YIHAI
頤海

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01579)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 2018 (the "**Reporting Period**"), together with comparative figures for the same period of 2017.

GROUP FINANCIAL HIGHLIGHTS

- Revenue was RMB1,004.0 million for the six months ended 30 June 2018, a 59.1% increase from RMB630.9 million for the six months ended 30 June 2017.
- Gross profit was RMB362.8 million for the six months ended 30 June 2018, a 70.1% increase from RMB213.3 million for the six months ended 30 June 2017.
- Net profit was RMB189.8 million for the six months ended 30 June 2018, a 170.4% increase from RMB70.2 million for the six months ended 30 June 2017.
- Net profit attributable to the owners of the Company was RMB184.6 million for the six months ended 30 June 2018, a 163.0% increase from RMB70.2 million for the six months ended 30 June 2017.
- Earnings per share (basic) was RMB19.04 cents for the six months ended 30 June 2018, a 163.0% increase from RMB7.24 cents for the six months ended 30 June 2017.

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		**226,354**	180,088
Land use rights		**34,664**	35,152
Intangible assets		**5,040**	5,182
Deferred tax assets		**11,164**	10,554
Prepayments for property, plant and equipment		**86,000**	57,095
Financial assets at fair value through profit or loss		**12,000**	—
Total non-current assets		**375,222**	288,071
Current assets			
Inventories		**212,562**	147,617
Other current assets		**148,600**	—
Trade receivables	5	**140,846**	131,457
Other financial assets at amortised cost		**5,092**	—
Prepayments and other receivables		**—**	76,670
Financial assets at fair value through profit or loss		**33,083**	32,671
Cash and cash equivalents		**954,443**	1,130,205
Total current assets		**1,494,626**	1,518,620
Total assets		**1,869,848**	1,806,691
Equity			
Equity attributable to owners of the Company			
Share capital	6	**68**	68
Shares held for employee share scheme		**(5)**	(5)
Reserves		**1,641,341**	1,501,326
Capital and reserves attributable to owners of the Company		**1,641,404**	1,501,389
Non-controlling interests		**9,662**	4,420
Total equity		**1,651,066**	1,505,809
Liabilities			
Current liabilities			
Trade payables	7	**109,844**	136,582
Contract liabilities		**7,574**	—
Other payables and accruals		**85,621**	115,033
Current income tax liabilities		**15,743**	49,267
Total current liabilities		**218,782**	300,882
Total liabilities		**218,782**	300,882
Total equity and liabilities		**1,869,848**	1,806,691

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

Interim Condensed Consolidated Statement of Comprehensive Income

	Note	Unaudited Half-year 2018 RMB'000	Unaudited Half-year 2017 RMB'000
Revenue	4	**1,003,952**	630,875
Cost of sales	8	**(641,104)**	(417,609)
Gross profit		**362,848**	213,266
Distribution expenses	8	**(87,477)**	(69,153)
Administrative expenses	8	**(55,536)**	(30,041)
Other incomes and gains - net	9	**26,738**	13,172
Operating profit		**246,573**	127,244
Finance income	10	**8,367**	1,515
Finance expenses	10	**—**	(23,788)
Finance income/(expenses) - net	10	**8,367**	(22,273)
Profit before income tax		**254,940**	104,971
Income tax expense	11	**(65,114)**	(34,778)
Profit for the period		**189,826**	70,193
Profit attributable to:			
Owners of the Company		**184,584**	70,193
Non-controlling interests		**5,242**	—
Other comprehensive income			
Items that may be reclassified to profit or loss			
– Cash flow hedges		**—**	(1,144)
Other comprehensive income for the period, net of tax		**—**	(1,144)
Total comprehensive income		**189,826**	69,049
Total comprehensive income attributable to:			
– Owners of the Company		**184,584**	69,049
– Non-controlling interests		**5,242**	—
Earnings per share attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	12	**19.04**	7.24
– Diluted	12	**18.88**	7.22

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

Notes to the Condensed Consolidated Interim Financial Information

1. General information

YIHAI INTERNATIONAL HOLDING LTD. (the "Company") and its subsidiaries (together the "Group") are principally engaged in the production and sale of hot pot soup flavouring products, hot pot dipping sauce products, Chinese-style compound condiment products, and self-serving small hot-pot 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 shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated.

This condensed consolidated interim financial information has not been audited.

2. Basis of preparation

This condensed consolidated interim financial information for the six months reporting period ended 30 June 2018 has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34").

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017 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 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, if applicable, as a result of adopting the following standards:

- IFRS 9 *Financial Instruments*, and
- IFRS 15 *Revenue from Contracts with Customers*.

The impact of the adoption of these standards 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.

2. Basis of preparation (continued)

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

(i) IFRS 16 Leases

Nature of change

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

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB 4,929,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

3. Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's condensed consolidated interim financial information and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

IFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The Group used modified retrospective approach while adopting IFRS 9. The reclassification and adjustments are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

3. **Changes in accounting policies (continued)**

(a) Impact on the financial statements (continued)

The Group has adopted IFRS 15 using the modified retrospective approach and has not restated comparatives for the 2017 financial year.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Balance sheet (extract)	**31 Dec 2017 As originally presented**	**IFRS 9**	**IFRS 15**	**1 January 2018 Restated**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Current assets				
Other current assets	**—**	—	72,402	**72,402**
Prepayments and other receivables	**76,670**	(4,268)	(72,402)	**—**
Other financial assets at amortised cost	**—**	4,268	—	**4,268**
Total assets	**1,806,691**	—	—	**1,806,691**
Current liabilities				
Other payables and accruals	**115,033**	—	(30,823)	**84,210**
Contract liabilities	**—**	—	30,823	**30,823**
Total liabilities	**300,882**	—	—	**300,882**
Net assets	**1,505,809**	—	—	**1,505,809**
Total equity	**1,505,809**	—	—	**1,505,809**

(b) IFRS 9 Financial Instruments – Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 had no impact on the classification and measurement of the financial assets held by the Group. The new accounting policies are set out in note 3(c) below.

3. Changes in accounting policies (continued)

(b) IFRS 9 Financial Instruments – Impact of adoption (continued)

(i) Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model.

- trade receivables , and
- other financial assets at amortised cost

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in methodology in the Group's retained earnings and equity was immaterial.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

On that basis, there was no significant increase in the loss allowance for trade receivables which will be adjusted to the beginning balance of retained earnings in 2018.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments.

Other financial assets at amortised cost

Other financial assets at amortised cost include loans to management personnel and other receivables. Applying the expected credit risk model, no significant increase in the loss allowance in the six months ended 30 June 2018.

(c) IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

(i) Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

3. Changes in accounting policies (continued)

(c) IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)

(i) Investments and other financial assets (continued)

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other income gains-net in the statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

3. **Changes in accounting policies (continued)**

(d) IFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules using the modified retrospective approach. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	Note	**IAS 18 carrying amount 31 Dec 2017**	**Reclassification**	**IFRS 15 carrying amount 1 Jan 2018**
		RMB'000	**RMB'000**	**RMB'000**
Current assets				
Prepayments and other receivables	(i)	76,670	(72,402)	4,268
Other current assets	(i)	—	72,402	72,402
Current Liabilities				
Contract liabilities	(i)	—	30,823	30,823
Other payables and accruals	(i)	115,033	(30,823)	84,210

There was no impact of the change in methodology in the Group's retained earnings as at 1 January 2018.

(i) Presentation of assets and liabilities related to contracts with customers

The Group has voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15 and IFRS 9:

- Contract liabilities in relation to contracts were previously included in other payables and accruals.
- Other receivables and prepayments were previously presented together with prepayments and other receivables but are now presented as other financial assets at amortised cost (other receivables) and other current assets (prepayments) in the balance sheet, to reflect their different nature.

(e) IFRS 15 Revenue from Contracts with Customers – Accounting policies

(i) Sale of goods

The Group manufactures and sells a range of hot pot soup flavouring products, hot pot dipping sauce products, Chinese-style compound condiment products, and self-serving small hot-pot products to customers including hot pot restaurants and wholesalers. Sales are recognised when control of the producers has transferred, being when the products are delivered to the customers and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Revenue is adjusted for the value of sales discount and rebates. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customers, and either the customers have accepted the products in accordance with the sales contracts, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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 manufacture and sales of hot pot soup flavouring products, hot pot dipping sauce products, Chinese-style compound condiment products, and self-serving small hot-pot products to external 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 Half-year	
	2018	2017
	RMB'000	RMB'000
Revenue		
Hot pot soup flavouring products		
– Related parties	**523,340**	421,995
– Third parties	**206,426**	114,183
Subtotal	**729,766**	536,178
Hot pot dipping sauce products		
– Related Parties	**67**	216
– Third Parties	**39,227**	24,333
Subtotal	**39,294**	24,549
Chinese-style compound condiment products		
– Related parties	**12,180**	12,157
– Third parties	**110,192**	54,138
Subtotal	**122,372**	66,295
Self-serving small hot-pot products		
– Related parties	**3,231**	—
– Third parties	**104,457**	—
Subtotal	**107,688**	—
Others		
– Related parties	**1,222**	324
– Third parties	**3,610**	3,529
Subtotal	**4,832**	3,853
Total	**1,003,952**	630,875

Revenue from sales attributable to related parties accounted for 53.8% and 68.9% of the total revenue for the six months ended 30 June 2018 and 2017 respectively.

5. Trade receivables

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Third parties	**19,483**	21,352
Related parties	**121,365**	110,107
Subtotal	**140,848**	131,459
Less: provision for impairment	**(2)**	(2)
Trade receivables – net	**140,846**	131,457

(a) The majority of the Group's third party sales are conducted through receiving advances from customers before delivering the goods to customers, with only few customers are granted with credit periods ranging from 30 to 60 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 2018 RMB'000	Audited 31 December 2017 RMB'000
Within 3 months	**140,846**	131,457

6. Share capital

	2018 Shares	2017 Shares	2018 US$'000	2017 US$'000
Ordinary shares of US$0.00001 each				
– Authorised on 1 January 2017, 31 December 2017 and 30 June 2018	**5,000,000,000**	5,000,000,000	**50,000**	50,000

Issued and fully paid ordinary shares:

	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares
		US$	RMB'000
On 1 January 2017, 31 December 2017 and 30 June 2018	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. At 30 June 2018 and 31 December 2017, the ageing analysis of the trade payables based on receipt date of the goods were are follows:

	Unaudited 30 June 2018	Audited 31 December 2017
	RMB'000	RMB'000
Within 3 months	**86,901**	134,084
3 to 6 months	**22,479**	1,582
6 months to 1 year	**464**	916
Total	**109,844**	136,582

8. Expenses by nature

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

	Unaudited Half-year	
	2018	2017
	RMB'000	RMB'000
Cost of inventories recognised as cost of goods sold	**565,008**	366,423
Employee benefit expenses	**103,980**	76,254
Transportation and related charges	**24,279**	11,750
Depreciation of property, plant and equipment	**15,278**	6,744
Advertising and other marketing expenses	**13,844**	17,499
Utilities	**10,212**	6,109
Warehouse expenses	**9,384**	4,163
Taxes and surcharges	**9,236**	6,206
Rental expenses	**7,832**	6,160
Technical supporting fees, professional fees and other services fees	**6,566**	3,093
Travel and entertainment expenses	**5,712**	4,061
Maintenance	**2,797**	3,150
Auditor's remuneration	**680**	600
Amortisation of intangible assets	**548**	390
Amortisation of land use rights	**488**	376
Write down of inventories	**24**	67
Other expenses	**8,249**	3,758
Total	**784,117**	516,803

9. Other incomes and gains-net

	Unaudited Half-year	
	2018	2017
	RMB'000	RMB'000
Government grant	**20,835**	10,888
Investment income from financial assets	**3,939**	1,891
Sales of scrap materials	**956**	454
Change in fair value of financial assets at fair value through profit or loss	**412**	—
Losses on disposal of property, plant and equipment	**(67)**	(238)
Others	**663**	177
Total	**26,738**	13,172

10. Finance income/(expenses) - net

	Unaudited Half-year	
	2018	2017
	RMB'000	RMB'000
Finance Income		
– Foreign exchange gains - net	**4,038**	—
– Interest income	**4,329**	1,515
Finance Expenses		
– Foreign exchange losses - net	**—**	(23,788)
Finance income/(expenses) - net	**8,367**	(22,273)

(a) During the six months ended 30 June 2018 and 2017, the foreign exchange gains/(losses) were mainly arising from the fluctuations of the exchange rates of HK$ and US$ to RMB.

11. Income tax expense

	Unaudited Half-year	
	2018	2017
	RMB'000	RMB'000
Current income tax	**65,724**	33,097
Deferred income tax	**(610)**	1,681
Income tax expense	**65,114**	34,778

(a) Cayman Islands income tax

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

(b) Hong Kong income tax

Hong Kong profits tax has not been provided as there are no estimated assessable profits arising in or derived from Hong Kong during the six months ended 30 June 2018.

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

The income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for the six months ended 30 June 2018 and 2017, based on the existing legislation, interpretations and practices in respect thereof.

(d) PRC withholding tax ("WHT")

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

According to a shareholder's resolution of the immediate holding company of the PRC subsidiaries of the Group dated 30 June 2018, the retained earnings of the Group's subsidiaries incorporated in the PRC as at 30 June 2018 will not be distributed in the foreseeable future. As a result, no deferred tax liability was recognised.

12. Earnings per share

(a) Basic

Basic earnings per share 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 during the six months ended 30 June 2018.

	Unaudited Half-year	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	**184,584**	70,193
Weighted average number of ordinary shares in issue (thousands)	**969,680**	969,680
Basic earnings per share (RMB cents)	**19.04**	7.24

(b) Diluted

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 2017 and 2018.

	Unaudited Half-year	
	2018	2017
Earnings-		
Profit attributable to owners of the Company (RMB'000)	**184,584**	70,193
Weighted average number of ordinary shares in issue for basic earnings per share (thousands)	**969,680**	969,680
Adjustments for:		
– Restricted Shares granted and assumed vested (thousands)	**8,021**	2,838
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**977,701**	972,518
Diluted earnings per share (RMB cents)	**18.88**	7.22

13. Dividends

The total dividends paid in 2018 amounted to RMB48,291,000 or RMB4.9822 cents per share (2017: RMB36,642,000), netting the dividend of RMB3,867,000 (2017: RMB2,646,000) to the shares held for Restricted Share Award Scheme.

PERFORMANCE REVIEW FOR FIRST HALF OF 2018

In the first half of 2018, the national economy was stable in operation, under the macro environment of continuous growth in the consumption of residents, further penetration of upgraded consumption and persistent optimism in the catering industry, the Group achieved rapid growth in performance results. For the six months ended 30 June 2018, the Group's revenue reached RMB1,004.0 million, representing a year-on-year increase of 59.1%; net profit amounted to RMB189.8 million, representing a year-on-year increase of 170.4%.

During the first half of 2018, the Group's major businesses focused on continuous and deeper development of the national sales network, enhancing online sales capabilities, accelerating the development of third-party catering channels, expanding product portfolios constantly and supplementing supply capabilities continuously.

The national sales network was further developed and optimized. Benefitted from the Group's continuous management of the sales channels and further improvement in the incentive measures for the sales staff, the sales of third-party channels increased remarkably. In the first half of 2018, the Group's distributors covered 31 provincial areas in China, the regions of Hong Kong, Macau and Taiwan, and 24 overseas countries and regions. For the six months ended 30 June 2018, the Group's revenue generated by sales to distributors was RMB363.2 million, representing a year-on-year increase of 117.2%.

Marketing efforts were enhanced for online contents to maintain consumer loyalty and interactions. The Group continued to streamline and innovate the e-commerce channels from multiple perspectives, and strived to develop self-operated online stores into a key platform for corporate brand publicity and product promotions. During the first half of 2018, we collaborated online in various types of promotions and launched a range of diversified thematic promotional activities. Meanwhile, a range of corresponding marketing activities were launched to complement the pilot sales of various new products conducted online, and achieved outstanding results in sales performance and brand promotions. For the six months ended 30 June 2018, the Group's revenue from sales via e-commerce channels amounted to RMB80.2 million, representing a year-on-year increase of 372.4%.

Development of third-party catering channels and customers was accelerated. During the first half of 2018, by organizing promotional activities such as forums, enhancing the service quality of customized services continuously and expanding the portfolios of catering products, the Group had increased the number of cooperation customers and stimulated the growth in third-party catering business. For the six months ended 30 June 2018, the Group's revenue from sales in catering business amounted to RMB20.0 million, representing a year-on-year increase of 70.8%.

Product portfolios were constantly upgraded and expanded. During the first half of 2018, the Group continued its strategy to maintain positioning at the production and sales of mid- to high-end hot pot soup flavorings and Chinese-style compound condiments. By further exploring regional and sub-division products, capturing market information and dynamic demand quickly, new products were developed and launched, including three new flavours of crawfish condiments, one rice blending sauce and three types of self-serving small hot pot products. Apart from further alleviating the seasonal problems of hot pot products, the launching of new products also further stimulated end-user consumption and satisfied market demand.

In the expansion of production capacity, the Group's newly constructed factory located in Maanshan of Anhui Province formally commenced operation during the first half of this year and effectively alleviated the existing pressure in production.

BUSINESS REVIEW

In the first half of 2018, with the general backdrop of the national economy being stable overall, the increase of the income of residents at an accelerated rate, the accelerating pace of increasing consumption, and steady growth of the catering industry, the growth of the condiment industry continues to be optimistic. For the six months ended 30 June 2018, the Group recorded a revenue of RMB1,004.0 million, representing a year-on-year increase of 59.1%; and a net profit of RMB189.8 million, representing a year-on-year increase of 170.4%.

Sales Channels

The Group is not only a supplier of hot pot soup flavouring and condiment products to the Hai Di Lao Holdings Pte. Ltd and its subsidiaries (the "Haidilao Group"), but it is also a condiment solution provider to family cooking customers, catering service suppliers and food companies.

In the establishment of third-party channels, the Group strived to continually enhance third-party sales abilities. Key measures included the further penetration of sales network, the improvement of sales efficiency at individual point of sales, the continuous development of outstanding distributors and the reinforcement of incentives for sales personnel. As of 30 June 2018, the Group's distributors covered 31 provinces and regions in China, as well as in Hong Kong, Macau and Taiwan, and 24 overseas countries and regions. The Group continues to improve the "partnership" incentive mechanism of the sales system, with sales personnel playing the role of "partners", which has led to the development of channels being fully authorized. The performance evaluation method was also changed from the rate of fulfilment of sales targets to the amount of profit of each business unit, which facilitated closer cooperation between the "partners" and the distributors, as they would jointly plan speciality marketing activities that are more suitable for local circumstances, and this has enhanced the usefulness of the fees invested in channels, and the enthusiasm of distribution and sales personnel. Meanwhile, through stringent screening and selection of distributors, and through regular inventory control, we strengthened our distributor management capability as well as end-user sales efficiency. For the six months ended 30 June 2018, the Group's revenue from sales to distributors amounted to RMB363.2 million, representing a year-on-year increase of 117.2%.

In terms of e-commerce sales, the Group continued to enhance the development and optimization of e-commerce channels. In the first half of 2018, the Group launched a number of new products through its online platform, and formulated targeted marketing proposals to target different online consumers at different nodes of marketing, and superb performance was achieved in brand communications and sales performance. To enhance the online shopping experience of consumers, the Group established a branch warehouses in eastern China to speed up the delivery to consumers in eastern China regions. In the second half of this year, plans to establish branch warehouses in southern China will be implemented to further enhance the delivery efficiency for online shopping by consumers in Guangdong, Fujian, Guangxi, Yunnan and Hainan regions. Moreover, as of 30 June 2018, the Group had 5 flagship stores on e-commerce platforms, including Tmall and JD.com. The sales revenue generated from e-commerce channels by the Group in the first half of 2018 was RMB80.2 million, representing a year-on-year increase of 372.4%.

Benefiting from the experience in serving the Haidilao Group and its related companies, over the years, the Group has accumulated ample experience in the PRC catering industry. The third-party catering customer business is one of the key strategic developments of the Group, and it attained continuous rapid development during the first half of 2018 through various measures, such as the development of a portfolio of diversified catering products and the enhancement of the service standard of customized products. As of 30 June 2018, there were 84 customized catering customers, representing a year-on-year increase of 21.7% as compared to 2017; sales revenue from catering business for the first half of 2018 reached RMB20.0 million, representing a year-on-year increase of 70.8% as compared to 2017.

In terms of sales to related parties (referring to the Haidilao Group and related companies), against the background of steady growth in the catering industry and hot pot catering consumption market in the PRC, the Haidilao Group achieved not only steady growth in store revenue, but also continuous rapid expansion in the number of stores. For the six months ended 30 June 2018, the Group's revenue from sales to related parties amounted to RMB540.0 million, representing a year-on-year increase of 24.2% as compared to 2017.

Products

For the six months ended 30 June 2018, the Group continued to launch new products, including three crawfish condiments, one rice blending sauce and three different flavours of self-serving small hot pots. The overall development of new products still surrounded the two main lines of improving and enhancing existing products and the development of new product offerings to cater for market trend. During the first half of 2018, in order to fully consolidate internal and external resources and to push strongly for the development of products to satisfy customers and market demand, to enhance the development efficiency and the successful rate of new products, and to further motivate employees, the Group innovatively introduced a product project system. Under this management mechanism, the employee who advocates an innovative new product, and has the coordination and management capabilities, becomes the person-in-charge for the project, and leads the implementation and development of the project, and integrates the consolidated advantageous internal and external resources. This person can leverage the support of the strong research and development platform and channels of the Company to pursue the development and promotion of the new product. The implementation of such policy enhanced the new product development efficiency and the motivation of employees to explore market opportunities.

In terms of product portfolio, we launched new products during the first half of this year, including three new flavours of crawfish condiments, three types of products under the self-serving small hot pot series and one rice blending sauce product. The launch of these new products not only satisfied market demand in a timely manner, but also eased the seasonality issue of hot pot products. In upgrading the existing products, we have not only upgraded the formula and packaging of tomato-flavoured hot pot soup flavouring and all flavours of hot pot dipping sauces, but have also, in the process of continuously collecting feedbacks from consumers in the previous year, optimized the formula of and upgraded the five self-serving small hot-pot products. In promotional activities, we drove the sales to end-users effectively through organizing various types of tasting events and promotional activities with targeted thematic promotions.

For the six months ended 30 June 2018, the Company added a total of 5 Chinese-style compound condiment products and 3 self-serving small hot pot products. As of 30 June 2018, the Company owned a total of 48 flavouring products, 9 dipping sauce products, 16 Chinese-style compound condiment products and 8 self-serving small hot pot products.

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

	For the six months ended 30 June					
	2018			2017		
	Revenue	**Sales Volume**	**Average Price Per Kg**	Revenue	Sales Volume	Average Price Per Kg
	(RMB'000)	**(Tons)**	**(RMB)**	(RMB'000)	(Tons)	(RMB)
Hot pot soup flavoring						
Third parties	**206,426**	**6,654**	**31.0**	114,183	4,028	28.3
Related parties	**523,340**	**19,762**	**26.5**	421,995	15,693	26.9
Subtotal	**729,766**	**26,416**	**27.6**	536,178	19,721	27.2
Hot pot dipping sauce						
Third parties	**39,227**	**2,044**	**19.2**	24,333	1,400	17.4
Related parties	**67**	**3**	**19.9**	216	9	24.8
Subtotal	**39,294**	**2,047**	**19.2**	24,549	1,409	17.4
Chinese-style compound condiment						
Third parties	**110,192**	**4,383**	**25.1**	54,138	2,353	23.0
Related parties	**12,180**	**431**	**28.3**	12,157	499	24.4
Subtotal	**122,372**	**4,814**	**25.4**	66,295	2,852	23.2
Self-serving small hot pot products						
Third parties	**104,457**	**2,814**	**37.1**	—	—	—
Related parties	**3,231**	**65**	**49.7**	—	—	—
Subtotal	**107,688**	**2,879**	**37.4**	—	—	—
Others (1)	**4,832**	**602**	**8.0**	3,853	174	22.1
Total	**1,003,952**	**36,758**	**27.3**	630,875	24,156	26.1

Note:

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

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

	For the six months ended 30 June			
	2018		2017	
	RMB'000	**% of Revenue**	RMB'000	% of Revenue
Revenue from hot pot soup flavoring	**729,766**	**72.7%**	536,178	85.0%
Revenue from hot pot dipping sauce	**39,294**	**3.9%**	24,549	3.9%
Revenue from Chinese-style compound condiment	**122,372**	**12.2%**	66,295	10.5%
Revenue from self-serving small hot pot products	**107,688**	**10.7%**	—	—
Other revenue	**4,832**	**0.5%**	3,853	0.6%
Total revenue	**1,003,952**	**100.0%**	630,875	100.0%

For the six months ended 30 June 2018, the Group's four major types of products included: hot pot soup flavoring, hot pot dipping sauce, Chinese-style compound condiments and self-serving small hot pots, all of them showed faster growth when compared to the corresponding period of 2017. During the first half of 2018, the Group added a total of 5 new Chinese-style compound condiment products and 3 new self-serving range of products. As of 30 June 2018, the Company owned a total of 48 soup flavoring products, 9 dipping sauce products, 16 Chinese-style compound condiment products and 8 self-serving small hot pot products.

FINANCIAL REVIEW

Revenue

During the six months ended 30 June 2018, the revenue of the Group increased by 59.1% from RMB630.9 million for the six months ended 30 June 2017 to RMB1,004.0 million for the corresponding period in 2018.

Revenue by product

	For the six months ended in 30 June			
	2018		2017	
	Revenue	**% of Revenue from hot pot soup flavoring revenue**	Revenue	% of Revenue of from hot pot soup flavoring revenue
	(RMB'000)		(RMB'000)	
Revenue from hot pot soup flavoring products				
Revenue from third parties	**206,426**	**28.3%**	114,183	21.3%
Revenue from related parties	**523,340**	**71.7%**	421,995	78.7%
Total revenue from hot pot soup flavoring products	**729,766**	**100.0%**	536,178	100.0%

Revenue from hot pot soup flavoring products increased by 36.1% from RMB536.2 million for the six months ended 30 June 2017 to RMB729.8 million for the corresponding period in 2018, accounting for 72.7% of the revenue for the six months ended 30 June 2018, of which, the revenue from the sales of hot pot soup flavoring products to related parties increased by 24.0%, while revenue from the sales of hot pot soup flavoring products to third parties increased by 80.8%. The increase in revenue from the sales of hot pot soup flavoring products to related parties was mainly due to the effects of, among other things, the steady growth in store revenue of Haidilao Group, and an increased number of restaurants. As the Group further improved the intensive development of third-party sales channels in 2018, the sales abilities of end-user points of sales have improved, the new products launched have received a certain amount of market recognition, and revenue of sales to third parties recorded rapid growth.

	For the six months ended 30 June			
	2018		2017	
	Revenue	**% of Revenue from hot pot dipping sauce revenue**	Revenue	% of Revenue from hot pot dipping sauce revenue
	(RMB'000)		(RMB'000)	
Revenue from hot pot dipping sauce				
Revenue from third parties	**39,227**	**99.8%**	24,333	99.1%
Revenue from related parties	**67**	**0.2%**	216	0.9%
Total revenue from hot pot dipping sauce	**39,294**	**100.0%**	24,549	100.0%

Revenue from hot pot dipping sauce products increased by 60.1% from RMB24.5 million for the six months ended 30 June 2017 to RMB39.3 million for the corresponding period in 2018, accounting for 3.9% of the revenue for the six months ended 30 June 2018. Revenue from sales of hot pot dipping sauce products of the Group was primarily derived from sales to third parties and the rapid growth was mainly due to upgrading of the formula and packaging of all the dipping sauce products of the Group and the development of innovative ways of eating (such as stirring and mixing with noodles and salad) in respect of dipping sauce together with conducting various promotion and tasting activities during the first half of this year.

	For the six months ended 30 June			
	2018		2017	
	Revenue	**% of Revenue from Chinese-style compound condiment products**	Revenue	% of Revenue from Chinese-style compound condiment products
	(RMB'000)		(RMB'000)	
Revenue from Chinese-style compound condiment products				
Revenue from third parties	**110,192**	**90.0%**	54,138	81.7%
Revenue from related parties	**12,180**	**10.0%**	12,157	18.3%
Total revenue from Chinese-style compound condiment products	**122,372**	**100.0%**	66,295	100.0%

Revenue from Chinese-style compound condiment products increased by 84.6% from RMB66.3 million for the six months ended 30 June 2017 to RMB122.4 million for the corresponding period in 2018, accounting for 12.2% of the revenue for the six months ended 30 June 2018, of which, revenue from sales of Chinese-style compound condiments to third parties increased by 103.5%. In the first half of 2018, several new flavors of crawfish Chinese-style compound condiments were launched by the Group, and further improvements were also made to existing Chinese-style compound condiments, and innovative marketing activities in respect of various products, had driven an increase in revenue from sales of Chinese-style compound condiments to third parties.

	For the six months ended 30 June			
	2018		2017	
	Revenue	**% of self-serving small hot pot product revenue**	Revenue	% of self-serving small hot pot product revenue
	(RMB'000)		(RMB'000)	
Revenue from self-serving small hot pot products				
Revenue from third parties	**104,457**	**97.0%**	—	—
Revenue from related parties	**3,231**	**3.0%**	—	—
Total revenue from self-serving small hot pot products	**107,688**	**100.0%**	—	—

For the six months ended 30 June 2018, the Group continued to upgrade the formula and optimize the flavoring of self-serving small hot pot products, and launched three new self-serving small hot pot products during the first half of 2018. Benefiting from our expansion of channels and promotional activities, the revenue from self-serving small hot pot products increased substantially as a result. As of 30 June 2018, the revenue from self-serving small hot pot products amounted to RMB107.7 million.

Revenue by Distribution Network

	For the six months ended 30 June			
	2018		2017	
	Revenue	**% of total revenue**	Revenue	% of total revenue
	(RMB'000)		(RMB'000)	
Related party customers				
Haidilao Group and its affiliates	**540,040**	**53.8%**	434,692	68.9%
Third party customers				
Distributors	**363,170**	**36.2%**	167,187	26.5%
E-commerce	**80,231**	**8.0%**	16,982	2.7%
Others				
Third party catering enterprise	**20,006**	**2.0%**	11,710	1.8%
One-off sales activities	**505**	**0.0%**	304	0.1%
Total revenue	**1,003,952**	**100.0%**	630,875	100.0%

Benefiting from the upgrade and growth in consumption of hot pot catering in the PRC, the catering business of Haidilao Group continued to grow rapidly in 2018. Both the number of stores and the store revenue maintained stably rapid growth. The Group's sales revenue from sales to related parties (mainly referring to sales to the Haidilao Group) for the six months ended 30 June 2018 amounted to RMB540.0 million, representing a year-on-year growth of 24.2%.

With further improvements to the refining and deepening of third party sales channels by the Group during the first half of 2018, sales ability at end-user points of sales improved remarkably, and quality new products were launched successively, driving rapid growth in the revenue from sales to third parties remarkably for the six months ended 30 June 2018, of which, revenue from sales to distributors amounted to RMB363.2 million, accounting for a year-on-year increase of 117.2%; revenue from sales through e-commerce channels amounted to RMB80.2 million, accounting for a year-on-year increase of 372.4%; and revenue from sales to third party caterers amounted to RMB20.0 million, accounting for an increase of 70.8% as compared to the corresponding period of 2017.

Revenue by Geographic Region

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

	Six months ended 30 June			
	2018		2017	
	(RMB'000)	**% of revenue**	(RMB'000)	% of revenue
Northern China[2]	**520,684**	**51.9%**	327,155	51.9%
Southern China[3]	**454,834**	**45.3%**	285,995	45.3%
Overseas markets	**28,434**	**2.8%**	17,725	2.8%
Total	**1,003,952**	**100.0%**	630,875	100.0%

Notes:

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

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

Cost of Sales

The Group's cost of sales, including raw materials, employee benefit expenses, depreciation and amortization and utilities, increased by 53.5% from RMB417.6 million for the six months ended 30 June 2017 to RMB641.1 million for the corresponding period of 2018.

Gross Profit and Gross Profit Margin

	Six months ended 30 June			
	2018		2017	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
	RMB'000	**%**	RMB'000	%
Hot pot soup flavoring products	**254,861**	**34.9%**	175,951	32.8%
Third parties	**115,848**	**56.1%**	58,281	51.0%
Related parties	**139,013**	**26.6%**	117,670	27.9%
Hot pot dipping sauce products	**15,657**	**39.8%**	9,232	37.6%
Third parties	**15,627**	**39.8%**	9,125	37.5%
Related parties	**30**	**44.8%**	107	49.5%
Chinese-style compound condiment products	**58,193**	**47.6%**	26,675	40.2%
Third parties	**54,660**	**49.6%**	22,900	42.3%
Related parties	**3,533**	**29.0%**	3,775	31.1%
Self-serving small hotpot products	**32,628**	**30.3%**	—	0.0%
Third parties	**31,536**	**30.2%**	—	0.0%
Related parties	**1,092**	**33.8%**	—	0.0%
Others	**1,509**	**31.2%**	1,408	36.5%
Total	**362,848**	**36.1%**	213,266	33.8%

The Group's gross profit increased by 70.1% from RMB213.3 million for the six months ended 30 June 2017 to RMB362.8 million for the corresponding period of 2018, and the gross profit margin increased from 33.8% in the six months ended 30 June 2017 to 36.1% for the corresponding period of 2018. Increase in gross profit mainly due to the following three reasons. Firstly, the production costs reduced as rapid increase in production and production efficiency diluted the production expenses; secondly, the production costs reduced as the Group optimized formulas of a number of flavouring products during the period; thirdly, we raised the prices of certain products in April last year.

Distribution Expenses

The Group's distribution expenses increased by 26.5% from RMB69.2 million for the six months ended 30 June 2017 to RMB87.5 million for the year of 2018. The Group's distribution expenses as a percentage of the Group's revenue decreased from 11.0% for the year of 2017 to 8.7% for the corresponding period of 2018. The increase in the distribution expenses was mainly because of the expenses required for establishment of channels expanding and reinforcing the terminal sales capacity increased as compared to the corresponding period of last year due to further expansion in the business of the Group.

Administrative Expenses

The Group's administrative expenses increased by 84.9% from RMB30.0 million for the six months ended 30 June 2017 to RMB55.5 million for the corresponding period of 2018. The Group's administrative expenses as a percentage of the Group's revenue increased from 4.8% for the first half of 2017 to 5.5% for the year of 2018. The increase in the administrative expenses was mainly because of the expenses required for the newly-built Maanshan Factory, and the construction of Bazhou Factory, and increase in the administrative expenses due to rapid development in business.

Other Incomes and Gains - net

The Group's other incomes and gains-net increased by 103.0% from RMB13.2 million for the six months ended 30 June 2017 to RMB26.7 million for the corresponding period of 2018, mainly due to government grants received by the Group.

Finance Income/(expenses) - net

The Group's finance income/(expenses)-net was a losses of RMB22.3 million for the six months ended 30 June 2017 and a gains of RMB8.4 million for the corresponding period of 2018, mainly arising from the fluctuations of the exchange rates of Hong Kong dollars and US dollars.

Profit before Tax

As a result of the foregoing, the Group's profit before income tax increased by 142.9% from RMB105.0 million for the six months ended 30 June 2017 to RMB254.9 million for the corresponding period of 2018.

Income Tax Expense

The Group's income tax expense increased by 87.2% from RMB34.8 million for the six months ended 30 June 2017 to RMB65.1 million for the corresponding period of 2018. The effective tax rate decreased from 33.1% for the first half of 2017 to 25.5% for the year of 2018, mainly due to a non-tax deductible exchange loss from the appreciation of Hong Kong dollar for the corresponding period of last year.

Net Profit for the Period

As a result of the foregoing, net profit of the Group increased by 170.4% from RMB70.2 million for the six months ended 30 June 2017 to RMB189.8 million for the first half of 2018. Basic earnings per share increased from RMB7.24 cents for the first half of 2017 to RMB19.04 cents for the corresponding period of 2018, and net profit margin increased from 11.1% for the first half of 2017 to 18.9% for the corresponding period of 2018.

Capital Liquidity and Financial Resources

For the six months ended 30 June 2018, 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 2018, the Group's cash and cash equivalents were primarily denominated in RMB and HK dollars and US dollars. Its cash and cash equivalents amounted to approximately RMB954.4 million (31 December 2017: RMB1,130.2 million). This decrease was mainly due to the net cash outflow of operating activities of RMB33.7 million (mainly resulted from an increase of RMB64.9 million in inventory as compared to the beginning of the period as a result of the increase in scale of sales, as well as an increase of RMB76.2 million in seasonal prepayment of raw material procurement as compared to the beginning of the period), to net cash outflow of investing activities of negative RMB98.6 million (due to the construction of Maanshan Bazhou Factory) and net cash outflow of financing activities of RMB48.3 million (due to dividend distribution).

Asset-liability Ratio

As of 30 June 2018, the Group's asset-liability ratio[4] was 11.7% (31 December 2017: 16.7%). This decrease was mainly due to decrease in trade payables and other payables. The Group did not have any bank borrowings.

Note:

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

Inventories

The Group's inventories consist primarily of raw materials, works-in-progress and finished goods. As of 30 June 2018, the Group had inventories of approximately RMB212.6 million (31 December 2017: RMB147.6 million). The turnover days of inventories slightly increased from 49.1 days for the year ended 31 December 2017 to 50.6 days for the six months ended 30 June 2018. Slightly increase in the turnover days of inventories was mainly due to the fact that we increased inventories of certain raw materials and finished goods for responding the peak seasons for sales in the second half of 2018.

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 2018, we had trade receivables of approximately RMB140.8 million (31 December 2017: RMB131.5 million). This change was mainly due to an increase in sales by the Group to related parties and certain third parties (such as customized catering customers) in the first half of 2018. The turnover days of trade receivables increased slightly from 22.0 days for the year ended 31 December 2017 to 24.4 days for the six months ended 30 June 2018.

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 2018, we have trade payables of approximately RMB109.8 million (31 December 2017: RMB136.6 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 37.0 days for the year ended 31 December 2017 to 34.6 days for the six months ended 30 June 2018.

Contingent Liabilities

As of 30 June 2018, the Company did not have any contingent liabilities.

Charge of Assets

As of 30 June 2018, the Company did not charge any fixed assets as securities for borrowings.

Borrowings

As of 30 June 2018, the Company did not have any bank borrowings.

Debt-to-Equity Ratio

As of 30 June 2018, the Company's debt-to-equity[(5)] ratio was zero.

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

Foreign Exchange Risk and Hedging

The Group mainly operates in the PRC with most of the transaction denominated and settled in RMB. However, the Group has certain cash denominated in 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 2018, the Group had a total of 1,660 employees (including temporary workers), comprising of 1,264 employees in production, 308 employees in marketing and 88 employees in administration and management functions respectively.

For the six months ended 30 June 2018, the Group's incurred total staff costs (including salaries, wages, allowance, benefits and costs of equity incentive plan) of RMB104.0 million.

Remuneration of employees included salaries and allowances. The Group also provided training to staff to enhance their skills and product knowledge. The Group's remuneration policy was formulated based on the performance of individual employees, and will be reviewed on regular basis.

In February 2016, the Company adopted the Restricted Share Unit Scheme ("**RSU Scheme**"), which permitted to grant Restricted Share Units ("**RSUs**") to (i) full-time employees (including directors, officers and members of senior management) of the Group; and (ii) any persons who have made or will make contributions to any members of the Company as considered at the sole discretion by the Board. On 28 December 2016, 9,140,000 RSUs (equivalent to a total of 9,140,000 shares) were approved and granted to a total of 81 grantees in the capacity of employees and/or senior executives of the Group and business partners of the Company (who were not connected persons of the Company except Ms. Dang Chunxiang and Mr. Sun Shengfeng) pursuant to the RSU Scheme of the Company. On 30 June 2018, the relevant underlying shares represented approximately 0.87% of the issued shares of the Company. After taking into account of the closing price of HK$3.18 per share on the date of grant, the value of 9,140,000 RSUs was HK$29,065,200. The grantees of RSUs shall pay US$0.0082 (approximately HK$0.06) for each RSU granted under the RSU Scheme.

Material Acquisitions and Disposals

During the six months ended 30 June 2018, 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 2018, the national economy generally developed steadily. The attitude of increasing consumption was constantly strengthened and the catering industry remained stable. The overall trend of the PRC condiment industry was positive. Through organic growth and external development, the Group will continue to optimize and deepen sales channels actively, enhance terminal sales capacity, expand its product mix and develop new business models, so as to constantly enhance the market share and industry position of the Group.

In terms of brand, in order to expand product categories of the Company, enhance competitiveness of products and clarify the brand positioning, in 2018, we sorted out our brand strategy and determined to implement multi-brand strategy. Under this model, the Group would implement the corresponding certain sub-brands based on the application scenarios of customers and various product categories and characteristics of products. While fully sharing back office resources and channels of the Company, the Group would exert synergies and complementary advantages of multi-brand, expand business scopes, enhance corporate competitiveness and risk resistance capabilities by market segmentation.

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

In terms of the establishment of channels, in 2018, the Group will further put efforts into the establishment of channels to expand the penetration rate of channels. The Group will introduce new retail channels that suit different categories, and enrich the consumption scenarios of existing products and expand new sales channels, by building on the ongoing expansion of retail channels of existing third-party manufacturers and the ever-expanding product category. In terms of the catering channels for third-party manufacturers, sales will be increased rapidly through improving service standards and introducing more standardized product distributors.

In terms of terminal sales, the Group will continue to further enhance shelf management, improve the display of basic shelves, introduce new retail channels, fully empower and motivate the internal sales staff, and collaborate closely with external distributors, so as to strengthen the customization and effectiveness of tasting events and promotion campaigns, and intensively explore and improve the capacity and efficiency of terminal sales.

Material Investments and Prospects

In order to ease the increasing pressure from production capacity utilization, the Group mainly adopted the following measures in the first half of 2018.

The Group will continue with the construction of the Bazhou Project in Hebei. The total investment amount of the Group's Bazhou Project is expected to be RMB300 million. Phase I is expected to be completed and put into operation at the end of 2018, while Phase II is expected to be completed and put into use in 2020. It is expected that Phase I will provide a production capacity of 35,000 tons. The Bazhou Production Base will not only effectively increase the Group's existing production capacity, but will also optimize the Group's product portfolio by effectively expanding the production lines for new products, and to a large extent upgrade the Group's storage facilities. The project is located in the centre of Northern China, which enables the Group to better control and manage logistics costs. As of 30 June 2018, the construction of the Bazhou Production Base was still steadily carried out as scheduled.

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 2018 to the Shareholders.

Event after the end of the Reporting Period

Yihai (Shanghai) Food Co., Ltd., an indirectly wholly owned subsidiary of the Company, entered into framework sales and purchase agreements on 6 July 2018 with Fuhai (Shanghai) Food Technology Co., Ltd. (馥海 (上海) 食品科技有限公司), a connected person of the Company, in relation to the continuation of sale and purchase of hotpot products under their existing framework sales and purchase agreements. In addition, the Company renewed the annual caps for certain existing continuing connected transactions. Please refer to the announcement of the Company dated 6 July 2018, the circular of the Company dated 19 July 2018 and the poll results announcement of the Company dated 8 August 2018 for details.

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 2018.

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 2018.

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 2018.

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 2018, 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 one non-executive Director, being Mr. Shi Yonghong, and two independent non-executive Directors, being Mr. Yau Ka Chi (chairman) 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 2018. The Audit Committee considers that the interim financial results for the six months ended 30 June 2018 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 Hong Kong Exchange and Clearing Limited (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, 22 August 2018

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