style compound condiments and convenient ready-to-eat food products by diversifying its product application scenarios and subdividing its target customer base as its strategy in the first half of 2020.

In terms of replenishing and optimizing supply capacity, the north workshop in Phase I of the new production base in Bazhou, Hebei Province was under construction and was expected to commence production in September 2020. Phase I of the new production base located in Maanshan, Anhui Province had completed planning and was in the civil construction stage. The construction project in the production base located in Luohe, Henan Province kicked off in March 2020. The Group entered into a land acquisition agreement with the government of Jianyang, Sichuan Province in April 2020 and expected to commence construction and planning of the Jianyang factory in the second half of 2020. In terms of overseas production capacity expansion, the joint venture factory in Malaysia commenced production in early 2020 and the land acquisition agreement in relation to the Thailand factory has been concluded. The Thailand factory is now in the overall planning stage and is expected to commence construction in 2021. The construction of overseas factories is expected to alleviate the demand for overseas business expansion and optimize the supply cost of overseas business.

BUSINESS REVIEW

In the first half of 2020, the outbreak of COVID-19 pandemic had a huge impact on the global economy. By adopting the effective prevention and control measures countrywide, the overall economic growth of the PRC began to decline and then rise, and recovered steadily. As at the reporting date, the recovery of social consumption still faced with constraints, especially under the conditions of normalized pandemic prevention and control, some clustering and contact consumption activities were still restricted, the retail sales and catering income were still in the stage of gradual recovery. Although the sales trend of condiment products and convenient ready-to-eat food products amid the pandemic was positive, the impact on the catering sector cannot be neglected, and the Group's revenue growth slowed down in the first half of the year. For the six months ended 30 June 2020, the Group recorded revenue of RMB2,218.1 million, representing a year-on-year increase of 34.0%; net profit amounted to RMB445.8 million, representing a year-on-year increase of 52.5%.

Sales Channels

The Group continued to be the supplier of hot pot condiment products to Haidilao International Holding Ltd. (Stock Code: 6862) ("Haidilao"), and its subsidiaries (the "Haidilao Group", one of our related parties) while at the same time, we also provided cooking condiment solutions to Chinese family cooking customers, catering service providers and companies in the food industry. By the first half of 2020, the major products of the Group included hot pot condiments, Chinese-style compound condiments and convenient ready-to-eat food products, and major channels for third-party sales included distributors, e-commerce platforms and catering customers.

Expansion and penetration of third-party channels have always been the most important sales strategy of the Group. The Group continued to develop channels in low-tier cities, increased the number of distributors and diversified the types of outlets in the first half of 2020. In terms of specific measures, the Group had always attached great importance to the satisfaction of the channels, and enhanced positive brand awareness and sales enthusiasm at the point-of-sales through "Family Love" measures, paid high attention to the feedback from distributors on the services of internal sales partners, and continuously optimized the incentive mechanism for internal sales staff.

In respect of sales incentive mechanism, the Group continued to improve the details of "Partnership" incentive mechanism. In the first half of the year, the Group continued to expand the sales team based on the "Apprenticeship System" and the number of "Partner Assistants" at the apprentice level also increased significantly. In addition, the Group implemented the "PK System" on a quarterly basis to assess the work efficiency of partners to ensure the effective survival of the fittest and enhance the competitiveness of the sales team.

The "Partnership" incentive mechanism was the internal sales staff incentive mechanism adopted by the Group in early 2018. This mechanism replaced the previous appraisal method of achieving certain percentage of the sales target. The performance of each sales staff would be directly linked to the profit of the business unit they are responsible for, and sufficient authority on the right and method to use channel fees would be conferred. Under this strategy, sales staff in the capacity of "Partners" can fully dominate the operation of business unit as "Entrepreneurs" and enjoy the freedom to train apprentices to expand the team.

In addition to the "Partnership" incentive mechanism for internal sales, during the first half of 2020, we enhanced our logistic efficiency by increasing our logistics branch storages to improve distributor's satisfaction. The Group added three regional logistics branch storages in the first half of the year. At present, the number of regional branch storages is nine, and the number will increase to ten by the second half of 2020. Such measures can help us to shorten the goods release cycle, increase the flexibility of our distributors in orders, effectively lower the inventory level of the channels and ensure healthy and controllable channels. Moreover, a fresher production date of the end products and better product display effects can be achieved by enhancing the efficiency of the channels.

Moreover, to further optimize the display and sales of key accounts (KA), the Group continued to expand the coverage of "Zero Inventory" in hypermarkets. "Zero Inventory" replaced the previous method of delivery from distributors to key accounts' hypermarket, and the goods would be delivered directly from our branch storage to the warehouse of the hypermarket, aiming to reduce the number of logistic nodes and save delivery charges. While the specific distributors would be incentivized, the freshness of the products delivered to the supermarket would be improved. A number of branded hypermarket distributors currently enjoy "Zero Inventory" direct delivery policy, and this policy also benefits individual e-commerce platform customers.

In the development of e-commerce channel, the Group continued to adopt the strategy of enhancing interactive experience of consumers, using the flagship store as the major interactive base for brands, enhancing communication among consumers, and providing more heart touching shopping experience for consumers. In the first half of 2020, the Group formulated targeted marketing plans on different festivals and promotional campaigns as usual. On the non-self-operated online platforms, such as channels like JD.com and Tmall.com, apart from participating in promotional activities organized by the platforms continuously, the Group also focused on bulk purchase sales, supplemented with free gifts and other benefits, to enhance the experience and sales at the e-commerce platforms of major customers. For the six months ended 30 June 2020, the Group had 5 flagship stores on e-commerce platforms such as Tmall.com and JD.com. For the six months ended 30 June 2020, the sales revenue of the Group from e-commerce channels was RMB159.4 million, representing a year-on-year increase of 35.4%.

For sales to related parties (referring to the Haidilao Group and Shuhai Supply Chain Group, that is, Shuhai (Beijing) Supply Chain Management Co., Ltd. and its subsidiaries), in the first half of the year, the global COVID-19 pandemic outbreak adversely affected the restaurant business of the Haidilao Group. Due to temporary suspension of business or dine-in service in the domestic and international restaurants of the Haidilao Group, for the six months ended 30 June 2020, the revenue from sales to related parties of the Group was RMB499.0 million, representing a year-on-year decrease of 29.6% as compared to the corresponding period of 2019.

Products

In the first half of 2020, the Group continued to launch new products in existing categories with the strategy of segmentation of consumption scenarios and target customers' portraits. The Group cultivated new products by the way of joint planning of the "Project-Based System for Products" and "Product Planning Office", and developed more products meeting market demand by fully granting all employees the authority to develop new products. Meanwhile, we constantly improved the formulae and upgraded the packaging of existing core products in order to reinforce the market leading position of core products. For the six months ended 30 June 2020, the Company added a total of 2 Chinese-style compound condiment products, 9 hot pot condiment products, 11 convenient ready-to-eat food products, and 4 snack food.

In early 2020, the Group set up several "Product Planning Offices" in parallel with the "Project-Based System for Products", to facilitate product development and marketing promotion process by leveraging the professional and comprehensive product planning and promotion capabilities of each planning office. The "Project-Based System for Products" was a research and development strategy for new products implemented by the Group since 2018. Employees can form a team on a voluntary basis to put forward new product ideas, and the team will complete the whole process of the new product development project from project establishment to product launch. The project team will be rewarded accordingly after the product is commercially viable and profitable.

For the portfolio of retail products, during the first half of the year, the Group had different numbers of new product innovations in three existing categories, and enhanced the sales of new products through various marketing means along with various seasonal themes and promotional campaigns. In the first half of the year, the Group promoted new products such as brewed silk noodles and brewed rice, and continued to promote products through various online events, such as "New Year Goods Festival", "Queen's Day", "Foodaholic Festival on 17 May", "618 Carnival". In the first half of the year, the Group made continued efforts on hot pot condiments as one of the staples, and focused on promoting the channel marketing capability of Chinese-style compound condiments and convenient ready-to-eat food products.

For hot pot soup flavoring products to related parties, in addition to continuous promotion of hot pot soup flavorings under the "Thousand People Thousand Flavors" series of Haidilao Group during the first half of 2020, the Group also upgraded a number of hot pot soup flavorings in line with feedback from consumers, and cooperated in the research and development of a number of new hot pot soup flavorings.

For the six months ended 30 June 2020, the Company added a total of 2 Chinese-style compound condiment products, 9 hot pot condiment products, 11 convenient ready-to-eat food products and 4 snack food. As at 30 June 2020, the Company had a total of 51 hot pot condiment products, 43 Chinese-style compound condiment products, and 22 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					
	2020			2019		
	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	**746,245**	**24,184**	**30.9**	393,870	13,656	28.8
Related parties	**469,224**	**20,095**	**23.4**	693,889	27,805	25.0
Subtotal	**1,215,469**	**44,279**	**27.5**	1,087,759	41,461	26.2
Chinese-style compound condiment[2]						
Third parties	**283,752**	**10,732**	**26.4**	186,488	7,338	25.4
Related parties	**15,746**	**563**	**28.0**	13,530	581	23.3
Subtotal	**299,498**	**11,295**	**26.5**	200,018	7,919	25.3
Convenient ready-to-eat food products[3]						
Third parties	**654,495**	**18,102**	**36.2**	339,967	7,495	45.4
Related parties	**13,668**	**289**	**47.3**	1,159	26	44.6
Subtotal	**668,163**	**18,391**	**36.3**	341,126	7,521	45.4
Others[4]	**35,003**	**8,064**	**4.3**	26,852	4,307	6.2
Total	**2,218,133**	**82,029**	**27.0**	1,655,755	61,208	27.05

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			
	2020		2019	
	(RMB' 000)	**% of revenue**	(RMB' 000)	% of revenue
Revenue from hot pot condiment	**1,215,469**	**54.8%**	1,087,759	65.7%
Revenue from Chinese-style compound condiment	**299,498**	**13.5%**	200,018	12.1%
Revenue from convenient ready-to-eat food products	**668,163**	**30.1%**	341,126	20.6%
Other revenue	**35,003**	**1.6%**	26,852	1.6%
Total revenue	**2,218,133**	**100%**	1,655,755	100%

For the six months ended 30 June 2020, the three major product categories of the Group, namely hot pot condiments, Chinese-style compound condiments and convenient ready-to-eat food products, experienced varying degrees of growth. For the six months ended 30 June 2020, the Company added a total of 2 Chinese-style compound condiment products, 9 hot pot condiment products, 11 convenient ready-to-eat food products and 4 snack food. As at 30 June 2020, the Company had a total of 51 hot pot condiment products, 43 Chinese-style compound condiment products and 22 convenient ready-to-eat food products.

FINANCIAL REVIEW

Revenue

The revenue of the Group increased by 34.0% from RMB1,655.8 million for the six months ended 30 June 2019, to RMB2,218.1 million for the corresponding period in 2020.

Revenue by product

	For the six months ended 30 June			
	2020		2019	
	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	**746,245**	**61.4%**	393,870	36.2%
Revenue from related parties	**469,224**	**38.6%**	693,889	63.8%
Total revenue from hot pot condiment	**1,215,469**	**100%**	1,087,759	100%

Revenue from hot pot condiment products increased by 11.7% from RMB1,087.8 million for the six months ended 30 June 2019 to RMB1,215.5 million for the corresponding period in 2020, accounting for 54.8% of the revenue for the six months ended 30 June 2020. Of these, revenue from sales of hot pot condiment products to related parties decreased by 32.4%, while revenue from sales of hot pot condiment products to third parties increased by 89.5%. The decline in revenue from sales of hot pot condiment products to related parties was mainly due to the material impact of COVID-19 pandemic worldwide on the restaurants' operations. 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 during the first half of the year.

	For the six months ended 30 June			
	2020		2019	
	Revenue (RMB'000)	**% of revenue from Chinese-style compound condiments**	Revenue (RMB'000)	% of revenue from Chinese-style compound condiments
Revenue from Chinese-style compound condiments				
Revenue from third parties	**283,752**	**94.7%**	186,488	93.2%
Revenue from related parties	**15,746**	**5.3%**	13,530	6.8%
Total revenue from Chinese-style compound condiments	**299,498**	**100%**	200,018	100%

Revenue from Chinese-style compound condiment products increased by 49.7% from RMB200.0 million for the six months ended 30 June 2019 to RMB299.5 million for the corresponding period in 2020, accounting for 13.5% of the revenue for the six months ended 30 June 2020. Of these, revenue from sales of Chinese-style compound condiment products to related parties increased by 16.4%, while revenue from sales of Chinese-style compound condiment products to third parties increased by 52.2%. In respect of sales to related parties, the Group supplied products and services to certain catering customers in the Shuhai Supply Chain Group on a continuous basis. The Group continued to improve existing individual products with strong performance, research and develop new products to satisfy the trend of market tastes, and coordinate various types of marketing activities with consistent product characteristics and market positioning, so that the third-party business of Chinese-style compound condiment products recorded remarkable sales growth.

	For the six months ended 30 June			
	2020		2019	
	Revenue (RMB'000)	**% of revenue from convenient ready-to-eat food products**	Revenue (RMB'000)	% of revenue from convenient ready-to-eat food products
Revenue from convenient ready-to-eat food products				
Revenue from third parties	**654,495**	**98.0%**	339,967	99.7%
Revenue from related parties	**13,668**	**2.0%**	1,159	0.3%
Total revenue from convenient ready-to-eat food products	**668,163**	**100%**	341,126	100%

For the six months ended 30 June 2020, due to the development of the "Stay-at-Home Economy" fueled by the pandemic, coupled with the Group's continued expansion of distributors' channels in the convenient ready-to-eat food products, particularly the vigorous development of special channels such as convenience stores, railway stations and tourist attractions, sales of convenient ready-to-eat food products grew rapidly. For the six months ended 30 June 2020, revenue from convenient ready-to-eat food products increased by 95.9% from RMB341.1 million for the six months ended 30 June 2019 to RMB668.2 million, accounting for 30.1% of revenue for the six months ended 30 June 2020.

Revenue by distribution network

	For the six months ended 30 June			
	2020		2019	
	Revenue (RMB'000)	**% of total revenue**	Revenue (RMB'000)	% of total revenue
Related party customers				
Haidilao Group and its affiliates	**487,104**	**22.0%**	703,135	42.5%
Shuhai Supply Chain Group	**11,922**	**0.5%**	5,489	0.3%
Third party customers				
Distributors	**1,545,072**	**69.7%**	805,954	48.7%
E-commerce	**159,405**	**7.2%**	117,750	7.1%
Others	**14,630**	**0.6%**	23,427	1.4%
Total revenue	**2,218,133**	**100%**	1,655,755	100%

In 2020, stringent pandemic prevention measures and consequential restrictions on consumption premises had been imposed around the world to battle against COVID-19 pandemic outbreak, which had a significant impact on all restaurant operations operated by the Haidilao Group, one of our related parties. As a result, for the six months ended 30 June 2020, the Group recorded revenue of RMB499.0 million from the sales to related parties (mainly referring to sales to the Haidilao Group and Shuhai Supply Chain Group), representing a year-on-year decrease of 29.6%.

For sales revenue from third-party distributors, the Group constantly boosted the overall product sales capabilities through continuous development of lower-tier distribution network and increased density of points of sales, and enhancement of service quality to gain distributors' satisfaction. Moreover, benefiting from the boom of the "Stay-at-Home Economy" fueled by COVID-19 pandemic outbreak in the first half of the year, the retail products sold by the Group through distributors recorded remarkable growth during the period. 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 2020, sales revenue from sales to distributors amounted to RMB1,545.1 million, representing a year-on-year increase of 91.7%. Sales revenue from e-commerce channels amounted to RMB159.4 million, representing a year-on-year increase of 35.4%.

Revenue by geographic region

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

	For the six months ended 30 June			
	2020		2019	
	(RMB' 000)	**% of revenue**	(RMB' 000)	% of revenue
Northern China [5]	**1,007,683**	**45.4%**	790,110	47.7%
Southern China [6]	**1,106,059**	**49.9%**	797,090	48.2%
Overseas markets	**104,391**	**4.7%**	68,555	4.1%
Total	**2,218,133**	**100%**	1,655,755	100%

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 29.7% from RMB1,031.7 million for the six months ended 30 June 2019 to RMB1,338.4 million for the corresponding period of 2020.

Gross Profit and Gross Profit Margin

	For the six months ended 30 June			
	2020		2019	
	Gross profit RMB' 000	**Gross profit margin %**	Gross profit RMB' 000	Gross profit margin %
Hot pot condiment	**528,931**	**43.5%**	411,367	37.8%
Third parties	**410,584**	**55.0%**	224,602	57.0%
Related parties	**118,347**	**25.2%**	186,765	26.9%
Chinese-style compound condiment	**133,371**	**44.5%**	95,541	47.8%
Third parties	**129,277**	**45.6%**	92,251	49.5%
Related parties	**4,094**	**26.0%**	3,290	24.3%
Convenient ready-to-eat food products	**212,092**	**32.4%**	111,804	32.8%
Third parties	**207,344**	**31.7%**	111,408	32.8%
Related parties	**4,748**	**34.7%**	396	34.2%
Others	**5,369**	**15.3%**	5,385	20.1%
Total	**879,763**	**39.7%**	624,097	37.7%

The Group's gross profit increased by 41.0% from RMB624.1 million for the six months ended 30 June 2019 to RMB879.8 million for the corresponding period of 2020, and the gross profit margin improved from 37.7% for the six months ended 30 June 2019 to 39.7% for the corresponding period of 2020. Increase in gross profit margin was mainly due to the significant increase in percentage of total sales revenue derived from third-party sales business with higher gross profit margin.

Distribution Expenses

The Group's distribution expenses increased by 28.6% from RMB164.0 million for the six months ended 30 June 2019 to RMB210.9 million for the corresponding period of 2020. The Group's distribution expenses as a percentage of the Group's revenue decrease from 9.9% for the six months ended 30 June 2019 to 9.5% for the corresponding period of 2020. The increase in the amount of distribution expenses was mainly due to the establishment of additional branch storages that led to an increase in warehousing and transportation costs in order to enhance cooperation with distributors.

Administrative Expenses

The Group's administrative expenses increased by 33.1% from RMB113.8 million for the six months ended 30 June 2019 to RMB151.5 million for the corresponding period of 2020. The Group's administrative expenses as a percentage of the Group's revenue decrease from 6.9% for the six months ended 30 June 2019 to 6.8% for the corresponding period of 2020. The increase in the amount of administrative expenses was mainly due to the preliminary expenses incurred in preparation for the construction of Bazhou factory, Maanshan Phase II factory, Luohe factory, Jianyang factory, Thailand factory and Malaysia factory, and the increase in administrative expenses as a result of business development.

Other Incomes and Gains – net

The Group's net amount of other incomes and gains – net increased by 76.9% from RMB32.1 million for the six months ended 30 June 2019 to RMB56.8 million for the corresponding period of 2020, mainly due to the amount of exchange gain from the appreciation of Hong Kong dollar increased as compared to the corresponding period of 2019, and the increase in amount of subsidy received from government.

Finance Income-net

The Group's net amount of finance income increased by 61.1% from net gain of RMB7.2 million for the six months ended 30 June 2019 to net gain of RMB11.6 million for the corresponding period of 2020, mainly due to the increase of interest income on bank savings.

Profit before Tax

As a result of the foregoing, the Group's profit before income tax increased by 51.9% from RMB385.5 million for the six months ended 30 June 2019 to RMB585.7 million for the corresponding period of 2020.

Income Tax Expense

The Group's income tax expense increased by 50.3% from RMB93.1 million for the six months ended 30 June 2019 to RMB139.9 million for the corresponding period of 2020. The effective tax rate decreased from 24.2% for the six months ended 30 June 2019 to 23.9% for the corresponding period of 2020, mainly due to the non-taxable exchange gains from the appreciation of the Hong Kong dollar and US dollar against RMB, and the interest income from our deposits is also non-taxable.

Net Profit for the Period

As a result of the foregoing, net profit of the Group increased by 52.5% from RMB292.4 million for the six months ended 30 June 2019 to RMB445.8 million for the corresponding period of 2020. Basic earnings per share increased from RMB27.88 cent for the six months ended 30 June 2019 to RMB40.67 cent for the corresponding period of 2020, and net profit margin increased from 17.7% for the six months ended 30 June 2019 to 20.1% for the corresponding period of 2020.

Capital Liquidity and Financial Resources

For the six months ended 30 June 2020, the Group's business was mainly funded by the cash generated from its operation. The Group intended to utilize internal resources to provide funds for its business operations and expansion through organic growth and sustainable development.

Cash and Cash Equivalents

As of 30 June 2020, the Group's cash and cash equivalents were primarily denominated in RMB, HK dollars and in US dollars. Cash and cash equivalents amounted to approximately RMB1,269.2 million (31 December 2019: RMB1,036.4 million).

Asset-Liability Ratio

As at 30 June 2020, the Group's asset-liability ratio(7) was 14.2% (31 December 2019: 17.6%), and the decrease was mainly due to the decrease of trade payables, other payables and accruals 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 2020, the Group had inventories of approximately RMB265.4 million (31 December 2019: RMB297.3 million). The turnover days of inventories decrease from 39.1 days for the year ended 31 December 2019 to 37.8 days for the six months ended 30 June 2020. 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.

Trade Receivables

Trade receivables represent the amounts due from customers in respect of sales of goods in the ordinary course of business. As at 30 June 2020, the trade receivables amounted to approximately RMB154.9 million (31 December 2019: RMB269.2 million). The change was mainly due to a decrease in sales by the Group to related parties in the first half of 2020. The turnover days of trade receivables decrease from 20.0 days for the year ended 31 December 2019 to 17.2 days for the six months ended 30 June 2020.

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 2020, we have trade payables of approximately RMB195.9 million (31 December 2019: RMB207.5 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 decrease from 27.7 days for the year ended 31 December 2019 to 27.1 days for the six months ended 30 June 2020.

Contingent Liabilities

As of 30 June 2020, the Company did not have any contingent liabilities.

Charge of Assets

As of 30 June 2020, the Company did not charge any fixed assets as securities for borrowings.

Borrowings

As of 30 June 2020, the Company did not have any bank borrowings.

Debt-to-Equity Ratio

As of 30 June 2020, the Company's debt-to-equity ratio[8] was 1.1%.

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 ordinary course of business.

Foreign Exchange Risk and Hedging

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, the Group has certain cash in hand denominated in Hong Kong dollars and United States dollars, and is therefore exposed to foreign exchange risks. The Group has not hedged against its foreign exchange risks. However, the Group will closely monitor the exposure and will take specific measures when necessary to make sure the foreign exchange risks are manageable and within control.

Employees and Remuneration Policy

As of 30 June 2020, the Group had a total of 1,955 employees (including temporary workers), comprising 1,421 employees in production, 422 employees in marketing and 112 employees in administration and management functions.

For the six months ended 30 June 2020, the Group's total staff costs amounted to RMB252.4 million, including salaries, wages, allowances, benefits and costs of equity incentive plans. The Group continued to optimize the incentive-based system in line with business development needs and implemented remuneration policies with competitiveness.

Material Acquisitions and Disposals

For the six months ended 30 June 2020, the Group did not have any material acquisition or disposal of subsidiaries, associates and joint ventures.

FUTURE PROSPECTS

Industry and Business Outlook

In 2020, in view of severe challenges brought about by COVID-19 pandemic and the complicated and volatile domestic and international environment, the global economy was facing downward pressure. It is expected that the domestic consumer market will enter the stage of recovery in the second half of 2020, and the overall economic operation will also recover steadily. The overall market condition in the PRC is expected to improve, and the overall social situation will remain stable. The catering industry, significantly affected by COVID-19 pandemic, is still full of challenges in the short term. Due to the uncertainties in the development of the global pandemic, it is expected that there are some pressure over growth pace for sales of hot pot condiment to related parties in the second half of the year. However, under the current situation, public health issues will not have a negative impact on the condiment retail business. The industry is still developing steadily with great market potential.

In 2020, the Group will continue to place strategic focus on product development, channel building, terminal marketing, overseas expansion and replenishing supplies.

In respect of product development, the Group will continue to adopt multi-brand segments in application scenarios and product categories, and the slogan "Easy & Tasty" (讓美味變輕鬆) will be used as the theme for creating products, brands and corporate image. Through innovation in product mix, the scope of business will be widened further. The categories of hot pot condiments, Chinese-style compound condiments, convenient ready-to-eat food and snack food products will continue to evolve with new generations. While reinforcing the existing market positions for popular individual products, the Group will exercise its research and development and market exploration capabilities to enrich the product matrix. In the development of new products, we will continue to utilize the incentive strategy of "Project-Based System for Products", and introduce different new products with unique local flavors and foreign styles. The market exit system will be strictly enforced to adjust the product mix in a timely manner, large-scale individual products will be developed, and non-performing goods will be removed to enhance the comprehensive competitiveness of the products.

In respect of channel building, the Group will continue optimizing and developing lower-tier sales channels actively through internal organic growth and outward expansion development strategies, strengthen terminal sales capabilities and develop brand new model for channels to enhance the Group's market share and industry position constantly. Meanwhile, the staff incentive policies will be enhanced and improved continuously to encourage internal sales staff and external distributors in a practical manner, increase the density of points of sales and enhance the sales efficiency. In respect of e-commerce platform, the focus will continue to be enhancing consumer experience, improving sales efficiency and brand image of the e-commerce platform constantly.

In respect of terminal marketing, the Group will continue to carry out online and offline promotions actively, using "Family Love" as the management theme for providing services to distributors and points of sales, enhance the fees utilization efficiency, and optimize the terminal sales efficiency. Meanwhile, the Group will continue to refine the cooperation relationship with distributors, by utilizing branch storages in multiple areas to improve delivery efficiency and implement "Zero Inventory" measures, channel space and distributor potential will be extracted practically and effectively.

In respect of overseas business, the Group has basically completed the establishment of a number of overseas branch companies, and continues to replenish overseas supply by the way of constructing overseas factories actively. In 2020, the Group anticipates that more foreign trade products will be produced by overseas contracting factories, and investment in the construction of overseas factories will be pursued actively. A stable local capacity supply for overseas business will not only reduce transportation costs and enhance the flexibility of product mix, but will also facilitate the regional adjustment of product flavors and the research and development of localized products.

In respect of supply chain, several local factories of the Group in the world will be completed and will commence production in the next few years. It is expected that we will continue to invest in lean production as well as research and development of equipment automation.

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 2020:

Firstly, the construction project of the north workshop in Bazhou Phase I located in Hebei Province, China is about to be completed, and it is expected to put into production in September 2020. The south workshop in Bazhou Phase I had formally commenced production in September 2019. The two workshops of Bazhou Phase I will bring in more than 70,000 tonnes of production capacity in total, including the special production line for developing soup flavorings for the "Thousand People Thousand Flavors" series of Haidilao Group restaurants and the production line for retail products of hot pot soup flavorings. The Bazhou Phase II project has commenced construction, and is expected to commence production by the end of 2023 with a designed production capacity of 30,000 tonnes. The project of Bazhou factory is located at the northern China central region, which will help the Group to control and manage logistics costs and peak season pressure more effectively.

Secondly, the overall planning of new factory project in Maanshan has been completed, and it is preparing to enter the civil construction stage. The planned production capacity of Phase I is 60,000 tonnes, which is expected to commence production by the end of 2021. The completion of the project is expected to release production capacity of 200,000 tonnes. The Maanshan Phase II project will be equipped with condiment production equipment and quality inspection instruments with advanced technologies at domestic and international level to enhance the Company's overall production line efficiency.

Thirdly, the Group entered into a land acquisition agreement with the Linying County Government in Luohe, Henan Province, during the first half of 2019. The Luohe production base has commenced formal construction in March 2020. The planned production capacity of Phase I is 75,000 tonnes, which is expected to commence production by the end of 2021, and the planned production capacity of Phase II is 75,000 tonnes, which is expected to commence production by the end of 2022. Through the current total designed production capacity of Luohe factory project is 300,000 tonnes, the production capacity will continue to increase after 2022.

Fourthly, the Group entered into a land acquisition agreement with the government of Jianyang, Sichuan Province in April 2020. The Jianyang production base is expected to commence construction in the second half of 2020. The planned production capacity of Phase I is 100,000 tonnes, which is expected to commence production in 2022.

Fifthly, for establishing the Thailand factory, the Group purchased a land parcel in Rojana Industrial Park, Ayutthaya Thailand in May 2020; Phase I of the Thailand factory has a planned capacity of 20,000 tonnes, construction will be commenced in the first half of 2021 and it is expected that production can be commenced in 2022. Phase II has a planned capacity of 20,000 tonnes, and it is expected that production will be commenced in 2025.

Future Plans for Material Investments

The Group will continue to extensively identify potential strategic investment opportunities and seek to acquire potential high-quality targets that create synergies for the Group in relation to such aspects as 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 2020 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 2020.

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 2020.

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 2020.

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 2020, 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 2020. The Audit Committee considers that the interim financial results for the six months ended 30 June 2020 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

Shanghai, the PRC, 25 August 2020

As at the date of this announcement, the executive directors of the Company are Mr. Shi Yonghong, Mr. Guo Qiang, Mr. Sun Shengfeng, Ms. Shu Ping and Mr. Zhao Xiaokai; 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.