

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



YIHAI INTERNATIONAL HOLDING LTD.

頤海國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1579)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The board of directors (the “**Board**”) of Yihai International Holding Ltd. (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2020 (the “**Reporting Period**”), together with comparative figures for the same period of 2019.

GROUP FINANCIAL HIGHLIGHTS

- Revenue was RMB5,360.0 million in 2020, a 25.2% increase from RMB4,282.5 million in 2019.
- Gross profit was RMB2,090.1 million in 2020, a 27.3% increase from RMB1,641.4 million in 2019.
- Net profit was RMB982.9 million in 2020, a 23.6% increase from RMB795.0 million in 2019.
- Net profit attributable to owners of the Company was RMB885.2 million in 2020, a 23.2% increase from RMB718.6 million in 2019.
- Earnings per share (basic and diluted) in 2020 were RMB0.90 and RMB0.90 respectively.

Consolidated Balance Sheet

	Note	As at 31 December	
		2020	2019
		RMB' 000	RMB' 000
Assets			
Non-current assets			
Property, plant and equipment		790,095	483,393
Right-of-use assets		207,509	151,435
Intangible assets		21,493	17,649
Deferred income tax assets		16,476	25,445
Financial assets at fair value through profit or loss		83,672	84,893
Term deposits with initial term over one year		190,000	–
Other non-current assets		148,053	194,949
		<u>1,457,298</u>	<u>957,764</u>
Total non-current assets			
Current assets			
Inventories		406,033	297,334
Trade receivables	4	190,829	269,175
Other financial assets at amortised cost		7,100	7,762
Other current assets		107,208	168,879
Financial assets at fair value through profit or loss		–	89,596
Term deposits with initial term over three months and within one year		131,937	484,845
Cash and cash equivalents		1,986,929	1,036,396
		<u>2,830,036</u>	<u>2,353,987</u>
Total current assets			
Total assets			
		<u>4,287,334</u>	<u>3,311,751</u>
Equity			
Equity attributable to owners of the Company			
Share capital	5	68	68
Shares held for employee share scheme		(4)	(4)
Reserves		3,295,194	2,613,785
		<u>3,295,258</u>	<u>2,613,849</u>
Capital and reserves attributable to owners of the Company		3,295,258	2,613,849
Non-controlling interests		218,329	114,298
		<u>3,513,587</u>	<u>2,728,147</u>
Total equity			

Consolidated Balance Sheet (continued)

		As at 31 December	
	Note	2020	2019
		RMB' 000	RMB' 000
Liabilities			
Non-current liabilities			
Lease liabilities		44,357	26,361
Deferred income tax liabilities		<u>23,746</u>	<u>381</u>
Total non-current liabilities		<u>68,103</u>	<u>26,742</u>
Current liabilities			
Trade payables	6	279,322	207,490
Other payables and accruals		192,075	183,517
Contract liabilities		80,100	46,224
Lease liabilities		29,279	12,790
Current income tax liabilities		<u>124,868</u>	<u>106,841</u>
Total current liabilities		<u>705,644</u>	<u>556,862</u>
Total liabilities		<u>773,747</u>	<u>583,604</u>
Total equity and liabilities		<u>4,287,334</u>	<u>3,311,751</u>
Net current assets		<u>2,124,392</u>	<u>1,797,125</u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Year ended 31 December	
		2020 RMB' 000	2019 RMB' 000
Revenue	3	5,360,021	4,282,488
Cost of sales	7	(3,269,911)	(2,641,088)
Gross profit		2,090,110	1,641,400
Distribution expenses	7	(563,467)	(383,344)
Administrative expenses	7	(280,535)	(265,590)
Other income and gains – net	8	87,675	79,035
Operating profit		1,333,783	1,071,501
Finance income	9	20,407	23,679
Finance costs	9	(2,007)	(1,560)
Finance income – net	9	18,400	22,119
Profit before income tax		1,352,183	1,093,620
Income tax expense	10	(369,322)	(298,615)
Profit for the year		982,861	795,005
Profit is attributable to:			
Owners of the Company		885,222	718,634
Non-controlling interests		97,639	76,371
Other comprehensive (loss)/income			
<i>Items that may be reclassified to profit or loss</i>			
– Currency translation differences		(581)	843
Other comprehensive (loss)/income for the year, net of tax		(581)	843
Total comprehensive income		982,280	795,848
Total comprehensive income attributable to:			
– Owners of the Company		885,062	719,469
– Non-controlling interests		97,218	76,379
Earnings per share attributable to owners of the Company <i>(expressed in RMB cents per share)</i>			
– Basic	11	90.2	74.1
– Diluted	11	90.2	74.1

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 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 “Listing”).

The consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors of the Company (the “Board of Directors”) on 23 March 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(i) Compliance with IFRS and HKCO

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

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for certain financial assets at fair value through profit and loss which are measured at fair value.

(iii) New and amended standards adopted by the Group

The Group has applied the following standards, and amendments for the first time for their annual reporting period commencing 1 January 2020, which are relevant to its operations:

- Definition of Material – amendments to IFRS 1 and IFRS 8
- Definition of a Business – amendments to IFRS 3
- Interest Rate Benchmark Reform – amendments to IFRS 9, IFRS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting

The Group also elected to adopt the following amendments early.

- Annual Improvements to IFRS Standards 2018-2020 Cycle.
- Covid-19-Related Rent Concessions – amendments to IFRS 16 and Interest Rate Benchmark Reform – amendments to IFRS 9, IFRS 39 and IFRS 7.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

The Group has early adopted Amendment to IFRS 16 – Covid-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying 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: a. 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; b. any reduction in lease payments affects only payments due on or before 30 June 2021; and c. there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions totalling RMB707,000 have been accounted for as negative variable lease payments and recognised in administrative expenses in the statement of profit or loss for the year ended 31 December 2020, with a corresponding adjustment to the lease liability. There is no impact on the opening balance of equity at 1 January 2020.

3. REVENUE AND SEGMENT INFORMATION

Breakdown of revenue by product category is as follows:

	Year ended 31 December	
	2020	2019
	RMB' 000	RMB' 000
Revenue recognised at point in time		
Hot pot condiment		
– Related parties	1,348,680	1,592,331
– Third parties	<u>1,841,402</u>	<u>1,221,033</u>
Subtotal	<u>3,190,082</u>	<u>2,813,364</u>
Chinese-style compound condiment		
– Related parties	34,693	49,468
– Third parties	<u>495,724</u>	<u>345,477</u>
Subtotal	<u>530,417</u>	<u>394,945</u>
Convenient ready-to-eat food products		
– Related parties	39,665	20,492
– Third parties	<u>1,500,552</u>	<u>978,475</u>
Subtotal	<u>1,540,217</u>	<u>998,967</u>
Others		
– Related parties	453	880
– Third parties	<u>98,852</u>	<u>74,332</u>
Subtotal	<u>99,305</u>	<u>75,212</u>
Total	<u><u>5,360,021</u></u>	<u><u>4,282,488</u></u>

Revenue from sales attributable to related parties accounted for approximately 26.6% and 38.8% of the total revenue for the years ended 31 December 2020 and 2019 respectively.

4. TRADE RECEIVABLES

	As at 31 December	
	2020 RMB' 000	2019 RMB' 000
Third parties	6,184	57,480
Related parties	184,712	214,272
	<u>190,896</u>	<u>271,752</u>
Less: provision for impairment	(67)	(2,577)
Trade receivables – net	<u><u>190,829</u></u>	<u><u>269,175</u></u>

- (i) 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 trade receivables-net at the respective balance sheet dates is as follows:

	As at 31 December	
	2020 RMB' 000	2019 RMB' 000
Within 3 months	190,523	266,581
3 to 6 months	306	2,594
	<u>190,829</u>	<u>269,175</u>

- (ii) The carrying amounts of trade receivables approximate their fair values.
- (iii) Impairment and risk exposure

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

5. SHARE CAPITAL

	2020 Shares	2019 Shares	2020 US\$' 000	2019 US\$' 000
Authorised:				
Ordinary shares of US\$0.00001 each				
On 1 January 2019, 31 December 2019 and 2020	5,000,000,000	5,000,000,000	50	50

Issued and fully paid ordinary shares:

	Number of ordinary shares	Nominal value of ordinary shares US\$	Equivalent nominal value of ordinary shares RMB' 000
On 1 January 2019, 31 December 2019 and 2020	1,046,900,000	10,469	68

6. 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 31 December 2020 and 2019, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2020 RMB' 000	2019 RMB' 000
Within 3 months	278,045	204,803
3 to 6 months	1,069	2,449
6 months to 1 year	208	238
Total	279,322	207,490

7. EXPENSES BY NATURE

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

	Year ended 31 December	
	2020	2019
	RMB' 000	RMB' 000
Changes in inventories of finished goods	(74,763)	25,060
Raw materials and consumables used	3,010,331	2,340,663
Employee benefit expenses	535,589	449,853
Transportation and related charges	172,458	117,009
Advertising and other marketing expenses	139,478	75,000
Depreciation of property, plant and equipment	60,957	39,410
Warehouse expenses	45,324	38,674
Utilities	37,640	33,920
Taxes and surcharges	35,583	33,351
Travel and entertainment expenses	27,489	35,499
Technical supporting fees, professional fees and other services fees	27,384	25,038
Depreciation of right-of-use assets	19,653	12,431
Expense relating to short-term leases	15,317	13,207
Auditor's remuneration		
– Audit services	2,480	2,100
– Non-audit services	622	464
Amortisation of intangible assets	5,551	2,729
(Reversal of)/provision for impairment on financial assets	(2,462)	1,963
Write-down of inventories	3,914	1,521
Other expenses	51,368	42,130
	<hr/>	<hr/>
Total	4,113,913	3,290,022
	<hr/> <hr/>	<hr/> <hr/>

8. OTHER INCOME AND GAINS – NET

	Year ended 31 December	
	2020	2019
	RMB' 000	RMB' 000
Government grants	101,333	51,919
Change in fair value of financial assets at fair value through profit or loss		
– Realised investment income	18,150	6,395
– Unrealised fair value gain	10,424	3,788
Sales of scrap materials	8,606	6,347
Losses on disposal of property, plant and equipment	(1,995)	(1,620)
Donation	(12,523)	(625)
Net foreign exchange (loss)/gains	(39,862)	6,430
Others	3,542	6,401
	<u>87,675</u>	<u>79,035</u>

Government grant is mainly from value added tax refund for growing local economic development. There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

9. FINANCE INCOME -NET

	Year ended 31 December	
	2020	2019
	RMB' 000	RMB' 000
Finance income		
– Interest income	20,407	23,679
Finance costs		
– Interest of lease liabilities	<u>(2,007)</u>	<u>(1,560)</u>
Finance income -net	<u>18,400</u>	<u>22,119</u>

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2020	2019
	RMB' 000	RMB' 000
Current income tax	336,988	299,790
Deferred income tax expense/(credit)		
– Origination and reversal of temporary differences	32,334	(1,175)
Income tax expense	<u>369,322</u>	<u>298,615</u>

(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 profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the Group's estimated assessable profit for the year ended 31 December 2020 (2019:16.5%).

(c) Overseas income tax

The Company's subsidiaries incorporated overseas are subject to overseas profits tax at 10% to 27% on estimated assessable profit for this year.

(d) Mainland China Corporate Income Tax ("CIT")

The income tax provision of the Group in respect of operations in mainland China has been calculated at the tax rate of 25% on the estimated assessable profits for the years end 31 December 2020 and 2019, based on the existing legislation, interpretations and practices in respect thereof.

(e) Mainland China withholding tax (“WHT”)

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

In anticipation of distributing a proportion of the profit earned for the year ended 31 December 2020 by one of the Company’s mainland China subsidiaries to its overseas shareholder, also a subsidiary of the Company, a deferred tax liability of RMB20,000,000 (2019: Nil) was recognised in these financial statements. In 2019, a withholding tax of RMB20,000,000 was deducted directly from the distribution of the profit earned for the year then ended by this mainland China subsidiary to its overseas shareholder.

Deferred income tax liabilities of RMB224,147,200 (2019: RMB156,237,400) have not been recognised in these financial statements as the withholding tax that would be payable on the distributable retained profits of the Company’s subsidiaries in mainland China. Such amounts totaling RMB2,241,472,000 (2019: RMB1,562,374,000) are not currently intended to be distributed to the subsidiaries incorporated overseas in the foreseeable future.

The tax on the Group’s profit before income tax differs from the theoretical amount that would arise using the domestic tax rates applicable to profits in the respective countries as follows:

	Year ended 31 December	
	2020	2019
	RMB’ 000	RMB’ 000
Profit before income tax	1,352,183	1,093,620
Tax calculated at domestic tax rates applicable to profits in the respective countries	345,765	303,530
Expenses not deductible for tax purposes	3,776	9,180
Income not subject to tax	(219)	(34,095)
Withholding taxation on the distribution of profits of a mainland China subsidiary to an overseas subsidiary during the year	20,000	20,000
Taxation charge	<u>369,322</u>	<u>298,615</u>

11. EARNINGS PER SHARE

a. Basic earnings per share

Basic earnings per share for each of the years ended 31 December 2020 and 2019 are calculated by dividing the profit of the Group attributable to the owners of the Company by the weighted average number of ordinary shares in issue less shares held for RSU Scheme during the year.

	Year ended 31 December	
	2020	2019
Profit attributable to owners of the Company (RMB' 000)	885,222	718,634
Weighted average number of ordinary shares in issue less shares held for RSU Scheme (thousands)	980,952	969,884
Basic earnings per share (RMB cents)	<u>90.2</u>	<u>74.1</u>

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 have been presented since there was no potential dilutive ordinary share in issue for the year ended 31 December 2020 and 2019.

12. DIVIDENDS

(i) Ordinary shares

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

(ii) Dividends declared but not recognised at the end of the reporting period

Pursuant to resolution passed on 23 March 2021, the Board of Directors proposed a final dividend of RMB25.367 cents per ordinary share of the Company, amounting to RMB265,567,000 for the year ended 31 December 2020 from the Company's share premium. The final dividend is to be proposed for approval by the shareholders of the Company at the annual general meeting to be held on 21 May 2021. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation from the share premium account for the year ending 31 December 2021.

2020 PERFORMANCE REVIEW

In 2020, the outbreak of COVID-19 pandemic has spread throughout the world and severely disrupted the global economy, which caused the external environment to be more sophisticated and severe. In general, China has attained remarkable results in coordinating the pandemic control and protecting public wellbeing in 2020. The operation of economy rebounded steadily, while employment and public wellbeing were guaranteed and the completion of the major goals of social development achieved better than expected. In early 2020, catering service market was affected significantly by the pandemic, which caused a severe burden in operation. Nevertheless, along with the effective performance of “normalized” pandemic protection, the catering industry has also gradually recovered. By contrast, compound condiment and convenient ready-to-eat food industry have both experienced accelerating demand growth in the first half of 2020, benefiting from the “Stay-at-Home Economy” brought by the pandemic control, however, those demand gradually declined toward the second half.

In 2020, the Group’s major businesses focused on supplementing and optimizing the supply capabilities persistently, continuous development of efficiency of sales channels, improving and enhancing the management structure and incentive mechanism continuously. For the year ended 31 December 2020, the revenue of the Group was RMB5,360.0 million, representing a year-on-year increase of 25.2%; net profit was RMB982.9 million, representing a year-on-year increase of 23.6%.

In 2020, through further rebuilding the optimization of management structure, nurturing middle-level management teams and strengthening the incentive efficiency of each business lines, the Group has also obtained a stable growth in the third-party sales results. Meanwhile, with the benefit of focusing on research and development of new products, the Group has developed a total of 55 new products throughout the year of 2020.

In addition, the Group put the focus on replenishing and optimizing the supply capacity in 2020. In 2020, Phase I of new production base in Bazhou, Hebei Province has been completed and formally commenced operation during the year. The construction work of production base in Luohe with planned productivity of 100,000 tonnes in Phase I, has commenced in March 2020, and is expected to commence operation in July 2021. The plant project in Zhaoqing, Guangdong has reached the stage of construction plan in the second half of 2020, that covers an area of 30 mu with 2 workshops. It is planned that the plant will commence its operation in May 2021 with 48,000 tonnes of productivity. The Group entered into a land acquisition agreement with the government of Jianyang, Sichuan Province in April 2020 and commenced the construction and planning in the second half of 2020. Apart from the addition of production bases, the Group has also put a focus on the technology research and development of production side. 9 automated production lines of north workshops in Bazhou base have been fully utilized during the year, which significantly enhanced our efficiency, streamlined our staff and strengthened our food safety standards.

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 was 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 2020, the global economy became even more sophisticated and severe. As a firm in consumer goods, Yihai has experienced an extraordinary year due to the sudden hit by the pandemic. Firstly, the business of sales to related parties has experienced a sharp decline to negative growth resulting from the significant impact on catering industry during the outbreak of COVID-19 pandemic in the first half of the year. Along with the effective implementation of normalized control on the pandemic in the domestic China, clustering economic activity in China has gradually resumed while the catering industry has also slowly recovered. However, the overall sales to related parties were underperformed as compared with the growth level before the pandemic. On the other hand, benefiting from the home quarantine policy during the early period of the pandemic, the sales of retail products of the Group had experienced a higher-than-expected growth in a short run. The demands of family cooking and convenient ready-to-eat food products had turned back to normal level as the catering consumption recovered in the second half of the year. For the year ended 31 December 2020, the revenue of the Group was RMB5,360.0 million, representing a year-on-year increase of 25.2%; net profit was RMB982.9 million, representing a year-on-year increase of 23.6%.

Facing the sudden outbreak of the pandemic, the Group has promptly responded to the government's call and adopted proactive measures towards the pandemic control. On 23 January 2020, the Group established a headquarter for pandemic prevention and control and, coordinated employees from different departments in the organizational structure. We clearly differentiated the responsibilities of different management structures in terms of regions and departments, while implementing a strict supervision towards our staff's health and a reporting system. In addition to the collection of health information of our employees, the Group has established an all-staff promotion for pandemic prevention and control according to the expert advice. At the same time, as the resumption of working and production during the pandemic, the Group advocated the guideline principal to "put employees' health and safety on top and never leave them behind" and focused on the protections on anti-pandemic prevention, resources, living security and salary as our major tasks to properly take care of our employees. In response to the large demands of convenient ready-to-eat food products due to the pandemic, the whole management of the Group led our staff of the production plants to make their best effort to accelerate the recovery of our productivity, so as to promptly export quality products to markets. Furthermore, the Group has also quickly established a mental consultant team to proactively communicate with employees and relieve their worries and fear suffered from the pandemic.

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 (“**Haidilao Group**”), one of our related parties, while at the same time, it also provided cooking condiment solutions to Chinese family cooking customers, catering service providers and companies in the food industry. As 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 and catering customers. The Group’s sales to third-party distributors has covered totally 31 provincial regions in China and Hong Kong-Macau-Taiwan regions and 49 countries and regions overseas.

Expansion and penetration of third-party channels have always been the most important sales strategy of the Group. The core tasks of the Group in 2020 were to expand the channel coverage in county level, enhance the existing individual products with strong performance, increase the quantity of listed products in sales points, innovate new product sale model and enhance the channel satisfaction.

In terms of specific measures, the Group had set satisfaction of distributors and end-points as the starting point and conducted process indicator assessments to the first-tier sales (“**Partner(s)**”), such as indicators of monthly inventory level of distributors; implementation efficiency of cost investment; logistic satisfaction level of end-sales points; and display performance of end-points, which aim at enhancing sales results of channels and ensuring the relevant indicators were in orders.

In the second half of 2020, the Group had conducted an optimizing adjustment to the internal management structure, such as establishing the system of “regional managers”. “Regional manager” system further reorganized the Company’s sales and product research and development teams to categorize the most important products in the business lines of the Company into over 30 small regional teams. Regional manager is responsible for leading the teams to explore the business potential in terms of supply complement, new product research and development, product marketing, and to boost the product opportunity with regional characters, enhance the focus and effectiveness of marketing activities, complement the optimization of regional supply efficiency, and in turn intensify the channel development of different regions. Different from the previous regional management system that only managed sales business, the establishment of regional manager can cultivate quality middle-level management talents with unified thinking mindset of production, research and development and marketing, and further enhance the incentive of first-tier employees and spread the culture of concentration.

In 2020, the number of branch storage area increased to 10 by continuously enhancing the logistic efficiency through increasing the utilization of branch storages in multiple areas. This measure allows us to shorten the delivery cycle, increase the distributors’ flexibility in orders and effectively mitigate the level of channel inventory and ensure the control of channels. Furthermore, the improvement of channel efficiency also improved the production date and freshness of end products and better display of products.

Moreover, to further ensure the display and sales of key accounts (KA), the Group continued to expand “zero inventory” in hypermarkets. “Zero inventory” replaced the previous method of delivery from distributors to key customers’ hypermarket, 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 are currently enjoying “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 2020, the Group formulated targeted marketing plans on different festivals and promotional campaigns as usual. As at 31 December 2020, the Group had 5 flagship stores on e-commerce platforms such as Tmall.com and JD.com. For the year ended 31 December 2020, the sales revenue of the Group from e-commerce channels was RMB287.3 million, representing a year-on-year increase of 4.5%.

For sales to related parties (referring to the Haidilao Group and Shuhai Supply Chain Group), the global COVID-19 pandemic outbreak adversely affected the restaurant business of the Haidilao Group. Notwithstanding the domestic clustering economic activities gradually recovered, the overall catering industry still remained in recovery. Accordingly, as of 31 December 2020, the revenue from sales to related parties of the Group was RMB1,423.5 million, representing a year-on-year decrease of 14.4% as compared to the year of 2019.

Products

In 2020, the Group continued to explore new product opportunities with the strategy of segmentation of consumption scenarios and customers’ needs, and motivated producers to develop more new products to satisfy market demand under the “project-based system for products”. For the year ended 31 December 2020, new products of the Company included 15 Chinese-style compound condiment products, 23 hot pot condiment products, 13 convenient ready-to-eat food products and 4 snack products.

In 2020, product research and development had been the major strategic focus of the Group. The optimization of systems, implementation of product marketing projects and the development of new product supply have gained the attention of senior management. The “Project-Based System for Products” was a research and development strategy for new products implemented by the Group since 2018. During the year, we had also carried out further amendments to the system, for the purpose of better in line with the current situation and future development of the group.

During the year, the Group had different numbers of new product innovations in three 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 2020, 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”. During the second half of the year, along with the peak season of hot pot, we have launched a marketing campaign, “Hot Pot Festival” in winter and carried out online and offline marketing promotion of a hot pot base, “Eat Alone” and a new hot pot sauce, “Condiment Bar”. We have also carried out a theme campaign of “Double Seventh Festival” in Chinese Valentine’s Day for convenient ready-to-eat food products to make themed marketing campaigns for products with limited packages. In respect of Chinese-style compound condiments, we carried out marketing campaigns, such as tasting activities for new products and “Family Love Delivery” as we had launched many new series of products and promote the brand of “Chopsticks and Kitchen” in retail points to enhance the recognition of our products in sales points.

For the year ended 31 December 2020, the Company added a total of 15 Chinese-style compound condiment products, 23 hot pot condiment products, 13 convenient ready-to-eat food products and 4 snack food. As at 31 December 2020, the Group had a total of sales of 65 hot pot condiment products, 56 Chinese-style compound condiment products, and 24 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 year ended 31 December					
	2020			2019		
	Revenue (RMB' 000)	Sales volume (Tonnes)	Average selling price per Kg (RMB)	Revenue (RMB' 000)	Sales volume (Tonnes)	Average selling price per Kg (RMB)
Hot pot condiments⁽¹⁾						
Third parties	1,841,402	61,173	30.1	1,221,033	42,311	28.9
Related parties	1,348,680	60,010	22.5	1,592,331	65,666	24.2
Subtotal	<u>3,190,082</u>	<u>121,183</u>	<u>26.3</u>	<u>2,813,364</u>	<u>107,977</u>	<u>26.1</u>
Chinese-style compound condiments⁽²⁾						
Third parties	495,724	18,294	27.1	345,477	13,775	25.1
Related parties	34,693	1,353	25.6	49,468	2,075	23.8
Subtotal	<u>530,417</u>	<u>19,647</u>	<u>27.0</u>	<u>394,945</u>	<u>15,850</u>	<u>24.9</u>
Convenient ready-to-eat food products⁽³⁾						
Third parties	1,500,552	33,807	44.4	978,475	22,817	42.9
Related parties	39,665	844	47.0	20,492	519	39.5
Subtotal	<u>1,540,217</u>	<u>34,651</u>	<u>44.4</u>	<u>998,967</u>	<u>23,336</u>	<u>42.8</u>
Others⁽⁴⁾	<u>99,305</u>	<u>22,391</u>	<u>4.4</u>	<u>75,212</u>	<u>13,081</u>	<u>5.7</u>
Total	<u>5,360,021</u>	<u>197,872</u>	<u>27.1</u>	<u>4,282,488</u>	<u>160,244</u>	<u>26.7</u>

Notes:

- (1) Mainly including the Group's sales of products such as hot pot soup flavorings and hot pot dipping sauce
- (2) Mainly including the Group's sales of products such as Chinese-style compound condiments and ready-to-eat sauce
- (3) Mainly including the Group's sales of products such as self-serving product and brewed product series
- (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 year ended 31 December			
	2020		2019	
	RMB' 000	% of revenue	RMB' 000	% of revenue
Revenue from hot pot condiments	3,190,082	59.5%	2,813,364	65.7%
Revenue from Chinese-style compound condiments	530,417	9.9%	394,945	9.2%
Revenue from convenient ready-to-eat food products	1,540,217	28.7%	998,967	23.3%
Other revenue	99,305	1.9%	75,212	1.8%
Total revenue	5,360,021	100%	4,282,488	100%

For the year ended 31 December 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 year ended 31 December 2020, the Company added a total of 15 Chinese-style compound condiment products, 23 hot pot condiment products, 13 convenient ready-to-eat food products, 4 snack food. As at 31 December 2020, the Group had a total sales of 65 hot pot condiment products, 56 Chinese-style compound condiment products and 24 convenient ready-to-eat food products.

FINANCIAL REVIEW

Revenue

The revenue of the Group increased by 25.2% from RMB4,282.5 million for the year ended 31 December 2019, to RMB5,360.0 million for the corresponding period in 2020.

Revenue by product

	For the year ended 31 December			
	2020		2019	
	Revenue (RMB'000)	% of revenue from hot pot condiments	Revenue (RMB'000)	% of revenue from hot pot condiments
Revenue from hot pot condiments				
Revenue from third parties	1,841,402	57.7%	1,221,033	43.4%
Revenue from related parties	1,348,680	42.3%	1,592,331	56.6%
Total revenue from hot pot condiments	<u>3,190,082</u>	<u>100%</u>	<u>2,813,364</u>	<u>100%</u>

Revenue from hot pot condiment products increased by 13.4% from RMB2,813.4 million for the year ended 31 December 2019 to RMB3,190.1 million for the corresponding period in 2020, accounting for 59.5% of the revenue for the year ended 31 December 2020. Of these, revenue from sales of hot pot condiment to third parties decreased by 15.3%. The decline in revenue was mainly due to the material impact of COVID-19 pandemic worldwide on the restaurants' operations. Revenue from sales of hot pot condiment products to third parties increased by 50.8%.

	For the year ended 31 December			
	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	495,724	93.5%	345,477	87.5%
Revenue from related parties	34,693	6.5%	49,468	12.5%
Total revenue from Chinese-style compound condiments	530,417	100%	394,945	100%

Revenue from Chinese-style compound condiments increased by 34.3% from RMB394.9 million for the year ended 31 December 2019 to RMB530.4 million for the year of 2020, representing 9.9% of the revenue for the year ended 31 December 2020. Among that, the revenue from sales of Chinese-style compound condiments to related parties decreased by 29.9%, and revenue from sales of Chinese-style compound condiments to third parties increased by 43.5%. In respect of sales to related parties, the Group continued to supply products and services to some of the catering customers in the Shuhai Supply Chain. The Group continued to improve existing individual products with strong performance, researched and developed new products satisfying the trend of market tastes, and conducted marketing activities by combining with product features and market positioning, so that sales of Chinese-style compound condiments to third parties continued to record a steady growth.

	For the year ended 31 December			
	2020		2019	
		% of		% of
		revenue		revenue
		from		from
		convenient		convenient
		ready-to-eat		ready-to-eat
		food		food
	Revenue	products	Revenue	products
	(RMB' 000)		(RMB' 000)	
Revenue from convenient ready-to-eat food products				
Revenue from third parties	1,500,552	97.4%	978,475	97.9%
Revenue from related parties	39,665	2.6%	20,492	2.1%
Total revenue from convenient ready-to-eat food products	1,540,217	100%	998,967	100%

In 2020, the outbreak of the pandemic made convenient ready-to-eat food products popular to consumers and incubated the sales of popular products related to “Stay-at-Home Economy”. In addition to the continuous expansion of sales channels, the Group also launched new brewed products which resulted in a good performance. As such, the convenient ready-to-eat food products continuously recorded a quicker growth. As at 31 December 2020, the revenue from convenient ready-to-eat food products increased by 54.2% from RMB999.0 million for the year ended 31 December 2019 to RMB1,540.2 million, representing 28.7% of the revenue for the year ended 31 December 2020.

Revenue by distribution network

	For the year ended 31 December			
	2020		2019	
	Revenue (RMB' 000)	% of total revenue	Revenue (RMB' 000)	% of total revenue
Related party customers				
Haidilao Group and its affiliates	1,401,648	26.2%	1,625,761	38.0%
Shuhai Supply Chain Group	21,843	0.4%	37,410	0.9%
Third party customers				
Distributors	3,619,741	67.5%	2,304,284	53.8%
E-commerce	287,258	5.4%	274,917	6.4%
Others	29,531	0.5%	40,116	0.9%
Total revenue	5,360,021	100%	4,282,488	100%

In 2020, the global COVID-19 pandemic outbreak in 2019 resulted in strict measures of prevention and control and corresponding restrictions in consumption areas, leading to material impacts to all restaurants' operation of Haidilao Group, a related party of the Company. As such, the sales revenue of the Group from sales to related parties (mainly referring to the Haidilao Group and Shuhai Supply Chain Group) for the year ended 31 December 2020 was RMB1,423.5 million, representing a year-on-year decrease of 14.4%.

For sales revenue of 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 year, the retail products sold by the Group through distributors recorded a rapid growth during the period. In e-commerce, the Group continued to carry out various innovative marketing activities in different points of sales and focused on the improvement of customer service quality and consumption experience. For the year ended 31 December 2020, sales revenue from sales to distributors amounted to RMB3,619.7 million, representing a year-on-year increase of 57.1%. Sales revenue from e-commerce channels amounted to RMB287.3 million, representing a year-on-year increase of 4.5%.

Revenue by geographic region

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

	For the year ended 31 December			
	2020	% of	2019	% of
	(RMB' 000)	revenue	(RMB' 000)	revenue
Northern China ⁽⁵⁾	2,321,977	43.3%	1,924,586	44.9%
Southern China ⁽⁶⁾	2,790,129	52.1%	2,199,216	51.4%
Overseas markets	247,915	4.6%	158,686	3.7%
Total	5,360,021	100%	4,282,488	100%

Notes:

- (5) Including Heilongjiang, Jilin, Liaoning, Inner Mongolia, Beijing, Tianjin, Hebei, Shandong, Shanxi, Henan, Ningxia, Shaanxi, Gansu, Qinghai, Xinjiang and Tibet
- (6) Including 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 23.8% from RMB2,641.1 million for the year ended 31 December 2019 to RMB3,269.9 million for the corresponding period of 2020.

Gross Profit and Gross Profit Margin

	For the year ended 31 December			
	2020		2019	
	Gross profit	Gross profit	Gross profit	Gross profit
	RMB' 000	margin	RMB' 000	margin
		%		%
Hot pot condiments	1,375,284	43.1%	1,116,862	39.7%
Third parties	1,026,325	55.7%	678,812	55.6%
Related parties	348,959	25.9%	438,050	27.5%
Chinese-style compound condiments	244,291	46.1%	185,178	46.9%
Third parties	234,758	47.4%	172,569	50.0%
Related parties	9,533	27.5%	12,609	25.5%
Convenient ready-to-eat food products	459,588	30.6%	326,855	32.7%
Third parties	446,894	29.8%	319,616	32.7%
Related parties	12,694	32.0%	7,239	35.3%
Others	10,947	11.0%	12,505	16.6%
Total	<u>2,090,110</u>	<u>39.0%</u>	<u>1,641,400</u>	<u>38.3%</u>

The Group's gross profit increased by 27.3% from RMB1,641.4 million for the year ended 31 December 2019 to RMB2,090.1 for the year of 2020, and the gross profit margin increased from 38.3% as of the year 2019 to 39.0% as of the year 2020. Increase in gross profit margin was mainly due to the significant decline in percentage of total sales revenue derived from related-party sales, and the significant increase in percentage of total sales revenue derived from third-party sales, which had a higher gross profit margin.

Distribution Expenses

The Group's distribution expenses increased by 47.0% from RMB383.3 million for the year ended 31 December 2019 to RMB563.5 million for the year of 2020. The Group's distribution expenses as a percentage of the Group's revenue increased from 9.0% for the year of 2019 to 10.5% for the year of 2020. The increase in distribution expenses was mainly due to the tasting promotion activities and the advertising promotion material inputs that led to an increase in the promotion expense, and 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 5.6% from RMB265.6 million for the year ended 31 December 2019 to RMB280.5 million for the year of 2020. The Group's administrative expenses as a percentage of the Group's revenue decreased from 6.2% for the year of 2019 to 5.2% for the year of 2020.

Other Incomes and Gains

The Group's net amount of other incomes and gains – net increased by 11% from RMB79.0 million for the year ended 31 December 2019 to RMB87.7 million for the year of 2020, mainly due to the increase in the amount of financial subsidy received from government.

Finance Income – net

The Group's finance incomes – net decreased by 16.7% from RMB22.1 million for the year ended 31 December 2019 to RMB18.4 million for the year of 2020, mainly due to interest expenses incurred on IFRS16 Lease Liabilities.

Profit before Tax

As a result of the foregoing, the Group's profit before income tax increased by 23.6% from RMB1,093.6 million for the year ended 31 December 2019 to RMB1,352.2 million for the year of 2020.

Income Tax Expense

The Group's income tax expense increased by 23.7% from RMB298.6 million for the year ended 31 December 2019 to RMB369.3 million for the year of 2020. The effective tax rate was 27.3% for the year ended 31 December 2019 and 27.3% for the year ended 31 December 2020.

Net Profit for the Year

As a result of the foregoing, net profit of the Group increased by 23.6% from RMB795.0 million for the year ended 31 December 2019 to RMB982.9 million for the year of 2020. Basic earnings per share increased from RMB0.741 for the year ended 31 December 2019 to RMB0.902 for the year of 2020, and net profit margin decreased from 18.6% for the year ended 31 December 2019 to 18.3% for the year of 2020, mainly due to the increase in distribution expenses.

Capital Liquidity and Financial Resources

For the year ended 31 December 2020, the Group's operations were 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 at 31 December 2020, the Group's cash and cash equivalents were mainly composed of Renminbi, Hong Kong dollars and US dollars. Cash and cash equivalents amounted to approximately RMB1,986.9 million (31 December 2019: RMB1,036.4 million).

Asset-Liability Ratio

As at 31 December 2020, the Group's asset-liability ratio⁽⁷⁾ was 18.0% (31 December 2019: 17.6%). The Group did not have any bank borrowings.

Note:

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

Inventories

Inventories mainly include raw materials and finished goods. As at 31 December 2020, the inventories amounted to approximately RMB406.0 million (31 December 2019: RMB297.3 million), the turnover days of inventories decreased from 39.1 days for the year ended 31 December 2019 to 38.7 days for the year ended 31 December 2020. The decrease in turnover days of inventories was mainly due to the Group's enhanced efficiency of inventory control.

Trade Receivables

Trade receivables represent the amounts due from customers in respect of sales of goods in the ordinary course of business. As at 31 December 2020, the trade receivables amounted to approximately RMB190.8 million (31 December 2019: RMB269.2 million). The change was mainly due to that payment method changed from sales on credit to advanced payment since the main e-commerce platforms began to be operated by distributors for the year. The turnover days of trade receivables decreased from 20.0 days for the year ended 31 December 2019 to 15.4 days for the year 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. Due to the cyclical effects of low and peak seasons for production and sales and the seasonal procurement cycle, trade payables amounted to approximately RMB279.3 million as at 31 December 2020 (31 December 2019: RMB207.5 million). The turnover days of trade payables decreased from 27.7 days for the year ended 31 December 2019 to 26.8 days for the year ended 31 December 2020.

Contingent Liabilities

As at 31 December 2020, the Company did not have any contingent liabilities.

Charge of Assets

As at 31 December 2020, the Company did not charge any fixed assets as securities for borrowings.

Borrowings

As at 31 December 2020, the Company did not have any bank borrowings.

Debt-to-Equity Ratio

As at 31 December 2020, the debt-to-equity ratio⁽⁸⁾ of the Company was 2.1%.

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 at 31 December 2020, the Group had a total of 2,127 employees (including temporary workers), comprising 1,513 employees in production, 447 employees in marketing and 167 employees in administration and management functions.

As at 31 December 2020, the Group's total staff costs amounted to RMB535.6 million, including salaries, wages, allowances and benefits. 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

As at 31 December 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, it has been a challenging year for the global economies. The COVID-19 pandemic still caused a material impact on most of the economies in short term. Since the pressure of “guarding against imported cases and preventing a resurgence of the domestic outbreak” in fighting against the pandemic in China is still huge, the positive prospect of domestic economy in long term remained unchanged. The development of global pandemic has numerous uncertainties. In short run, the growth of the Group's related-party transactions is still under pressure. In terms of the current circumstance, the public hygiene will not cause a negative impact on the retail businesses of condiment and convenient ready-to-eat food products. The market demands remain stable and there is a large room for development of new products.

In 2021, the Group will place strategic focus on brand promotion, production research and development, replenishing supplies, channel building, terminal marketing.

In respect of brand promotion, the Group will continue to adopt the strategy of “multi-brand” with product categories in existing products by segmentation of application scenarios, numerous product models and flavors, to make attempts in different cuisines, flavors and other condiments. Recently, the promotion of the brand of “Magic Cook (筷手小厨)” has been intensified to enhance the brand popularity and continuously deepen the business development of Chinese-style compound condiments by different online and offline marketing models with launching new flavors.

In respect of product development, 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 2021, 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, the Group will continue to build local and overseas factories to complement the global product supplies. Meanwhile, we will continue to invest in lean production as well as research and development of equipment automation to enhance efficiency and optimize the supply cost. In addition, the Group plans to establish several industry centers in China and introduce ancillary industries to self-own factories so as to shorten the length of supply chain cycle and form industry groups, optimize and integrate the procurement resources, reduce the costs of transportation and logistics, enhance the efficiency of supply chain and reduce the product costs.

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 2021:

Firstly, the construction project of the north workshop in Bazhou Phase I located in Hebei Province was completed. The total production capacity was 70,000 tonnes. The construction project of Bazhou Phase II has commenced 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 gradually completed, which will help the Group to control and manage logistics costs and peak season pressure more effectively.

Secondly, the overall planning and construction bidding of new factory project in Maanshan have 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 May 2022. 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, Luohe production base has commenced formal construction in March 2020. Phase I workshop has completed its outer construction. The planned production capacity of Phase I is 140,000 tonnes, which is expected to commence production by the end of July 2021. 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 November 2020 and production in early 2022. The planned production capacity of Phase I is 100,000 tonnes, which is expected to commence production in 2022.

Fifthly, in order to establish 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, of which the construction will be commenced in February 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.

Sixthly, Zhaoqing factory with an area of 30 mu, in Guangdong, has entered into the planning stage, and it is expected to have 2 workshops and planned to commence production in May 2021 with planned production capacity of 48,000 tonnes.

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 aspects including product research and development, product portfolio, channel expansion or cost control.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Compliance with the Corporate Governance Code

The Company has applied the principles and code provisions as set out in the Corporate Governance Code (the “**Corporate Governance Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) and has complied with the code provisions in the Corporate Governance Code for the year ended 31 December 2020, except for the deviation from the Corporate Governance Code provision A.2.1 from January 2020 to 25 March 2020.

Mr. Shi Yonghong had assumed both the roles of the chairman and the chief executive officer of the Company for the period from 9 December 2018 to 25 March 2020, as he has extensive experience and knowledge in the food and the catering service industry and management experience within the Haidilao Group and in order to improve the efficiency of the operations of the Company.

In view of the ever-changing business environment in which the Group operates, the chairman and the chief executive officer must be proficient in the Chinese condiment market and be sensitive to market changes in order to promote the businesses of the Group. The Board thus considered a segregation of the role of the chairman and chief executive officer might create unnecessary costs for the daily operations of the Group.

The Board considered that vesting two roles in Mr. Shi Yonghong enabled the Company to promptly and efficiently make and implement decisions and will not impair the balance of power and authority between the Board and the management of the Company. The Company has established board committees, namely, the Audit Committee, the Remuneration Committee, and the Nomination Committee, with their members mainly comprising of independent non-executive Directors and which are responsible for the important corporate governance functions. The three independent non-executive Directors who possess balance of skills and experience appropriate to the business of the Company also contribute valuable independent views to the Board. All major decisions have been made in consultation with members of the Board and appropriate committees, as well as the senior management team. The Board is therefore of the view that there are adequate balance of power and safeguards in place. Due to good practice of corporate governance, with effect from 25 March 2020, Mr. Shi Yonghong has resigned from the post of chief executive officer and Mr. Guo Qiang has been appointed as the chief executive officer of the Company.

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all Directors and the Directors have confirmed that they have complied with the Model Code for the year ended 31 December 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. No incident of non-compliance of the Model Code by the employees was noted by the Company for the year ended 31 December 2020.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2020.

Audit Committee

The audit committee of the Board (the “**Audit Committee**”) has three members comprising three independent non-executive Directors, being Mr. Yau Ka Chi (chairman of the Audit Committee), 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 Company and the Group and discussed matters in relation to internal control and financial reporting with the management. The Audit Committee considers that the annual financial results for the year ended 31 December 2020 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

Auditor

The auditor of the Company, PricewaterhouseCoopers, has agreed that the figures in respect of the Group's annual results for the year ended 31 December 2020 contained in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the year.

The Restricted Share Unit Scheme

The Company has approved and adopted a restricted share unit scheme (the “**RSU Scheme**”) by a resolution of the shareholders of the Company (the “**Shareholder(s)**”) on 24 February 2016 and a resolution of the Board on 24 February 2016. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new shares.

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

The Company did not grant any RSUs in 2020.

Events After the End of the 31 December 2020

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2020 and up to the date of this announcement.

FINAL DIVIDEND

The Board resolved to propose to the Shareholders in the forthcoming annual general meeting (the “AGM”) on Friday, 21 May 2021 for the distribution of a final dividend of RMB25.367 cents per share for the year ended 31 December 2020. The final dividend is expected to be paid on or about Wednesday, 16 June 2021 to the Shareholders whose names are listed in the register of members of the Company on Monday, 31 May 2021, in an aggregate of approximately RMB265.6 million. The final dividend will be distributed in Hong Kong dollars and will be calculated based on the average benchmark exchange rate of RMB against Hong Kong dollar announced by the People’s Bank of China in the five working days prior to but excluding the date of the Board meeting held on Tuesday, 23 March 2021. The proposal for the distribution of the final dividend above is subject to the consideration and approval of the Shareholders at the AGM.

CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE

The register of members of the Company will be closed from Monday, 17 May 2021 to Friday, 21 May 2021, both days inclusive, in order to determine the eligibility of the Shareholders to attend and vote at the AGM to be held on Friday, 21 May 2021. The Shareholders whose names appear on the register of members of the Company at the close of business on Friday, 14 May 2021 (the “Record Date”) will be entitled to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer accompanied by the relevant share certificates and transfer forms must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong before 4:30 p.m. on Friday, 14 May 2021.

The register of members of the Company will also be closed from Thursday, 27 May 2021 to Monday, 31 May 2021, both days inclusive, in order to determine the entitlement of the Shareholders to the final dividend. The Shareholders whose names appear on the register of members of the Company at the close of business on Monday, 31 May 2021 will be entitled to the final dividend. In order to be eligible to be entitled to the final dividend, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong before 4:30 p.m. on Wednesday, 26 May 2021.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The annual report for the year ended 31 December 2020 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

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

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

Hong Kong, 23 March 2021

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.