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 2017

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 2017 (the "**Reporting Period**"), together with comparative figures for the same period of 2016.

GROUP FINANCIAL HIGHLIGHTS

- Revenue was RMB630.9 million for the six months ended 30 June 2017, a 56.6% increase from RMB402.9 million for the six months ended 30 June 2016.
- Gross profit was RMB213.3 million for the six months ended 30 June 2017, a 57.6% increase from RMB135.3 million for the six months ended 30 June 2016.
- Net profit was RMB70.2 million for the six months ended 30 June 2017, a 98.9% increase from RMB35.3 million for the six months ended 30 June 2016.
- Net profit attributable to owners of the Company was RMB70.2 million for the six months ended 30 June 2017, a 98.9% increase from RMB35.3 million for the six months ended 30 June 2016.
- Earnings per share (basic) was RMB7.24 cents for the six months ended 30 June 2017, a 33.8% increase from RMB5.41 cents for the six months ended 30 June 2016.

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		**120,091**	116,141
Land use rights		**35,550**	31,738
Intangible assets		**3,119**	2,803
Deferred income tax assets		**5,284**	6,584
Prepayments for property, plant and equipment	7	**928**	8,608
Total non-current assets		**164,972**	165,874
Current assets			
Inventories		**129,674**	130,496
Trade receivables	6	**95,946**	67,080
Prepayments and other receivables	7	**56,596**	38,217
Cash and cash equivalents		**975,285**	1,021,999
Total current assets		**1,257,501**	1,257,792
Total assets		**1,422,473**	1,423,666
Equity			
Equity attributable to owners of the Company			
Share capital	8	**68**	68
Reserves	9	**1,303,213**	1,266,137
Total equity		**1,303,281**	1,266,205
Liabilities			
Current liabilities			
Trade payables	10	**44,445**	71,276
Other payables and accruals	11	**59,004**	56,748
Derivative financial instruments		**—**	—
Current income tax liabilities		**15,743**	29,437
Total current liabilities		**119,192**	157,461
Total liabilities		**119,192**	157,461
Total equity and liabilities		**1,422,473**	1,423,666

The notes on pages 4 to 17 form an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Comprehensive Income

	Note	Unaudited Six months ended 30 June 2017 RMB'000	2016 RMB'000
Revenue	5	**630,875**	402,897
Cost of sales	12	**(417,609)**	(267,579)
Gross profit		**213,266**	135,318
Distribution expenses	12	**(69,153)**	(57,216)
Administrative expenses	12	**(30,041)**	(22,750)
Other incomes and gains - net	13	**13,172**	6,507
Fair value loss of redeemable convertible preferred shares		**—**	(10,382)
Operating profit		**127,244**	51,477
Finance (expenses)/income – net	14	**(22,273)**	2,167
Profit before income tax		**104,971**	53,644
Income tax expense	15	**(34,778)**	(18,362)
Profit for the period		**70,193**	35,282
Profit attributable to:			
Owners of the Company		**70,193**	35,282
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges	9	**(1,144)**	(252)
Other comprehensive income for the period, net of tax		**(1,144)**	(252)
Total comprehensive income		**69,049**	35,030
Total comprehensive income attributable to:			
– Owners of the Company		**69,049**	35,030
Earnings per share attributable to equity holders of the Company (expressed in RMB cents per share)			
– Basic	16	**7.24**	5.41
– Diluted	16	**7.22**	5.41

The notes on pages 4 to 17 form an integral part of this condensed consolidated interim financial information.

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 flavoring products, hot pot dipping sauce products and Chinese-style compound condiment 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 (the "Stock Exchange").

As at 30 June 2017, the ultimate holding company of the Company is ZYSP Yihai Ltd. which is wholly owned by Mr. Zhang Yong and Ms. Shu Ping collectively. Ms. Shu Ping is the wife of Mr. Zhang Yong and they are collectively referred to as the "Ultimate Shareholders".

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 ended 30 June 2017 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3. Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to IFRSs effective for the financial year ending 31 December 2017.

(a) Amendments to IFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

3. **Accounting policies (continued)**

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

(i) IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has decided not to adopt IFRS 9 until it becomes mandatory on 1 January 2018.

The Group continues to assess the impact that IFRS 9 will have on its classification and measurement of its financial assets, up to now management has identified the following area is likely to be affected:

- The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contract assets under IFRS 15 'Revenue from Contracts with Customers', lease receivables, loan commitments and certain financial guarantee contracts.

The new requirements will affect the accounting for financial liabilities that are designated at fair value through profit or loss and as at 30 June 2017, all the Group's derivative financial liability instruments have been settled. The derecognition rules have been transferred from IAS 39 'Financial Instruments: Recognition and Measurement' and have not been changed.

Under the new hedge accounting rules in IFRS 9, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

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

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt IFRS 9 before its mandatory date, and a more detailed assessment of the impact will be performed in the next six months.

3. **Accounting policies (continued)**

(ii) IFRS 15 'Revenue from contracts with customers'

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

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim period within annual reporting period beginning on or after 1 January 2018. The Group will adopt the new standards from 1 January 2018.

Management is currently assessing the effects of applying the new standard on the Group's financial statements, and the following areas, if applicable, may be affected:

- bundle sales – the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue

- accounting for the customer loyalty programme – IFRS 15 requires that the total consideration received must be allocated to the points and goods based on relative stand-alone selling prices rather than based on the residual value method; this could result in higher amounts being allocated to the loyalty points and delay the recognition of a portion of the revenue

- accounting for certain costs incurred in fulfilling a contract - certain costs which are currently expensed may need to be recognised as an asset under IFRS 15, and

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

The Group will make detailed assessments of the impact of the new rules on the Group's financial statements over the next six months.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

3. Accounting policies (continued)

(iii) IFRS 16 'Leases'

IFRS 16 was issued in January 2016. It will results 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.

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 4,543,000. 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. At this stage, the Group does not intend to adopt the standard before its effective date.

4. Seasonality of operations

Sales of the Group's products are subject to seasonal fluctuations, with peak demand in the second half of the year. This is due to seasonal weather conditions and holiday periods. In the financial year ended 31 December 2016, 37.0% of revenues occurred in the first half of the year, with 63.0% accumulated in the second half.

5. 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 flavoring products, hot pot dipping sauce products and Chinese-style compound condiment 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 Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Revenue		
Hot pot soup flavouring products		
– Related parties	**421,995**	275,124
– Third parties	**114,183**	64,556
Subtotal	**536,178**	339,680
Hot pot dipping sauce products		
– Related parties	**216**	55
– Third parties	**24,333**	15,079
Subtotal	**24,549**	15,134
Chinese-style compound condiment products		
– Related parties	**12,157**	5,510
– Third parties	**54,138**	36,271
Subtotal	**66,295**	41,781
Others		
– Related parties	**324**	3,622
– Third parties	**3,529**	2,680
Subtotal	**3,853**	6,302
Total	**630,875**	402,897

Revenue from sales attributable to related parties accounted for 68.9% and 70.6% of the total revenue for the six months ended 30 June 2017 and 2016 respectively.

6. Trade receivables

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Third parties	**3,508**	12,866
Related parties	**92,448**	54,224
Subtotal	**95,956**	67,090
Less: provision for impairment	**(10)**	(10)
Trade receivables – net	**95,946**	67,080

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

(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 2017 RMB'000	Audited 31 December 2016 RMB'000
Within 3 months	**95,713**	66,878
3 to 6 months	**243**	212
	95,956	67,090

(b) As at 30 June 2017, trade receivables of RMB 243,000 (31 December 2016: RMB 212,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
3 to 6 months	**243**	212

7. Prepayments and other receivables

	Unaudited 30 June 2017	Audited 31 December 2016
	RMB'000	RMB'000
Prepayments		
Prepayments for purchase of raw materials	**41,724**	24,276
Prepayments for technical supporting fees, professional fees and other services fees	**3,345**	1,933
Prepayments for rental	**2,865**	2,032
Value added tax recoverable	**2,376**	4,150
Prepayments for property, plant and equipment	**928**	8,608
Prepayments for utilities	**192**	160
Others	**445**	348
Subtotal	**51,875**	41,507
Less: Non-current portion	**(928)**	(8,608)
Current portion	**50,947**	32,899
Other receivables		
Deposit for utilities	**3,323**	3,271
Advance to employees	**1,335**	1,595
Deposit for futures contracts	**545**	—
Related parties	**340**	390
Others	**367**	323
Less: provision for impairment	**(261)**	(261)
Subtotal	**5,649**	5,318
Total	**56,596**	38,217

8. Share capital

Authorised ordinary shares:

	Number of ordinary shares	Nominal value of ordinary shares
		US$
Ordinary shares of US$0.00001 each at 31 December 2016	5,000,000,000	50,000
Ordinary shares of US$0.00001 each at 30 June 2017	5,000,000,000	50,000

Issued and fully paid ordinary shares:

	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares
		US$	**RMB'000**
At 31 December 2016	1,046,900,000	10,469	68
At 30 June 2017	1,046,900,000	10,469	68

9. Reserves

	Share premium	Treasury shares	Merger reserve	Statutory reserve	Share-based payment reserve	Hedging reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2017 (Audited)	955,588	(3)	(445)	23,159	102	—	287,736	1,266,137
Profit for the period	—	—	—	—	—	—	70,193	70,193
Share-based payment expense	—	—	—	—	4,669	—	—	4,669
Dividends paid	—	—	—	—	—	—	(36,642)	(36,642)
Cash flow hedging (Note a)	—	—	—	—	—	(1,144)	—	(1,144)
As at 30 June 2017 (Unaudited)	955,588	(3)	(445)	23,159	4,771	(1,144)	321,287	1,303,213
As at 1 January 2016 (Audited)	17,649	—	(445)	8,843	—	514	115,332	141,893
Profit for the period	—	—	—	—	—	—	35,282	35,282
Shares repurchased (Note b)	(4,163)	(3)	—	—	—	—	—	(4,166)
Cash flow hedging	—	—	—	—	—	(252)	—	(252)
As at 30 June 2016 (Unaudited)	13,486	(3)	(445)	8,843	—	262	150,614	172,757

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

(b) The Company adopted restricted share unit ("RSU") scheme.

In February 2016, the Company repurchased 53,680,000 ordinary shares from JLJH YIHAI Ltd., one of the shareholders of the Company, at a total consideration of US$ 638,108 (equivalent to RMB 4,166,000). These shares have been held by Vistra Fiduciary (HK) Limited ("RSU Trustee" or "the Trust") in trust for the benefit of the participants to the scheme and will be released to participants upon granting and vesting of each RSU. The number of ordinary shares under the RSU Scheme have been increased to 77,220,000 after the capitalization issue on 13 July 2016.

10. 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 2017 and 31 December 2016, the ageing analysis of the trade payables based on receipt date of the goods were are follows:

	Unaudited 30 June 2017	Audited 31 December 2016
	RMB'000	RMB'000
Within 3 months	**43,532**	68,155
3 to 6 months	**501**	2,576
6 months to 1 year	**412**	545
Total	**44,445**	71,276

11. Other payables and accruals

	Unaudited 30 June 2017	Audited 31 December 2016
	RMB'000	RMB'000
Advances from customers	**12,454**	9,922
Wages, salaries and other employee benefits	**12,015**	16,019
Other tax payables	**7,976**	8,933
Sales rebates	**6,104**	8,755
Suppliers' deposits	**5,399**	3,281
Transportation	**5,132**	2,001
Listing related expenses	**2,776**	2,802
Payables for professional fees	**3,008**	135
Marketing expenses payables	**1,551**	—
Related parties	**2,076**	4,045
Others	**513**	855
Total	**59,004**	56,748

12. Expenses by nature

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

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Cost of inventories recognised as cost of goods sold	**366,423**	232,749
Employee benefit expenses	**76,254**	49,641
Advertising and other marketing expenses	**17,499**	19,139
Transportation and related charges	**11,750**	6,864
Depreciation of property, plant and equipment	**6,744**	7,348
Taxes and surcharges	**6,206**	4,830
Rental expenses	**6,160**	5,306
Utilities	**6,109**	3,266
Warehouse expenses	**4,163**	2,119
Travel and entertainment expenses	**4,061**	2,498
Maintenance	**3,150**	909
Technical supporting fees, professional fees and other services fees	**3,093**	656
Auditor's remuneration	**600**	600
Amortisation of intangible assets	**390**	85
Amortisation of land use rights	**376**	148
Write down of inventories	**67**	111
Listing related expenses	**—**	9,375
Other expenses	**3,758**	1,901
Total	**516,803**	347,545

13. Other incomes and gains-net

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Government grant	**10,888**	6,230
Investment income	**1,891**	—
Sales of scrap materials	**454**	183
Losses on disposal of property, plant and equipment	**(238)**	(46)
Others	**177**	140
Total	**13,172**	6,507

14. Finance (expense)/income - net

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interest income	**1,515**	27
Exchange (losses)/gains (a)	**(23,788)**	2,140
Net finance (expense)/income	**(22,273)**	2,167

(a) During the six months ended 30 June 2017 and 2016, the exchange (losses)/gains were mainly arising form the fluctuations of the exchange rates of HK$ and US$ to RMB.

15. Income tax expense

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current income tax	**33,097**	18,496
Deferred income tax	**1,681**	(134)
Income tax expense	**34,778**	18,362

(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) 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 2017 and 2016, based on the existing legislation, interpretations and practices in respect thereof.

15. Income tax expense (continued)

(c) 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 2017, the retained earnings of the Group’s subsidiaries incorporated in the PRC as at 30 June 2017 will not be distributed in the foreseeable future. As a result, no deferred tax liability was recognised.

16. 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 periods.

	Unaudited Six months ended 30 June	
	2017	2016
Profit attributable to owners of the Company (RMB’000)	**70,193**	35,282
Weighted average number of ordinary shares in issue (thousands)	**969,680**	651,696
Basic earnings per share (RMB cents)	**7.24**	5.41

16. Earnings per share (continued)

(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 ("Restricted Shares") are the only dilutive potential ordinary shares as at 30 June 2017. During the six months ended 30 June 2016, the redeemable convertible preferred shares ("RCPS") were the only dilutive potential ordinary shares and they were anti-dilutive and the diluted earnings per share was the same as basic earnings per share.

	Unaudited Six months ended 30 June	
	2017	2016
Earnings-		
Profit attributable to owners of the Company (RMB'000)	**70,193**	35,282
Adjustment for fair value loss of RCPS (RMB'000)	**—**	10,382
Profit used to determine diluted earnings per share (RMB'000)	**70,193**	45,664
Weighted average number of ordinary shares in issue for basic earnings per share (thousands)	**969,680**	651,696
Adjustments for:		
– Assumed conversion of RCPS (thousands)	**—**	78,000
– Restricted Shares granted and assumed vested (thousands)	**2,838**	—
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**972,518**	729,696
Diluted earnings per share (RMB cents)	**7.22**	5.41

17. Dividends

The Board of Directors does not recommend payment of a dividend for the six months ended 30 June 2017 (2016: Nil). A dividend of RMB 36,642,000 that relates to the year ended 31 December 2016 was paid in June 2017 (2016: Nil).

2017 FIRST HALF PERFORMANCE REVIEW

In the first half of 2017, as the national economy maintained steady development in general, consumption upgrade concepts kept strengthening, the catering industry remained stable and the general environment of the PRC condiment industry showed trends of improvement, the results of the Group have also achieved rapid and stable growth. In the first six months of 2017, the Group recorded a revenue of RMB630.9 million, representing a year-on-year increase of 56.6%; and a net profit of RMB70.2 million, representing a year-on-year increase of 98.9%.

In the first half of 2017, the Group's business mainly focused on continuing to optimize sales channels, enhancing the efficiency of terminal sales, broadening the product portfolio and expanding the production capacity.

In terms of sales to third parties, benefiting from the adjustment and optimization of sales channels in 2016, extensive and stable sales channels had not only brought the Group a wider sales terminal network, but also strengthened the sales capacity and sales efficiency of the terminal sales points. The existing distributors covered 31 provincial territories in China (including all first-tier cities, 32 second-tier cities, 303 third-and fourth-tier and lower tier cities) and 14 overseas countries and regions. During the past six months, the Group further improved the intensive development of the distributor network, strengthened the means and efforts in connection with marketing, enhanced shelf display management and strengthened the sales capability of terminal sales points.

In terms of sales through e-commerce, as in the past, the Group put a lot of efforts in developing e-commerce channels. Both the strengthening of online marketing and promotion and the management and regulation of e-commerce channels were improved comprehensively in various aspects. As of 30 June 2017, the Group owned five flagship stores on such e-commerce platforms such as Tmall and Suning E-commerce. In the first six months of 2017, the Group's sales revenue derived from e-commerce channels amounted to RMB17.0 million, representing a year-on-year increase of 215.7%.

The Group attached great attention to sales to third-party catering companies, and provided comprehensive support to these as the direction of future strategic development. Benefiting from the experience in serving the Haidilao Group (that is, Sichuan Haidilao Catering Corporation Limited and is subsidiaries and Hai Di Lao Holdings Pte. Ltd. and its subsidiaries) over the years, the Group had accumulated ample experience in the PRC catering service industry. By continuously enhancing efforts to provide diversified and customized products and services to third-party catering companies, the Group's third-party catering company customized customers involved various types of catering operation. The number of such customers reached 69 as of 30 June 2017, representing an increase of 360.0% as compared to the same period of 2016, and sales revenue amounted to RMB11.7 million, representing an increase of 2,113.6% as compared to the same period of 2016.

In terms of product portfolio, the Group continued to devote itself to the improvement and upgrade of existing products, as well as new product research, development and launch, including the optimization of packaging and formulas of certain core products, and successively introduced new products (such as spicy beef tallow hot pot soup flavoring and spicy fish flavoured compound condiment) to the market during this six months' period. By way of renewing existing products and introducing new products, there is no doubt that the Group's products can better meet the market demand, and effectively ease the problem of inadequate products during low seasons. As of 30 June 2017, the Group had a total of 43 hot-pot soup flavoring products, 7 dipping sauce products and 16 Chinese-style compound condiment products, representing an addition of 3 hot pot soup flavoring products and 2 Chinese-style compound condiment products as compared to those as at the end of 2016.

BUSINESS REVIEW

In the first half of 2017, against a general backdrop of the national economy maintaining steady development in general and an overall positive trend of the PRC condiment industry, the Group recorded a revenue of RMB630.9 million, representing a year-on-year increase of 56.6%; and a net profit of RMB70.2 million, representing a year-on-year increase of 98.9%.

Sales Channels

In the PRC, the Group is the exclusive supplier of hot pot soup flavoring products to the Haidilao Group, supplying hot pot soup flavoring and condiment products to the Haidilao Group. The Group is also a cooking condiment solution provider to family cooking customers, catering service suppliers and food companies in the PRC.

In the first half of 2017, in relation to the establishment of third-party channels, the Group's operation focused on optimizing sales channels and enhancing the efficiency of terminal sales. Benefiting from the adjustment and optimization of sales channels in 2016, the Group's distributors covered 31 provincial territories in the PRC (including all first-tier cities, 32 second-tier cities, 303 third-and fourth-tier and lower tier cities) and 14 overseas countries and markets. Meanwhile, through cherry-picking and screening existing distributors, achieving marketing and promotion with various means in different scenarios and expanding the product laying capacity and efficiency of sales terminals, the Group further improved the intensive development of distributor channels, strengthened the means and efforts of marketing, enhanced shelf display management and strengthened the sales capability of terminal sales points.

In terms of sales to related parties (referring to the Haidilao Group and associated companies), the Haidilao Group achieved stable growth in same store revenue and the rapid expansion of the number of restaurants, benefiting from the growth in the PRC catering industry and the hot pot catering consumption market. In the first half of 2017, the Group's revenue from sales to related parties amounted to RMB434.7 million, representing an increase of 52.9% as compared to the corresponding period of 2016.

The Group further enhanced the management of e-commerce channels. Both in relation to the strengthening of efforts on online marketing and promotion activities or the further enhancement of the management and regulation of e-commerce channels, the Group spared no efforts in putting in a lot of work, which mainly consisted of expanding the multiple consumption scenarios which can drive consumer stickiness, increasing promotion campaigns, broadening online new product portfolios, improving the rationalization of procurement channels and managing the online selling price system. As of 30 June 2017, the Group owned five flagship stores on such e-commerce platforms as Tmall and Suning E-commerce. Sales revenue of the Group from e-commerce channels in the first half of 2017 was RMB17.0 million, representing a year-on-year increase of 215.7%.

To actively expand the business of third-party catering companies is one of the Group's strategic development focuses where the Group put in a lot of efforts and energy in providing comprehensive support in the first half of 2017. Benefiting from the experience in serving the Haidilao Group over years, the Group has accumulated ample experience in the PRC catering service industry. Through continuing to enhance its efforts in providing diversified and customized products and services to third-party catering companies, the Group's third-party catering company customized customers involved diversified types of catering operation. The number of such customers reached 69 as at 30 June 2017, representing an increase of 360.0% as compared to the corresponding period of 2016, and sales revenue amounted to RMB11.7 million, representing an increase of 2,113.6% as compared to the corresponding period of 2016.

Products

In the first half of 2017, the Group successively launched new products such as spicy beef tallow hot pot soup flavoring and spicy fish flavoured compound condiment, and launched improved and upgraded new products of certain existing core products. This not only helped our products better meet the market demand, but also effectively eased the problem of inadequate products during low seasons. Through tasting events and themed promotion events, terminal sales were effectively boosted. The Group also communicated with consumers and promoted its promotional materials by using new social media (such as Wechat).

The table below sets forth information on the revenue, sales volume and average selling price ("ASP") of the Group, by product type and distribution channels for the periods indicated:

	Six months ended 30 June					
	2017			2016		
	Revenue	**Sales Volume**	**ASP**	Revenue	Sales Volume	ASP
	(RMB'000)	**(Tons)**	**(RMB per kg)**	(RMB'000)	(Tons)	(RMB per kg)
Hot pot soup flavoring						
Related parties	**421,995**	**15,693**	**26.9**	275,124	9,752	28.2
Third-parties	**114,183**	**4,028**	**28.3**	64,556	2,043	31.6
Sub-total	**536,178**	**19,721**	**27.2**	339,680	11,795	28.8
Hot pot dipping sauce						
Related parties	**216**	**9**	**24.8**	55	3	18.3
Third-parties	**24,333**	**1,400**	**17.4**	15,079	846	17.8
Sub-total	**24,549**	**1,409**	**17.4**	15,134	849	17.8
Chinese-style compound condiment						
Related parties	**12,157**	**499**	**24.4**	5,510	242	22.8
Third-parties	**54,138**	**2,353**	**23.0**	36,271	1,601	22.6
Sub-total	**66,295**	**2,852**	**23.2**	41,781	1,843	22.7
Others(1)	**3,853**	**174**	**22.1**	6,302	383	16.5
Total	**630,875**	**24,156**	**26.1**	402,897	14,870	27.1

Note:

(1) Mainly including sales of certain products during the first six months of 2017 (such as golden popcorn and snail rice noodles)

The table below sets forth the revenue of the Group by product type in absolute amount and as percentages of the total revenue of the Group for the periods indicated:

	Six months ended 30 June			
	2017		2016	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Revenue from hot pot soup flavoring products	**536,178**	**85.0%**	339,680	84.3%
Revenue from hot pot dipping sauce	**24,549**	**3.9%**	15,134	3.8%
Revenue from Chinese-style compound condiment	**66,295**	**10.5%**	41,781	10.4%
Other revenues	**3,853**	**0.6%**	6,302	1.5%
Total revenue	**630,875**	**100.0%**	402,897	100.0%

In 2017, all three major products of the Group, namely hot pot soup flavoring, hot pot dipping sauce and Chinese-style compound condiment, achieved rapid and stable growth in terms of revenue as compared with the corresponding period of 2016. The Group further increased its investment in new product research and development, and continued to optimize its product mix. In 2017, the Group introduced 3 new hot pot soup flavoring products and 2 new Chinese-style compound condiment products. As of 30 June 2017, the Group had a total of 43 soup flavoring products, 7 dipping sauce products and 16 Chinese-style compound condiment products.

FINANCIAL REVIEW

Revenue

During the six months ended 30 June 2017, the revenue of the Group increased by 56.6% from RMB402.9 million for the six months ended 30 June 2016 to RMB630.9 million for the corresponding period of 2017.

Revenue by Product

	Six months ended 30 June			
	2017		2016	
	RMB'000	**Revenue from hot pot soup flavoring products**	RMB'000	Revenue from hot pot soup flavoring products
Revenue from hot pot soup flavoring products				
Revenue from related parties	**421,995**	**78.7%**	275,124	81.0%
Revenue from third parties	**114,183**	**21.3%**	64,556	19.0%
Total revenue from hot pot soup flavoring products	**536,178**	**100.0%**	339,680	100.0%

Revenue from hot pot soup flavoring products increased by 57.8% from RMB339.7 million for the six months ended 30 June 2016 to RMB536.2 million for the corresponding period of 2017, accounting for 85.0% of the revenue for the six months ended 30 June 2017, of which, revenue from sales of hot pot soup flavoring products to related parties increased by 53.4%, while revenue from sales of hot pot soup flavoring products to third parties increased by 76.9%. The increase in revenue from sales of hot pot soup flavoring products to related parties was mainly due to stable growth in the same store results of Haidilao Group and an increased number of restaurants. As the Group further improved the intensive development of third-party sales channels in 2017, enhanced shelf display management and strengthened the sales capacity of terminal sales points, sales revenue from third parties increased significantly.

	Six months ended 30 June			
	2017		2016	
	RMB'000	**Revenue from hot pot dipping sauce**	RMB'000	Revenue from hot pot dipping sauce
Revenue from hot pot dipping sauce				
Revenue from related parties	**216**	**0.9%**	55	0.4%
Revenue from third parties	**24,333**	**99.1%**	15,079	99.6%
Total revenue from hot pot dipping sauce products	**24,549**	**100.0%**	15,134	100.0%

Revenue from hot pot dipping sauce products increased by 62.2% from RMB15.1 million for the six months ended 30 June 2016 to RMB24.5 million for the corresponding period of 2017, accounting for 3.9% of the revenue for the six months ended 30 June 2017, of which, revenue from sales of hot pot dipping sauce products to related parties increased by 292.7%, while revenue from sales of hot pot dipping sauce products to third parties increased by 61.4%. Revenue from sales of hot pot dipping sauce products of the Group was primarily derived from sales to third parties, the rapid growth of which was mainly attributable to the market recognition of the four dipping sauce products on which the Group has focused its promotional efforts, which had driven the sales of hot pot dipping sauce products in the first half of 2017.

	Six months ended 30 June			
	2017		2016	
	RMB'000	**Revenue from Chinese-style compound condiment products**	RMB'000	Revenue from Chinese-style compound condiment products
Revenue from Chinese-style compound condiment products				
Revenue from related parties	**12,157**	**18.3%**	5,510	13.2%
Revenue from third parties	**54,138**	**81.7%**	36,271	86.8%
Total revenue from Chinese-style compound condiment products	**66,295**	**100.0%**	41,781	100.0%

Revenue from Chinese-style compound condiment products increased by 58.7% from RMB41.8 million for the six months ended 30 June 2016 to RMB66.3 million for the corresponding period of 2017, accounting for 10.5% of the revenue for the six months ended 30 June 2017, of which revenue from sales of Chinese-style compound condiment products to related parties increased by 120.6%, while revenue from sales of Chinese-style compound condiment products to third parties increased by 49.3%. Revenue from Chinese-style compound condiment products to related-party customers has increased significantly (such as tailor-made chicken essence). Revenue from Chinese-style compound condiment products to third-party customers mainly came from third-party catering customers, and at the same time, the Group introduced certain new Chinese-style compound condiment products (such as spicy fish flavoured compound condiment) in the first half of 2017 to complement the sales of improved products of existing Chinese-style compound condiment, which has driven an increase in revenue from sales of Chinese-style compound condiment products to third parties.

Revenue by Distribution Network

	Six months ended 30 June			
	2017		2016	
	RMB'000	**% of total revenue**	RMB'000	% of total revenue
Related-party customers:				
Haidilao Group and its affiliates	**434,692**	**68.9%**	284,312	70.6%
Third-party customers:				
Distributors	**167,187**	**26.5%**	112,291	27.9%
E-commerce	**16,982**	**2.7%**	5,379	1.3%
Others	**12,014**	**1.9%**	915	0.2%
Third-party catering companies	**11,710**	**1.8%**	529	0.1%
One-off sales events	**304**	**0.1%**	386	0.1%
Total	**630,875**	**100.0%**	402,897	100.0%

Benefiting from the upgrade and growth in consumption of hot pot catering in the PRC, a rapid increase in the number of Haidilao Group stores, the same-store results of Haidilao Group maintaining stable growth, coupled with the fact that the Group further increased the prices of certain related-party customized products and retail products in March 2017 due to the reason of increased costs, sales revenue from sales to related parties, which mainly represent sales to Haidilao Group, in the first half of 2017 amounted to RMB434.7 million, representing an increase of 52.9% as compared with the corresponding period of last year.

As the Group further improved the intensive development of third-party sales channels in 2017, enhanced shelf display management, strengthened the sales capacity of terminal sales points. Sales revenue from third parties of the Group increased significantly in the first half of 2017, of which, sales revenue from sales to distributors amounted to RMB167.2 million, representing a year-on-year increase of 48.9%.

In the first half of 2017, the Group further enhanced the management of e-commerce channels. No matter in terms of increased efforts on online marketing and promotion activities or in terms of the further enhancement of the management and regulation of e-commerce channels, the Group also spared no efforts to do a lot of work and achieved certain results. Sales revenue of the Group from e-commerce channels in the first half of 2017 was RMB17.0 million, representing a year-on-year increase of 215.7%.

In the first half of 2017, the Group actively expanded the business with third-party catering companies. Benefiting from the experience in serving the Haidilao Group over years, the Group had accumulated ample experience in the PRC catering service industry. The Group continuously enhanced efforts to provide diversified and customized products and services to third-party catering companies that involved various types of catering operation. Sales revenue amounted to RMB11.7 million, representing an increase of 2,113.6% as compared to the corresponding period of 2016.

Revenue by Geographic Region

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

	Six months ended 30 June			
	2017		2016	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Northern China[(2)]	**327,155**	**51.9%**	219,208	54.4%
Southern China[(3)]	**285,995**	**45.3%**	177,842	44.1%
Overseas markets	**17,725**	**2.8%**	5,847	1.5%
Total	**630,875**	**100.0%**	402,897	100.0%

Note:

(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 56.1% from RMB267.6 million for the six months ended 30 June 2016 to RMB417.6 million for the corresponding period of 2017. Such increase in the first half of 2017 was mainly because of the increase in the sales of products, which led to an increase in the corresponding cost of sales.

Gross Profit and Gross Profit Margin

	Six months ended 30 June			
	2017		2016	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
Hot pot soup flavoring products	**175,951**	**32.8%**	111,815	32.9%
Related parties	**117,670**	**27.9%**	77,049	28.0%
Third parties	**58,281**	**51.0%**	34,766	53.9%
Hot pot dipping sauce products	**9,232**	**37.6%**	5,159	34.1%
Related parties	**107**	**49.5%**	22	40.2%
Third parties	**9,125**	**37.5%**	5,137	34.1%
Chinese-style compound condiment products	**26,675**	**40.2%**	17,782	42.6%
Related parties	**3,775**	**31.1%**	1,847	33.5%
Third parties	**22,900**	**42.3%**	15,935	43.9%
Others	**1,408**	**36.5%**	562	8.9%
Total	**213,266**	**33.8%**	135,318	33.6%

The Group's gross profit increased by 57.6% from RMB135.3 million for the six months ended 30 June 2016 to RMB213.3 million for the corresponding period of 2017, and the gross profit margin increased slightly from 33.6% in the six months ended 30 June 2016 to 33.8% for the corresponding period of 2017. The gross profit margin has basically remained stable, which was mainly because the adjustment of prices of products in the first half of 2017 was basically in line with the increase in cost.

Distribution Expenses

The Group's distribution expenses increased by 21.0% from RMB57.2 million for the six months ended 30 June 2016 to RMB69.2 million for the corresponding period of 2017. The Group's distribution expenses as a percentage of the Group's revenue decreased from 14.2% for the six months ended 30 June 2016 to 11.0% for the corresponding period of 2017. The increase in distribution expenses was mainly due to an increase in channel establishment expenses for enhancing terminal sales capacity as compared to the corresponding period of last year as the Group expanded its business.

Administrative Expenses

The Group's administrative expenses increased by 32.0% from RMB22.8 million for the six months ended 30 June 2016 to RMB30.0 million for the corresponding period of 2017. The Group's administrative expenses as a percentage of the Group's revenue decreased from 5.6% for the six months ended 30 June 2016 to 4.8% for the corresponding period of 2017, mainly due to a decrease in listing fees arising from global offering of the shares of the Company in the first half of 2017 as compared to the corresponding period of last year.

Other Incomes and Gains – net

The Group's other incomes and gains-net increased by 102.4% from RMB6.5 million for the six months ended 30 June 2016 to RMB13.2 million for the corresponding period of 2017, mainly due to government grants received by the Group.

Fair Value Loss of Redeemable Convertible Preferred Shares

For the six months ended 30 June 2017, the Group's did not record any fair value loss of redeemable convertible preferred shares ("RCPSs"). As the RCPSs the Group issued in December 2015 were initially and subsequently measured at fair value and the fair value of such RCPSs as at 30 June 2016 had changed from that as at 31 December 2015, this resulted in a fair value loss of RCPSs in 2016. Such loss was a one-off fee and was fully deducted in 2016.

Finance (expense)/Income - net

The Group's finance income-net decreased by 1,113.6% from RMB2.2 million for the six months ended 30 June 2016 to a finance expense-net of the RMB22.3 million for the corresponding period of 2017, mainly arising from the fluctuations of the exchange rates of HK$ and US$ to RMB.

Profit before Tax

As a result of the foregoing, the Group's profit before tax increased by 95.9% from RMB53.6 million for the six months ended 30 June 2016 to RMB105.0 million for the corresponding period of 2017.

Income Tax Expense

The Group's income tax expense increased by 89.1% from RMB18.4 million for the six months ended 30 June 2016 to RMB34.8 million for the corresponding period of 2017. The effective tax rate decreased from 34.2% for the six months ended 30 June 2016 to 33.1% for the corresponding period of 2017, mainly due to the loss from a change in the fair value of preferred shares could not be deducted for tax purpose in the corresponding period of last year and the exchange loss during the first half of 2017 could not be deducted for tax purpose.

Profit for the Period attributable to Owners of the Group

As a result of the foregoing, profit attributable to owners of the Group increased by 98.9% from RMB35.3 million for the six months ended 30 June 2016 to RMB70.2 million for the corresponding period of 2017. Basic earnings per share increased 33.8% from RMB5.41 cents for the six months ended 30 June 2016 to RMB7.24 cents for the six months ended 30 June 2017 and net profit margin increased from 8.8% for the six months ended 30 June 2016 to 11.1% for the corresponding period of 2017.

Capital Liquidity and Financial Resources

For the six months ended 30 June 2017, the Group's business was mainly funded by the cash generated from its operation. The Group intended to apply internal resources, income derived from organic and sustainable development for the purpose of funding its expansion and business operation.

Cash and Cash Equivalents

As at 30 June 2017, the Group's cash and cash equivalents were primarily denominated in RMB and HK dollars and, to a less extent, in US dollars. Its cash and cash equivalents amounted to approximately RMB975.3 million (31 December 2016: RMB1,022.0 million), such decreased was mainly due to dividends payments and exchange losses.

Asset-liability Ratio

As at 30 June 2017, the Group's asset-liability ratio[4] was 8.4% (31 December 2016: 11.1%). Such decrease was mainly due to a decrease in the balance of trade payables and current income tax liabilities. 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 of primarily raw materials, work-in-progress and finished goods. As at 30 June 2017, the Group had inventories of approximately RMB129.7 million (31 December 2016: RMB130.5 million). The turnover days of inventories decreased from 63.4 days for the year ended 31 December 2016 to 56.8 days for the six months ended 30 June 2017. As the peak season for the Group's production and sales falls in the end of the year, the inventories as at the end of the year would generally be greater than that in the middle of the year. The decrease in the turnover days of inventories was mainly due to the fact that the Group increased its control over the efficiency of inventories in 2017.

Trade Receivables

Trade receivables represent amounts due from customers in respect of sales of goods in the ordinary course of business. As at 30 June 2017, we had trade receivables of approximately RMB95.9 million (31 December 2016: RMB67.1 million). The change was mainly due to an increase in sales by the Group to related parties and certain third parties (such as customized catering products) as of 30 June 2017 as compared to the corresponding period of 2016. The turnover days of trade receivables increased slightly from 22.0 days for the year ended 31 December 2016 to 23.6 days for the six months ended 30 June 2017.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. As at 30 June 2017, we had trade payables of approximately RMB44.4 million (31 December 2016: RMB71.3 million), which was due to the effects of low and peak seasons for production and sales and the seasonal procurement cycle. The turnover days of trade payables decreased from 31.2 days for the year ended 31 December 2016 to 25.3 days for the six months ended 30 June 2017.

Contingent Liabilities

As at 30 June 2017, the Group did not have any contingent liabilities.

Charge of Assets

As at 30 June 2017, the Group did not charge any fixed assets as securities for borrowings.

Borrowings

As at 30 June 2017, the Group did not have any bank borrowings.

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 denominated in HK$ and US$, which is exposed to foreign currency conversion risk. The Group has not hedged its foreign exchange risk, but will closely monitor our exposure and will take measures when necessary to make sure the foreign exchange risk are manageable.

Other Hedging

Soybean oil is one of the major raw materials used in the Group's production. The Group has entered into exchange-traded hedging activities in relation to the commodity prices of soybean oil. The Group's hedging policy is to hedge the Group's exposure to price increases of soybean oil.

Employees and Remuneration Policy

As at 30 June 2017, the Group had a total of 1,436 employees, comprising 806, 413 and 217 employees in production, marketing and administration and management functions respectively.

As at 30 June 2017, the Group had no temporary contract workers.

For the six months ended 30 June 2017, the Group incurred total staff costs (including salaries, wages, allowance, benefits and equity incentive plan cost) of RMB76.3 million.

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

In February 2016, the Company adopted the RSU scheme that permits the granting of RSUs to (i) the Directors, officers, senior management and certain employees of the Company; and (ii) any person who, in the sole opinion of the Board, has contributed or will contribute to any member of the Company. As at 28 December 2016, 9,140,000 RSUs were granted or agreed to be granted by the Company to 81 of the Group's employees and/or senior officers and the Company's business partners (not related parties of the Company, except for two directors Ms. Dang Chunxiang and Mr. Sun Shengfeng) under the RSU Scheme, equivalent to 9,140,000 shares. As at 30 June 2017, underlying shares involved accounted for approximately 0.87% of the Company's outstanding shares. As measured by the closing price on the date of grant was HK$3.18, the value of 9,140,000 RSUs was HK$29,065,200. The grantees of such RSUs shall pay US$0.0082 (approximately HK$0.06) for the grant of each RSU under the RSU scheme.

FUTURE PROSPECT

Industry and Business Outlook

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

In the second half year, the Group will continue to enhance its research and development efforts, increase the penetration of channels, extend the coverage of its products, improve terminal sales capacity, and continue to enhance its market share and position.

In terms of product research and development, the Group will not only continue to upgrade and improve existing products, constantly try and put efforts in supplementing and broadening existing product types, but also introduce diversified business models, enrich the range of products, expand the existing business, supplement diversified dining scenarios, stimulate and attract more consumption groups by following changes in the preference of consumers and the market trend.

In terms of the establishment of channels, through the tidying and cherry-picking of channels in the first half of 2017, in the second half of 2017, the Group will put efforts in the establishment of channels, expand the penetration rate of channels, to "overwhelmingly" displays third-party retail in front of the eyes of consumers.

In terms of terminal sales, the Group will continue its activities in the first half of 2017 to further enhance shelf management, improve the display of basic shelves, strengthen the flexibility and effectiveness of tasting events and promotion, and intensively explore the means and methods of improving terminal sales capacity and efficiency.

Material Investments and Prospect

In order to ease the increasing pressure from the demand for production capacity, the Group mainly adopted three measures in the first half of 2017.

Firstly, continuing the construction of the Bazhou Project in Hebei. The total investment amount of the Group's Bazhou Project is expected to be RMB300 million. Phase I is expected to be completed at the end of 2018 and to commence operation at the beginning of 2019. Phase II is expected to be completed and put into use in 2020. It is expected that Phase I will provide a production capacity of 35,000 tons. The Bazhou Production Base not only effectively increases the Group's existing production capacity, but also optimizes the Group's product portfolio by effectively expanding the production lines for new products, and it can maximise the upgrade to the Group's storage facilities. The project is located in the middle of Northern China, which enables the Group to better control and manage logistics costs. During the six months ended 30 June 2017, the construction of the Bazhou Production Base commenced and was steadily carried out as scheduled.

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

Thirdly, the Group entered into certain agreements with the government of Ma An Shan Economic and Technology Development Zone. The Group can install new production lines in the factory to be leased in order to release new production capacity, so as to ease the pressure from a sharp increase in the demand for production capacity during peak seasons. As Ma An Shan is in Eastern China, it also helps the Group better control and manage logistics costs. During the six months ended 30 June 2017, the construction of the Ma An Shan Production Base was steadily carried out as scheduled.

Material Acquisitions and Disposals

During the six months ended 30 June 2017, the Group did not have material acquisitions and disposals in relation to its subsidiaries, associated companies and joint ventures.

Future Plans for Material Investments

During the six months ended 30 June 2017, a subsidiary of the Group intended to enter into an investment cooperation agreement with a subsidiary of Haidilao Group to establish a joint venture in the PRC for jointly engaging in the production and sales of self-serving small hotpot products. Upon the formation of the joint venture, the subsidiary of the Group and the subsidiary of Haidilao will be interested in 60% and 40% of the registered capital of the joint venture, respectively. For details, please refer to the announcement of the Company dated 11 July 2017.

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

OTHER INFORMATION

Interim dividend

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2017 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 an investment cooperation agreement on 11 July 2017 with Xinpai (Shanghai) Catering Management Co., Ltd., a connected person of the Company, in relation to the formation of a joint venture to engage in the manufacture and sales of self-serving small hotpot products. Please refer to the announcement of the Company dated 11 July 2017 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 2017.

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 2017.

The Company's employees, who are likely to be in possession of inside information of the Company, have also been subject to the Model Code 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 2017.

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 2017, 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 2017. The Audit Committee considers that the interim financial results for the six months ended 30 June 2017 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

Publication of Interim Results Announcement and Interim Report

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

The interim report for the Reporting Period containing all the information required by Appendix 16 to the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

By Order of the Board
Yihai International Holding Ltd.
Gou Yiqun
Chairman

Hong Kong, 28 August 2017

As at the date of this announcement, the executive directors of the Company are Ms. Dang Chunxiang and Mr. Sun Shengfeng; the non-executive directors of the Company are Mr. Gou Yiqun, Mr. Zhang Yong, Mr. Shi Yonghong 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.