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 2018

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

GROUP FINANCIAL HIGHLIGHTS

- Revenue was RMB2,681.4 million in 2018, a 62.9% increase from RMB1,646.2 million in 2017.
- Gross profit was RMB1,038.9 million in 2018, a 69.8% increase from RMB611.8 million in 2017.
- Net profit was RMB547.9 million in 2018, a 109.9% increase from RMB261.1 million in 2017.
- Net profit attributable to owners of the Company was RMB517.8 million in 2018, a 98.6% increase from RMB260.7 million in 2017.
- Earnings per share (basic and diluted) in 2018 were RMB0.534 and RMB0.531 respectively.

Consolidated Balance Sheet

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		308,616	180,088
Land use rights		75,034	35,152
Intangible assets		5,309	5,182
Deferred tax assets		23,889	10,554
Prepayments for property, plant and equipment		156,027	57,095
Financial assets at fair value through profit or loss		12,000	—
Total non-current assets		580,875	288,071
Current assets			
Inventories		275,815	147,617
Other current asstes		213,178	—
Trade receivables	4	206,893	131,457
Other financial assets at amortised cost		5,368	—
Prepayments and other receivables		—	76,670
Financial assets at fair value through profit or loss		—	32,671
Cash and cash equivalents		1,179,910	1,130,205
Total current assets		1,881,164	1,518,620
Total assets		2,462,039	1,806,691
Current liabilities			
Trade payables	6	188,659	136,582
Contract liabilities		45,350	—
Other payables and accruals		103,616	115,033
Current income tax liabilities		84,693	49,267
Total current liabilities		422,318	300,882
Total liabilities		422,318	300,882
Equity			
Share capital	5	68	68
Shares held for employee share scheme		(5)	(5)
Reserves		2,005,127	1,501,326
Capital and reserves attributable to owners of the Company		2,005,190	1,501,389
Non-controlling interests		34,531	4,420
Total equity		2,039,721	1,505,809
Total equity and liabilities		2,462,039	1,806,691

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	3	2,681,373	1,646,221
Cost of sales	7	(1,642,476)	(1,034,415)
Gross profit		1,038,897	611,806
Distribution expenses	7	(241,474)	(164,615)
Administrative expenses	7	(163,196)	(76,415)
Other incomes and gains - net	8	56,475	43,748
Operating profit		690,702	414,524
Finance income	9	39,799	6,651
Finance expenses	9	—	(52,095)
Finance income/(expenses) - net	9	39,799	(45,444)
Profit before income tax		730,501	369,080
Income tax expense	10	(182,597)	(107,990)
Profit for the year		547,904	261,090
Profit is attributable to:			
Owners of the Company		517,793	260,670
Non-controlling interests		30,111	420
Other comprehensive income for the year, net of tax		—	—
Total comprehensive income		547,904	261,090
Total comprehensive income attributable to:			
– Owners of the Company		517,793	260,670
– Non-controlling interests		30,111	420
Earnings per share attributable to equity holders of the Company			
(expressed in RMB cents per share)			
– Basic	11	53.4	26.9
– Diluted	11	53.1	26.7

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 condiment, Chinese-style compound condiment, and convenient ready-to-eat food products in the People's Republic of China (the "PRC").

The Company was incorporated in the Cayman Islands on 18 October 2013 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 31119, KY1-1205, Cayman Islands.

The Company's global offering of its shares ("the Global Offering") on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") was completed on 13 July 2016.

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

These financial statements have been approved for issue by the Board of Directors on 26 March 2019.

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 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, as modified by revaluation of financial assets at fair value through profit or loss which are carried 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 from 1 January 2018 which are relevant to its operations:

- IFRS 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers, and
- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2, and
- Annual Improvements to IFRS Standards 2014- 2016 Cycle, and
- Transfers of Investment Property – Amendments to IAS 40.

The impact of the adoption of IFRS 9 and IFRS 15 are disclosed in Note 2.2 below. The other amendents listed above did not have any impact on the amounts recognised in prior period and are not expected to significantly affect the current or future periods.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, 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.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. 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 23,834,000. Of these commitments, approximately RMB 10,972,000 relate to short-term leases will be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately RMB 16,665,000 and lease liabilities of RMB 16,665,000 on 1 January 2019.

The Group expects that net profit after tax will have no significant increase for 2019 as a result of adopting the new rules.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right of use assets for property leases will be measured on transition as if the new rules had always been applied.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

(a) Impact on the financial statements

As a result of the changes in the entity's accounting polices, with modified retrospective approach used by the Group, prior year financial statements had not be restated.

The reclassification and adjustments arising from the changing in accounting policies are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

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

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

(b) IFRS 9 Financial Instruments

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

The adoption of IFRS 9 Financial Instruments from 1 January 2018 had no impact on the Group's retained earnings as at 1 January 2018.

(i) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. There was no significant impact on the classification and measurement of the financial assets held by th Group.

(ii) Impairment of financial assets

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

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

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

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

(c) IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The Group has adopted the modified retrospective approach, and the comparatives were not restated. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

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

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

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

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

- Contract liabilities in relation to contracts were previously included in other payables and accruals, and

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

3. REVENUE AND SEGMENT INFORMATION

Breakdown of revenue by product category is as follows:

	2018	2017
	RMB'000	RMB'000
Revenue		
Hot pot condiment		
– Related parties	1,143,243	871,563
– Third parties	812,277	523,845
Subtotal	1,955,520	1,395,408
Chinese-style compound condiment		
– Related parties	26,784	43,413
– Third parties	228,731	142,860
Subtotal	255,515	186,273
Convenient ready-to-eat food products		
– Related parties	4,704	104
– Third parties	444,569	61,341
Subtotal	449,273	61,445
Others		
– Related parties	1,364	831
– Third parties	19,701	2,264
Subtotal	21,065	3,095
Total	2,681,373	1,646,221

Revenue from sales attributable to related parties accounted for 43.9% and 55.6% of the total revenue for the years ended 31 December 2018 and 2017 respectively.

4. TRADE RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Third parties	42,122	21,352
Related parties	164,801	110,107
Subtotal	206,923	131,459
Less: provision for impairment (a)	(30)	(2)
Trade receivables – net	206,893	131,457

(a) The majority of the Group's third party sales are conducted through receiving advances from customers before delivering the goods to customers, with only few customers are granted with credit periods ranged from 30 to 90 days. The related party customers of the Group are granted with 30 days credit period. Ageing analysis based on recognition date of the gross trade receivables at the respective balance sheet dates is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within 3 months	202,929	131,457
3 to 6 months	3,964	—
Total	206,893	131,457

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

(b) Movements in the provision for impairment of trade receivables are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
As at 1 January	2	10
Provision for/(Reversal of) impairment allowance	28	(8)
As at 31 December	30	2

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

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

The creation and release of provision for impaired receivables have been included in 'Administrative expenses' in the consolidated statement of comprehensive income.

5. SHARE CAPITAL

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

Issued and fully paid ordinary shares:

	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares
		US$	**RMB'000**
On 1 January 2017, 31 December 2017 and 2018	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, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Within 3 months	172,376	134,084
3 to 6 months	9,759	1,582
6 months to 1 year	6,524	916
Total	188,659	136,582

7. EXPENSES BY NATURE

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

	Year ended 31 December	
	2018	**2017**
	RMB'000	**RMB'000**
Cost of inventories recognised as cost of goods sold	1,461,382	909,285
Employee benefit expenses	308,169	183,768
Transportation and related charges	70,196	37,469
Advertising and other marketing expenses	42,098	30,110
Non-income taxes and surcharges	23,831	17,729
Depreciation of property, plant and equipment	21,166	14,471
Utilities	24,554	14,108
Rental expenses	16,198	14,001
Warehouse expenses	21,954	12,541
Legal and professional fees	14,143	11,674
Travel and entertainment expenses	14,627	9,027
Auditor's remuneration		
– Audit services	2,100	2,055
– Non-audit services	329	322
Amortisation of intangible assets	1,177	851
Amortisation of land use rights	1,135	773
Write-down of inventories	165	279
Net impairment losses on financial assets	290	77
Other expenses	23,632	16,905
Total	2,047,146	1,275,445

8. OTHER INCOMES AND GAINS - NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Government grants	40,951	23,008
Investment income from financial instrument	8,753	5,241
Sales of scrap materials	3,524	887
Change in fair value of financial instruments	1,725	(263)
Loss on disposal of property, plant and equipment and intangible assets	(612)	(284)
Others (a)	2,134	15,159
Total other incomes and gains - net	56,475	43,748

(a) For the year ended 31 December 2017, included on amount of RMB14 million which represented a reward provided by an independent third party, being an authorised operator as approved by the local government for planning and construction of an industrial park in the PRC, in which the Company has incorporated an indirectly wholly-owned subsidiary in 2015.

9. FINANCE INCOME/(COST) - NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Finance Income		
– Foreign exchange gains	29,728	—
– Interest income	10,071	6,651
Finance Costs		
– Foreign exchange losses	—	(52,095)
Finance income/(cost)-net	39,799	(45,444)

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Current income tax	195,932	111,960
Deferred tax credit	(13,335)	(3,970)
Income tax expense	182,597	107,990

(a) Cayman Islands income tax

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

(b) Hong Kong income tax

Hong Kong profits tax has not been provided as there are no estimated assessable profits arising in or derived from Hong Kong during the year ended 31 December 2018 (2017: Nil).

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

The income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for the years end 31 December 2018 and 2017, based on the existing legislation, interpretations and practices in respect thereof.

(d) PRC withholding tax ("WHT")

According to the Corporate Income Tax Law of the PRC as approved by the National People's Congress on 16 March 2007, the profits of the PRC subsidiaries of the Group derived will be subject to withholding tax at rates of 5% or 10% upon the distribution of such profits to foreign investors based in or companies incorporated in Hong Kong, or for other foreign investors respectively.

According to a shareholder's resolution of the immediate holding company of the PRC subsidiaries of the Group dated 31 December 2018, the retained earnings of the Group's subsidiaries incorporated in the PRC as at 31 December 2018 will not be distributed in the foreseeable future. As a result, no deferred tax liability was recognised.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	2018	2017
	RMB'000	**RMB'000**
Profit before income tax	730,501	369,080
Tax calculated at domestic tax rates applicable to profits in the respective countries	173,851	108,408
Expenses not deductible for tax purposes	8,950	672
Tax losses for which no deferred income tax asset was recognised	1,103	—
Previously unrecognised tax losses now recognised	(1,307)	—
Income not subject to tax	—	(1,090)
Taxation charge	182,597	107,990

11. EARNINGS PER SHARE

a. *Basic earnings per share*

Basic earnings per share for each of the years ended 31 December 2018 and 2017 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.

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding shares held for employee share scheme (note 6).

	Year ended 31 December	
	2018	**2017**
Profit attributable to owners of the Company (RMB' 000)	517,793	260,670
Weighted average number of ordinary shares in issue less shares held for RSU Scheme (thousands)	969,801	969,680
Basic earnings per share (RMB cents)	53.4	26.9

b. *Diluted earnings per share*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The restricted shares granted and assumed vested ("Restricted Shares") are the only dilutive potential ordinary shares as at 31 December 2017 and 2018.

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	Year ended 31 December	
	2018	**2017**
Earnings		
Profit attributable to owners of the Company (RMB' 000)	517,793	260,670
Profit used to determine diluted earnings per share (RMB' 000)	517,793	260,670
Weighted average number of ordinary shares in issue for basic earnings per share (thousands)	969,801	969,680
Adjustments for:		
– Restricted Shares granted and assumed vested (thousands)	6,293	5,291
Weighted average number of ordinary shares for diluted earnings per share (thousands)	976,094	974,971
Diluted earnings per share (RMB cents)	53.1	26.7

12. DIVIDENDS

(i) Ordinary shares

The total dividends paid in 2018 amounted to RMB48,291,000 or RMB4.9822 cents per share (2017: RMB33,996,000), netting the dividend of RMB3,867,000 (2017: RMB2,646,000) to the shares held for Restricted Share Award Scheme.

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

Pursuant to resolution passed on 26 March 2019, the board of directors of the Company proposed a final dividend of RMB14.83789 cents per ordinary share of the Company, amounting to RMB155,338,000 for the year ended 31 December 2018 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 2019.

2018 PERFORMANCE REVIEW

In 2018, the national economy was stable in general. The pace of the upgrading in the consumption structure was accelerated, the momentum of consumption growth continued to strengthen, and the percentage of online retail sales increased remarkably. During the year, the catering market recorded a steady growth, and the overall trend of the condiment industry was upward and optimistic.

In 2018, the Group continued to deepen the development of operating strategies for various business segments. In relation to branding, the Group introduced a variety of original sub-brands for the first time during the year, and continuously expanded its business boundaries by classifying product categories with brands. In terms of channels, in addition to deeper penetration in low-tier market segments in the regions, the Group also developed and innovated channels according to the different characteristics of the respective product categories. Together with the effective contribution to the Group's performance by internal sales personnel and the new product development incentive system launched at the beginning of the year, the Group recorded revenue of RMB2,681.4 million for the year ended 31 December 2018, representing a year-on-year increase of 62.9%; net profit amounted to RMB547.9 million, representing a year-on-year increase of 109.9%.

For sales to distributors, the Group continued to develop lower-tier channels and innovations, through effective incentives for internal sales staff, and the close cooperation with distributors, effective enhancement was achieved in the number of distributors, the density of points of sale and the scope of city coverage. As of 31 December 2018, the Group's distributors had covered over a total of 31 provincial regions in China, the regions of Hong Kong, Macau and Taiwan, as well as 42 overseas countries and regions.

For sales through e-commerce, the self-operated online flagship store was a major platform for brand dissemination, pilot sales of new products and display of products. Through various types of featured and thematic marketing and customer service activities, the Group's brand awareness among consumers and brand reputation were enhanced. In 2018, the Group continued to develop third-party e-commerce channels with dedicated efforts. Apart from the self-operated flagship store, the Group also sold its products actively through other prominent online sales platforms with abundant traffic such as Tmall.com supermarket and JD.com self-operated stores, the overall online sales performance was encouraging. For the year ended 31 December 2018, the amount of online sales of the Group increased by 105.2% year-on-year from RMB105.9 million in 2017 to RMB217.4 million.

In terms of products, the Group further expanded the product categories in 2018. Based on the three main categories of the existing key products, namely, hot pot condiments, Chinese-style compound condiment products and convenient ready-to-eat products, the Group actively developed new product categories. Motivated by the unique "project-based system for products", the Group developed 16 new products during the year, including different flavorings of crawfish condiments, different types of self-serving small hot pot products and ready-to-eat sauces, all of which received favorable market feedback. For sales of products to related parties, by combining with the demand for personalized soup-base condiments under "Thousand People Thousand Flavors" series in the restaurants of Haidilao Group (that is, Haidilao International Holding Ltd. (Hong Kong Stock Exchange code: 6862) and its subsidiaries), the Group has researched, developed and supplied several types of basic-version hot pot soup bases under the series of "Thousand People Thousand Flavors" suitable for use of the automatic hot pot soup-base mixing machine. Meanwhile, the Group continued to research, develop and innovate soup bases with various special flavors for different localities and successfully launched the first soup base of foreign style series in the restaurants of Haidilao Group. In future, the Group will launch more flavors under this thematic series.

Regarding staff incentives, the Group actively innovated an incentive system in line with its own features in 2018, including the project-based system for new products and partner incentive mechanism. Under the incentives of these two mechanisms, remarkable performance was achieved in the breakthrough of product innovation boundaries and deepening the management for lower-tier channel penetration.

On production capacities, the Group continued to expand production capacities in 2018 based on the market demand and its own development needs. Not only the new plant located in Maanshan commenced operation at the beginning of the year, the construction project for the Phase II new production base at Maanshan also started during the year, and the plant construction for Phase I Factory at Bazhou, Hebei, was basically completed by the end of 2018. It is expected that the construction and commencement of production of the new plants will ease the pressure on production capacity caused by the rapid development of the Group's business. The Group will also increase its overall production efficiency and lower the labor cost by introducing fully automated production lines to the new production bases. Apart from that, in the future, with the launch of new types of products, the new plants can also satisfy the demand for the Group to introduce the corresponding new types of production lines.

BUSINESS REVIEW

Throughout the year of 2018, the national economy of China was reasonably on track, and being generally stable whilst continuously developing and progressing steadily. As the supply-side structural reform was further implemented, the trend of economic transformation and upgrading continued. Against the background of steady growth in the catering industry and retail sales, the growth trend of the condiment industry continued with optimism. For the year ended 31 December 2018, the Group recorded revenue of RMB2,681.4 million, representing a year-on-year increase of 62.9%; net profit amounted to RMB547.9 million, representing a year-on-year increase of 109.9%.

Sales Channels

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

In 2018, enhancing the sales capabilities of third-party retail channels remained one of the key strategies of the Group. In addition to the steady growth in the number of distributors and the further coverage of low-tier cities, the internal sales staff of the Group being "partners" were granted more direct incentives and sufficient authorization to adopt measures with innovative ideas that were consistent with local conditions in developing new channels and enhancing sales efficiency of individual points of sales such that sales efficiency of terminal points of sales was enhanced. Moreover, we strictly controlled inventories and adopted screening methods in the selection of distributors to manage the healthy expansion of channels.

During the year, the Group started to implement the "partnership" incentive system to replace the previous appraisal method of achieving sales target ratio. The result performance of each sales staff will be linked to the operating profit of the business unit managed by him/her, and they will be given sufficient authorization on the right and ways to use channel fees. With this strategy, the passion to work of sales staff was greatly encouraged, the growth in sales amount and utilization efficiency of fees were notably enhanced.

The convenient ready-to-eat food products launched by us in 2017 also expanded from online to offline channels during the first half of 2018. In addition to replenishing inventories through the increasingly mature existing condiment sales channels, we also focused on the convenient ready-to-eat characteristics of self-serving products to open new channels at convenience stores, highway service stations and new retail outlets which were not previously available for various condiments.

E-commerce channels remained one of the key focus points for development of the Group's business segments. In 2018, with continuous launches of new products and elimination of old products, the online flagship store acted as a major platform for pilot sales of new products, which was helpful for us to collect feedback from consumers and make timely adjustment to the positioning and ingredients of new products. Meanwhile, the self-operated flagship store, being an important brand dissemination and consumer experience platform, aimed to increase brand awareness among consumers and enhance brand reputation thus establishing the industry status of an online platform brand. In optimizing the shopping experience of consumers, the Group established not just a number of e-commerce logistic branch warehouses to enhance the timeliness of goods collection by consumers in various regions, but also conducted diversified tests on the scope of membership services at the self-operated flagship store to enhance the frequency of visits and satisfaction of consumers through innovation of gifts, eating trials of new products, redemption of reward points and other methods. For online marketing, the Group formulated targeted marketing campaigns based on different festivals and promotional events, sound performance was recorded during key promotional periods such as New Year Goods Festival, "Foodaholic Festival", November 11, Hot pot Festival, etc. In 2018, according to the relevant data from Taobao.com and Tmall.com, the amounts of sales of self-serving small hot pots products and hot pot soup flavorings under the Haidilao brand were ranked top of that sub-category respectively. For the year ended 31 December 2018, the Group had 6 flagship stores on e-commerce platforms such as Tmall.com and JD.com. The Group's sales revenue from e-commerce channels in 2018 was RMB217.4 million, representing a year-on-year increase of 105.2%.

Benefited from providing services to Haidilao Group and its associated companies over the years, the Group accumulated extensive experience in the catering service industry in China. The Group continued to provide customized and standard packaged catering products to third-party catering customers during the year. As at 31 December 2018, we had 119 customized catering customers. For sales of standard packaged catering products, the Group continued to focus on developing products in line with demand of the catering market, expanding the product portfolio for catering products and increasing the number of catering distributors, and promoting our brand and products through various forms of activities such as eating trials and exhibitions. For the year ended 31 December 2018, revenue from third-party customized catering clients reached RMB21.6 million, representing a year-on-year decrease of 7.8% as compared to 2017.

For sales to related parties (referring to the Haidilao Group and its associated companies), with the background of the steady growth in the catering industry and hot pot catering consumption market, the Haidilao Group recorded not only stable growth in same store revenue but also rapid growth in the number of stores in its store expansion for this year. For the year ended 31 December 2018, the Group's revenue of sales to related parties was RMB1,176.1 million, representing a year-on-year increase of 28.4% as compared to 2017.

Products

The strategy of product research and development for this year was changed due to the introduction of a number of sub-brands. On the basis of multi-brand strategy, the Group determined the positioning of products under each sub-brand in detail and started to breakthrough the existing boundaries of product categories to develop more new product categories suitable for the market trend. Meanwhile, we had been improving the recipes and upgrading the packaging for existing core products continuously to further reinforce their market leading position.

In 2018, in order to fully consolidate internal and external resources, strongly develop products in line with customer and market needs, enhance development efficiency and the success rate of new products, and further activate the motivations of staff, the Group has introduced the project-based system for product innovation. Under this incentive system, the responsible person of the project will be the person who advocates the creative idea of the new product and possesses the capabilities of coordination and management. He will lead the team to complete the project throughout the whole process from inception to market launch. By relying on the Group's strong research and development platform and channels to support the development and sales of new products, the project team will receive the corresponding incentive rewards upon realization of profit after the product is launched on the market. The implementation of this strategy has enhanced the development efficiency of new products and the motivation of staff in market exploration.

For the portfolio of retail products, 3 new flavors of crawfish condiments launched in the first half of 2018 had received overwhelming market response. This product series not only grasped the seasonality and regional demand of crawfish products, but also effectively alleviated the changes in seasonal sales of retail hot pot soup products. During the year, the Group conducted upgrading in the ingredients and packaging of tomato-flavored hot pot soup flavorings and hot pot dipping sauces of all flavors. Also, due to positive market feedback on tomato flavors, several tomato-flavored hot pot soup flavorings and Chinese-style compound condiments were developed during the year. In the convenient ready-to-eat category, the Group conducted many optimizations and upgrades on the packaging and condiments of all self-serving small hot pot products during the year, and developed many self-serving products in many new flavors and forms. Ready-to-eat sauce, being our brand new product category, went through many pilot sales through a number of online and offline channels. While the ingredients and packaging were upgraded according to feedback of consumers, we kept on conducting research and development actively for new flavors with special local tastes and creative elements.

As at 31 December 2018, the Company had new additions of a total of 5 Chinese-style compound condiment products, 3 hot pot soup flavoring products, 5 self-serving small hot pot products, 3 ready-to-eat sauce products and 12 standardized catering pack products. As at 31 December 2018, the Company had a total of 52 hot pot condiment products, 19 Chinese-style compound condiment products (including 3 ready-to-eat sauce), 7 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					
	2018			2017		
	Revenue (RMB'000)	**Sales Volume (Tons)**	**Average Selling Price per Kg (RMB)**	Revenue (RMB'000)	Sales Volume (Tons)	Average Selling Price per Kg (RMB)
Hot pot condiment[(1)]						
Third parties	**812,277**	**28,153**	**28.9**	523,845	19,955	26.3
Related parties	**1,143,243**	**43,772**	**26.1**	871,563	31,914	27.3
Subtotal	**1,955,520**	**71,925**	**27.2**	1,395,408	51,869	26.9
Chinese-style compound condiment[(2)]						
Third parties	**228,731**	**8,851**	**25.8**	142,860	6,007	23.8
Related parties	**26,784**	**963**	**27.8**	43,413	1,908	22.8
Subtotal	**255,515**	**9,814**	**26.0**	186,273	7,915	23.5
Convenient ready-to-eat food products[(3)]						
Third parties	**444,569**	**10,749**	**41.4**	61,341	1,359	45.1
Related parties	**4,704**	**89**	**52.9**	104	2	52.0
Subtotal	**449,273**	**10,838**	**41.5**	61,445	1,361	45.1
Others[(4)]	**21,065**	**2,985**	**7.1**	3,095	872	3.5
Total	**2,681,373**	**95,562**	**28.1**	1,646,221	62,017	26.3

Notes:

(1) Mainly including the sales of products in 2018 such as hot pot soup flavoring and hot pot dipping sauce

(2) Mainly including the sales of products in 2018 such as Chinese-style compound condiment and ready-to-eat sauce

(3) Mainly including the sales of products in 2018 such as self-serving small hot pot

(4) Mainly including the sales of certain products in 2018 such as golden popcorn and snail rice noodle

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

	For the year ended 31 December			
	2018		2017	
	Revenue RMB'000	**% of revenue**	Revenue RMB'000	% of revenue
Revenue from hot pot condiment	**1,955,520**	**72.9%**	1,395,408	84.7%
Revenue from Chinese-style compound condiment	**255,515**	**9.5%**	186,273	11.3%
Revenue from convenient ready-to-eat food	**449,273**	**16.8%**	61,445	3.7%
Other revenue	**21,065**	**0.8%**	3,095	0.3%
Total revenue	**2,681,373**	**100.0%**	1,646,221	100.0%

For the year ended 31 December 2018, the three major product categories of the Group, including hot pot condiments, Chinese-style compound condiments and convenient ready-to-eat food products, realized faster growth when compared with the corresponding period in 2017. As at 31 December 2018, the Company had new additions of a total of 5 Chinese-style compound condiment products, 3 hot pot soup flavoring products, 5 self-serving small hot pot products, 3 ready-to-eat sauce products and 12 standardized catering pack products. As at 31 December 2018, the Company had a total of 52 hot pot condiments, 19 Chinese-style compound condiments (including 3 ready-to-eat sauce) and 7 convenient ready-to-eat food products.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the revenue of the Group increased by 62.9% from RMB1,646.2 million for the year ended 31 December 2017 to RMB2,681.4 million for the same period in 2018.

Revenue by product

	For the year ended 31 December			
	2018		2017	
	Revenue (RMB'000)	**% of revenue from hot pot condiment**	Revenue (RMB'000)	% of revenue from hot pot condiment
Revenue from hot pot condiment				
Revenue from third parties	**812,277**	**41.5%**	523,845	37.5%
Revenue from related parties	**1,143,243**	**58.5%**	871,563	62.5%
Total revenue from hot pot condiment	**1,955,520**	**100.0%**	1,395,408	100.0%

Revenue from hot pot condiment products increased by 40.1% from RMB1,395.4 million for the year ended 31 December 2017 to RMB1,955.5 million for the same period in 2018, accounting for 72.9% of the revenue for the year ended 31 December 2018. Of these, revenue from sales of hot pot condiment products to related parties increased by 31.2%, while revenue from sales of hot pot condiment products to third parties increased by 55.1%. The increase in revenue from sales of hot pot condiment products to related parties was mainly due to the effects of steady growth in the same store revenue of Haidilao Group and an increase in the number of restaurants. With further refined management of third-party distributor channels by the Group in 2018, innovation of the incentive mechanism for internal sales staff, development of lower-tier sales regions, effective innovation of channel marketing, enhancement in efficiency of terminal points of sales, and the launching of new products, continuous rapid growth was recorded in third-party sales.

	For the year ended 31 December			
	2018		2017	
	Revenue (RMB'000)	**% of Chinese-style compound condiment revenue**	Revenue (RMB'000)	% of Chinese-style compound condiment revenue
Revenue from Chinese-style compound condiment				
Revenue from third parties	**228,731**	**89.5%**	142,860	76.7%
Revenue from related parties	**26,784**	**10.5%**	43,413	23.3%
Total revenue from Chinese-style compound condiment	**255,515**	**100.0%**	186,272	100.0%

Revenue from Chinese-style compound condiments increased by 37.2% from RMB186.3 million for the year ended 31 December 2017 to RMB255.5 million for the same period in 2018, accounting for 9.5% of the revenue for the year ended 31 December 2018. Of these, revenue from sales of Chinese-style compound condiment products to related parties decreased by 38.3%, while revenue from sales of Chinese-style compound condiment products to third parties increased by 60.1%. In respect of sales to related parties, the Group supplied products and services to certain catering customers in the Shuhai (Beijing) Supply Chain Management Co., Ltd. on continuous basis. During the year, the Group continued to develop and improve existing individual products with strong performance in the third-party business of Chinese-style compound condiment products, researching and developing new products to satisfy the trend of market tastes, and coordinating various types of marketing activities with consistent product characteristics and market positioning, so that product innovative properties were maintained while continuous growth in sales amount was recorded.

	Twelve months ended 31 December			
	2018		2017	
	Revenue (RMB'000)	**% of revenue from convenient ready-to-eat food**	Revenue (RMB'000)	% of revenue from convenient ready-to-eat food
Revenue from convenient ready-to-eat food				
Revenue from third parties	**444,569**	**99.0%**	61,341	99.8%
Revenue from related parties	**4,704**	**1.0%**	104	0.2%
Total revenue from convenient ready-to-eat food	**449,273**	**100.0%**	61,445	100.0%

For the year ended 31 December 2018, the Group continued to upgrade the formula and optimize the flavoring of self-serving small hot pot products, and a number of new self-serving products in different flavorings and forms were launched in 2018. Benefited from the fast expansion of distributors' offline channels and new channels such as convenience stores and retail, along with featured promotional activities and sales promotion plans during holiday seasons, revenue from convenient ready-to-eat food products, primarily consisting of self-serving small hot pot products, increased substantially as a result. Revenue from convenient ready-to-eat food products increased by 631.2% from RMB61.4 million for the year ended 31 December 2017 to RMB449.3 million for the same period in 2018, accounting for 16.8% of revenue for the year ended 31 December 2018.

Revenue by distribution network

	For the year ended 31 December			
	2018		2017	
	2018年		2017年	
	Revenue (RMB'000)	**% of total revenue**	Revenue (RMB'000)	% of total revenue
Related party customers				
Haidilao Group and its affiliates	**1,176,095**	**43.9%**	915,911	55.6%
Third party customers				
Distributors	**1,263,248**	**47.1%**	587,076	35.7%
E-commerce	**217,398**	**8.1%**	105,942	6.4%
Others				
Third party catering enterprises	**21,597**	**0.8%**	23,434	1.4%
One-off sales activities	**3,035**	**0.1%**	13,858	0.9%
Total revenue	**2,681,373**	**100.0%**	1,646,221	100.0%

With continuous stable growth and consumption upgrade in the hot pot catering industry in China, the sales amount of Haidilao catering business of the Company continued to record a stable growth in 2018. Benefited from rapid growth in the number of Haidilao Group restaurants, the Group recorded sales revenue of RMB1,176.1 million in the sales to related parties (mainly referring to sales to the Haidilao Group) for the year ended 31 December 2018, representing a year-on-year increase of 28.4%.

For sales to third parties, the Group continued to implement the existing distributor network, effective incentive mechanism and distributor management system to enhance the sales capability of terminal points of sales. Innovative channels were created in line with the positioning of new products to further expand the scope of coverage by points of sales. In e-commerce, while advantages of the flagship store continued to take effect, self-operated strong online platforms such as Tmall.com and JD.com were also relied upon to maintain rapid growth in sales amount. For the year ended 31 December 2018, sales revenue derived from sales generated by distributor channels amounted to RMB1,263.2 million, representing a year-on-year increase of 115.2%. Sales revenue from e-commerce channels amounted to RMB217.4 million, representing a year-on-year increase of 105.2%. Sales revenue from third party catering enterprises amounted to RMB21.6 million, representing a decrease of 7.8% as compared to the same period in 2017.

Revenue by geographic region

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

	For the year ended 31 December			
	2018		2017	
	(RMB'000)	**% of total revenue**	(RMB'000)	% of total revenue
North China[5]	**1,339,493**	**50.0%**	874,665	53.2%
South China[6]	**1,255,998**	**46.8%**	715,674	43.4%
Overseas markets	**85,882**	**3.2%**	55,882	3.4%
Total	**2,681,373**	**100.0%**	1,646,221	100.0%

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 58.8% from RMB1,034.4 million for the year ended 31 December 2017 to RMB1,642.5 million for the same period in 2018.

Gross profit and Gross profit margin

	For the year ended 31 December			
	2018		2017	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
	RMB'000	**%**	RMB'000	%
Hot pot condiments	**768,809**	**39.3%**	509,075	36.5%
Third parties	**455,567**	**56.1%**	265,859	50.8%
Related parties	**313,242**	**27.4%**	243,216	27.9%
Chinese-style compound condiment	**125,423**	**49.1%**	79,157	42.5%
Third parties	**117,592**	**51.4%**	66,649	46.7%
Related parties	**7,831**	**29.2%**	12,508	28.8%
Convenient ready-to-eat food	**138,715**	**30.9%**	21,260	34.6%
Third parties	**136,927**	**30.8%**	21,217	34.6%
Related parties	**1,788**	**38.0%**	43	41.6%
Others	**5,950**	**28.2%**	2,314	74.7%
Total	**1,038,897**	**38.7%**	611,806	37.2%

The Group's gross profit increased by 69.8% from RMB611.8 million for the year ended 31 December 2017 to RMB1,038.9 million for the same period of 2018, while the gross profit margin increased from 37.2% for the year ended 31 December 2017 to 38.7% for the same period of 2018. The increase in gross profit margin was mainly due to two main reasons: firstly the percentage of sales from third parties with higher gross profit margin increased significantly compared to the same period of 2017; secondly, cost of production was reduced due to lower raw material price, higher production volume and optimization of production process.

Distribution expenses

The Group's distribution expenses increased by 46.7% from RMB164.6 million for the year ended 31 December 2017 to RMB241.5 million for the year of 2018. The Group's distribution expenses as a percentage of the Group's revenue decreased from 10.0% for 2017 to 9.0% for the same period of 2018. The increase in distribution expenses was mainly due to the increase in operating expenses brought by the development of the Group's business and further deepening in channel construction and terminal promotions.

Administrative expenses

The Group's administrative expenses increased by 113.4% from RMB76.4 million for the year ended 31 December 2017 to RMB163.2 million for the same period of 2018. The Group's administrative expenses as a percentage of the Group's revenue increased from 4.6% for 2017 to 6.1% for 2018. The increase in administrative expenses was mainly due to the following reasons: the company approved and granted 1,510,000 RSUs pursuant to the RSU Scheme on 9 December 2018, and such RSUs have been vested in the current period; the preparation of Bazhou factory and the formal commencement of operations of 2 factories in Huaanshan.

Other income and gains

The net amount of Group's other income and gains increased by 29.1% from RMB43.7 million for the year ended 31 December 2017 to RMB56.5 million for the same period of 2018, mainly due to government subsidies received by the Group.

Finance income - net

The Group's net amount of finance income recorded a net loss of RMB45.4 million for the year ended 31 December 2017, and for the same period of 2018 the Group recorded a net gain of RMB39.8 million, which was mainly due to the exchange gains arising from the appreciation of Hong Kong dollar and US dollar.

Profit before tax

As a result of the foregoing, the Group's profit before income tax increased by 97.9% from RMB369.1 million for the year ended 31 December 2017 to RMB730.5 million for the same period of 2018.

Income tax expense

The Group's income tax expense increased by 69.1% from RMB108.0 million for the year ended 31 December 2017 to RMB182.6 million for the same period of 2018. The effective tax rate decreased from 29.3% for of 2017 to 25.0% for the year of 2018, mainly due to the exchange losses arising from the depreciation of Hong Kong dollar and US dollar in the same period of 2017 which could not be deducted before tax.

Net profit for the year

As a result of the foregoing, net profit of the Group increased by 109.9% from RMB261.1 million for the year ended 31 December 2017 to RMB547.9 million for 2018. Basic earnings per share increased from RMB0.269 for 2017 to RMB0.534 for the same period of 2018, and net profit margin increased from 15.9% for the same period of 2017 to 20.4% for 2018.

Capital liquidity and financial resources

For the year ended 31 December 2018, the Group's operations were mainly funded by cash generated from operating activities. The Group intended to apply internal resources, through organic and sustainable development, to provide financing funds for its expansion and business operations.

Cash and cash equivalents

As at 31 December 2018, the Group's cash and cash equivalents mainly comprised Renminbi, Hong Kong dollars and US dollars. The amount of cash and cash equivalents was approximately RMB1,179.9 million (31 December 2017: RMB1,130.2 million).

Asset-liability ratio

As at 31 December 2018, the asset-liability ratio(7) of the Group was 17.2% (31 December 2017: 16.7%), the increase was mainly due to an increase in trade payables, contract liabilities and other tax payables. The Group did not have any bank borrowings.

Note:

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

Inventories

The Group's inventories consist primarily of raw materials, work-in-progress and finished goods. As at 31 December 2018, the Group had inventories of approximately RMB275.8 million (31 December 2017: RMB147.6 million). The turnover days of inventories decreased from 49.1 days for the year ended 31 December 2017 to 46.4 days for the year ended 31 December 2018. The decrease in the turnover days of inventories was mainly due to the fact that the Group increased its control over the efficiency of inventories in the first half of 2018.

Trade receivables

Trade receivables represent amounts due from customers in respect of sales of goods in the ordinary course of business. As at 31 December 2018, we had trade receivables of approximately RMB206.9 million (31 December 2017: RMB131.5 million). The change was mainly due to an increase in sales by the Group to related parties and certain third parties (such as e-commerce platforms) during 2018. The turnover days of trade receivables increased slightly from 22.0 days for the year ended 31 December 2017 to 22.7 days for the year ended 31 December 2018.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. As at 31 December 2018, we had trade payables of approximately RMB188.7 million (31 December 2017: RMB136.6 million), which was due to the effects of low and peak seasons for production and sales and the seasonal procurement cycle. The turnover days of trade payables decreased from 37.0 days for the year ended 31 December 2017 to 35.6 days for the year ended 31 December 2018.

Contingent liabilities

As at 31 December 2018, the Company did not have any contingent liabilities.

Charge of assets

As at 31 December 2018, the Company did not charge any fixed assets as securities for borrowings.

Borrowings

As at 31 December 2018, the Company did not have any bank borrowings.

Debt-to-equity ratio

As at 31 December 2018, the debt-to-equity ratio(8) of the Company was zero.

Note

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

Foreign exchange risk and hedging

The Group mainly operates in the PRC with most of the 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 so exposed to foreign exchange risk. The Group has not hedged against its foreign exchange risk. However, the Group will closely monitor the exposure and will take specific measures when necessary to make sure the foreign exchange risks are within a manageable range.

Employees and remuneration policy

As at 31 December 2018, the Group had a total of 1,976 employees (including temporary workers), comprising of 1,531 employees in production, 346 employees in marketing and 99 employees in administration and management functions respectively.

For the year ended 31 December 2018, the total staff costs (including salaries, wages, allowance, benefits and costs of equity incentive plan) incurred by the Group amounted to RMB308.2 million.

The Group follows closely the demand of business development and continuously improves its incentive system, and implements competitive remuneration policy.

Material acquisitions and disposals

For the year ended 31 December 2018, the Group had no material acquisitions nor any disposals of subsidiaries, associate and joint ventures.

FUTURE PROSPECTS

Industry and Business Outlook

In 2019, it is expected that China's economy will make steady growth while facing challenges. The National Bureau of Statistics expects that the economy will still operate within a reasonable range and economic fundamentals will remain positive in the long run.

In terms of product development, the Group defined its multi-branding strategy for the first time during the year. A number of sub-brands were created to have a more refined breakdown of scenarios and product categories, and the thematic slogan "Easy & Tasty" was adopted when building products, brands and corporate image. Through structural innovation of products, the business boundaries were further widened. New products were launched and old products were eliminated on an on-going basis for the product categories of hot pot condiments, Chinese-style compound condiments, and convenient ready-to-eat products. While reinforcing the market position of existing individual products with strong trends, the Group's research and development and market exploration capabilities were also utilized to enrich the matrix of product portfolio. In developing new products, we will continue to adopt the "project-based system" as incentive strategy. Special and unique local recipes and foreign flavors will be used as a guidance for introducing differentiated products continuously. A strict product delisting system will also be adopted to adjust the product portfolio in a timely manner, for cultivating large individual products and eliminating non-performing products, so as to enhance comprehensive product competitiveness.

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

In terms of marketing, the Group will continue to pursue active online and offline promotions. By considering the product features of each sub-brand and combining with the "partnership" incentive system, and through innovative marketing approaches at various sales terminals, such as measures to show affection to the owners of sale points, which have effectively and practically improved the impression and passion that the sales terminals have on our brands, and so the sales efficiency is enhanced. The Group will continue to deepen the cooperation with distributors, in order to explore more channel space and more diversified categories of points of sales.

For overseas business, the Group will start planning the expansion of overseas business, expect to establish several overseas companies during 2019 and gradually transfer some foreign trade products to overseas factories for production or processing to reduce production and transportation costs, as well as for making regional adjustments to flavors of our product, and in line with the objective to research and develop local products.

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

Material Investments and Prospects

In order to ease the pressure from continuously increasing production capacity utilization rate, the Group mainly adopted the following measures in 2018:

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

Secondly, a contract was entitled into for the new construction of Phase II Maanshan condiment production base located in Anhui province, China. The Group entered into a land acquisition agreement with the local government of Maanshan in Anhui province in August 2018, the project is expected to be completed and will commence production in 2021 to provide an addition of approximately 200,000 tonnes of production capacity. The factory will be equipped with condiment production equipment and quality monitoring devices at advanced technological level in terms of local and overseas standards to enhance the overall production line efficiency of the Company.

Future Plans for Material Investments

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

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 2018, except for the deviation from the Corporate Governance Code provision A.2.1.

Corporate Code Provision A.2.1

Under the Corporate Governance Code provision A.2.1, the roles of the chairman and chief executive officer of the Company should be separate and not be performed by the same individual.

With effect from 9 December 2018, Ms. Dang Chunxiang has been re-designated to Vice President of the Company from the post of chief executive officer of the Company and Mr. Shi Yonghong, a non-executive Director and Chairman of the Board was appointed as the chief executive officer of the Company. As such, the roles of the chairman and the chief executive officer of the Company are performed by the same individual. Mr. Shi Yonghong had assumed both the roles of the chairman and the chief executive officer of the Company 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 considers a segregation of the role of the Chairman and chief executive officer may create unnecessary costs for the daily operations of the Group.

The Board consider that vesting two roles in Mr. Shi Yonghong enables 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 with their members mainly comprising of Independent non-executive Directors and 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 is an adequate balance of power and safeguards in place. Nevertheless, the Board will continue to regularly monitor and review the Company's current structure and to make necessary changes at an appropriate time.

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 2018.

The Company's employees, who are likely to be in possession of inside information of the Company, have also been subject to the Model Code. No incident of non-compliance of the Model Code by the employees was noted by the Company for the year ended 31 December 2018.

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 2018.

Audit Committee

The audit committee of the Board (the "**Audit Committee**") has three members comprising three independent non-executive Directors, being Mr. Qian Mingxing (who was appointed as member of the audit committee with effect from 9 December 2018), Mr. Yau Ka Chi (chairman of the Audit Committee) and Ms. Ye Shujun, with terms of reference in compliance with the Listing Rules. Our non-executive Chairman, being Mr. Shi Yonghong resigned from his position as member of the audit committee with effect from 9 December 2018.

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 2018 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 2018 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 approved and granted 9,140,000 RSUs pursuant to the RSU Scheme on 28 December 2016. Please refer to the announcement of the Company dated 28 December 2016 for details. As at December 2018, 620,000 RSUs out of the 9,140,000 RSUs that were granted on 28 December 2016 have been cancelled due to resignation of our employees and 20% of the remaining RSUs (i.e. 1,704,000 RSUs) have been vested in accordance with the vesting period as set out in the announcement.

The Company approved and granted 1,510,000 RSUs pursuant to the RSU Scheme on 9 December 2018. Please refer to the announcement of the Company dated 10 December 2018 for details. As at December 2018, all of the 1,510,000 RSUs have been vested in accordance with the vesting period as set out in the announcement.

Events After the End of the 31 December 2018

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2018 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 Tuesday, 21 May 2019 (the "**AGM**") for the distribution of a final dividend of RMB14.83789 cents per share for the year ended 31 December 2018. The final dividend is expected to be paid on or about Friday, 14 June 2019 to the Shareholders whose names are listed in the register of members of the Company on Wednesday, 29 May 2019, in an aggregate of approximately RMB155.3 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, 26 March 2019. 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 Thursday, 16 May 2019 to Tuesday, 21 May 2019, both days inclusive, in order to determine the eligibility of the Shareholders to attend and vote at the AGM to be held on Tuesday, 21 May 2019. The Shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 15 May 2019 (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 Wednesday, 15 May 2019.

The register of members of the Company will also be closed from Monday, 27 May 2019 to Wednesday, 29 May 2019, 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 Wednesday, 29 May 2019 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 Friday, 24 May 2019.

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 2018 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, 26 March 2019

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