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 2019

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 2019 (the "**Reporting Period**"), together with comparative figures for the same period of 2018.

GROUP FINANCIAL HIGHLIGHTS

- Revenue was RMB4,282.5 million in 2019, a 59.7% increase from RMB2,681.4 million in 2018.
- Gross profit was RMB1,641.4 million in 2019, a 58.0% increase from RMB1,038.9 million in 2018.
- Net profit was RMB795.0 million in 2019, a 45.1% increase from RMB547.9 million in 2018.
- Net profit attributable to owners of the Company was RMB718.6 million in 2019, a 38.8% increase from RMB517.8 million in 2018.
- Earnings per share (basic and diluted) in 2019 were RMB0.741 and RMB0.741 respectively.

Consolidated Balance Sheet

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		483,393	308,616
Right-of-use assets		151,435	—
Land use rights		—	75,034
Intangible assets		17,649	5,309
Deferred income tax assets		25,445	23,889
Other assets		194,949	156,027
Financial assets at fair value through profit or loss		84,893	12,000
Total non-current assets		957,764	580,875
Current assets			
Inventories		297,334	275,815
Other current assets		168,879	213,178
Trade receivables	4	269,175	206,893
Other financial assets at amortised cost		7,762	5,368
Financial assets at fair value through profit or loss		89,596	—
Term deposits with initial term over three months and within one year		484,845	—
Cash and cash equivalents		1,036,396	1,179,910
Total current assets		2,353,987	1,881,164
Total assets		3,311,751	2,462,039
Equity			
Equity attributable to owners of the Company			
Share capital	5	68	68
Shares held for employee share scheme		(4)	(5)
Reserves		2,613,785	2,005,127
Capital and reserves attributable to owners of the Company		2,613,849	2,005,190
Non-controlling interests		114,298	34,531
Total equity		2,728,147	2,039,721

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Liabilities			
Non-current liabilities			
Lease liabilities		26,361	—
Deferred income tax liabilities		381	—
Total non-current liabilities		26,742	—
Current liabilities			
Trade payables	6	217,418	188,659
Contract liabilities		46,224	45,350
Lease liabilities		12,790	—
Other payables and accruals		173,589	103,616
Current income tax liabilities		106,841	84,693
Total current liabilities		556,862	422,318
Total liabilities		583,604	422,318
Total equity and liabilities		3,311,751	2,462,039
Net current assets		1,797,125	1,458,846

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Year ended 31 December 2019 RMB' 000	2018 RMB' 000
Revenue	3	4,282,488	2,681,373
Cost of sales	7	(2,641,088)	(1,642,476)
Gross profit		1,641,400	1,038,897
Distribution expenses	7	(383,344)	(241,474)
Administrative expenses	7	(265,590)	(163,196)
Other income and gains – net	8	79,035	86,203
Operating profit		1,071,501	720,430
Finance income	9	23,679	10,071
Finance costs	9	(1,560)	—
Finance income – net	9	22,119	10,071
Profit before income tax		1,093,620	730,501
Income tax expense	10	(298,615)	(182,597)
Profit for the year		795,005	547,904
Profit is attributable to:			
Owners of the Company		718,634	517,793
Non-controlling interests		76,371	30,111
Other comprehensive income			
Items that may be reclassified to profit or loss			
– Currency translation differences		843	—
Other comprehensive income for the year, net of tax		843	—
Total comprehensive income		795,848	547,904
Total comprehensive income attributable to:			
– Owners of the Company		719,469	517,793
– Non-controlling interests		76,379	30,111
Earnings per share attributable to owners of the Company *(expressed in RMB cents per share)*			
– Basic	11	74.1	53.4
– Diluted	11	74.1	53.1

1. GENERAL INFORMATION

YIHAI INTERNATIONAL HOLDING LTD. (the "Company") and its subsidiaries (together the "Group") are principally engaged in the production and sales of hot pot condiment, Chinese-style compound condiment, and convenient ready-to-eat food products in the People's Republic of China (the "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 25 March 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(i) Compliance with IFRS and HKCO

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

(ii) Historical cost convention

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

(iii) New and amended standards adopted by the Group

The Group has applied the following new standard, amendments and interpretation for the first time for their annual reporting period commencing from 1 January 2019, which are relevant to its operations:

- IFRS 16 *Leases*
- *Annual Improvements to IFRS Standards 2015 – 2017 Cycle*
- *Plan Amendment, Curtailment or Settlement – Amendments to IAS 19*
- Interpretation 23 *Uncertainty over Income Tax Treatments.*

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2.2 below. The other amendments and interpretation 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, amendments and revised conceptual framework not yet adopted

Certain new accounting standards, amendments and revised conceptual framework have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards, amendments and revised conceptual framework are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 *Leases* on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's applicable incremental borrowing rates as of 1 January 2019. The weighted average lessee's incremental borrowing rates (applicable to borrowings with similar repayment periods) as applied to the lease liabilities on 1 January 2019 was 4.75%.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRS Interpretations Committee 4 "*Determining whether an Arrangement contains a Lease*".

(ii) Measurement of lease liabilities

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	23,834
Discounted using the lessee's incremental borrowing rates of at the date of initial application	22,794
Less: short-term leases recognised on a straight-line basis as expense	(6,428)
Lease liabilities recognised as at 1 January 2019	16,366
Of which are:	
Current lease liabilities	5,958
Non-current lease liabilities	10,408

(iii) Measurement of right-of-use assets

The right-of use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

(iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by RMB91,951,000
- land use rights – decrease by RMB75,034,000
- other current assets – decrease by RMB551,000
- lease liabilities – increase by RMB16,366,000

The net impact on the retained earnings as of 1 January 2019 is immaterial for warranting any adjustment.

(v) Lessor accounting

- The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

3. REVENUE AND SEGMENT INFORMATION

Breakdown of revenue by product category is as follows:

	2019 RMB' 000	2018 RMB' 000
Revenue		
Hot pot condiment		
– Related parties	1,592,331	1,143,243
– Third parties	1,221,033	812,277
Subtotal	2,813,364	1,955,520
Chinese-style compound condiment		
– Related parties	49,468	26,784
– Third parties	345,477	228,731
Subtotal	394,945	255,515
Convenient ready-to-eat food products		
– Related parties	20,492	4,704
– Third parties	978,475	444,569
Subtotal	998,967	449,273
Others		
– Related parties	880	1,364
– Third parties	74,332	19,701
Subtotal	75,212	21,065
Total	4,282,488	2,681,373

Revenue from sales attributable to related parties accounted for 38.8% and 43.9% of the total revenue for the years ended 31 December 2019 and 2018 respectively.

4. TRADE RECEIVABLES

	As at 31 December 2019 RMB'000	2018 RMB'000
Third parties	57,480	42,122
Related parties	214,272	164,801
	271,752	206,923
Less: provision for impairment	(2,577)	(30)
Trade receivables – net	269,175	206,893

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

	As at 31 December 2019 RMB'000	2018 RMB'000
Within 3 months	266,581	202,929
3 to 6 months	2,594	3,964
	269,175	206,893

(ii) The carrying amount of trade receivables above approximate their fair value.

(iii) Impairment and risk exposure

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

5. SHARE CAPITAL

	2019 Shares	2018 Shares	2019 US$'000	2018 US$'000
Authorised:				
Ordinary shares of US$0.00001 each				
– On 1 January 2018, 31 December 2018 and 2019	5,000,000,000	5,000,000,000	50	50

Issued and fully paid ordinary shares:

	Number of ordinary shares	Nominal value of ordinary shares US$	Equivalent nominal value of ordinary shares RMB'000
On 1 January 2018, 31 December 2018 and 2019	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	
	2019 RMB' 000	2018 RMB' 000
Within 3 months	208,272	172,376
3 to 6 months	3,091	9,759
6 months to 1 year	6,055	6,524
Total	217,418	188,659

7. EXPENSES BY NATURE

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

	Year ended 31 December	
	2019	**2018**
	RMB' 000	**RMB' 000**
Changes in inventories of finished goods	25,060	(111,464)
Raw materials and consumables used	2,349,507	1,572,846
Employee benefit expenses	453,612	308,169
Transportation and related charges	116,760	70,196
Advertising and other marketing expenses	74,997	42,098
Depreciation of property, plant and equipment	39,410	21,166
Warehouse expenses	38,674	21,954
Utilities	33,920	24,554
Taxes and surcharges	33,351	23,831
Travel and entertainment expenses	26,660	14,627
Technical supporting fees, professional fees and other services fees	24,606	14,143
Repair and maintenance costs	13,376	8,288
Depreciation of right-of-use assets	12,431	—
Rental expenses	9,190	16,198
Auditor's remuneration		
– Audit services	2,100	2,100
– Non-audit services	464	329
Amortisation of intangible assets	2,729	1,177
Amortisation of land use rights	—	1,135
Net impairment losses on financial assets	1,963	290
Write-down of inventories	1,521	165
Other expenses	29,691	15,344
Total	3,290,022	2,047,146

8. OTHER INCOME AND GAINS — NET

	Year ended 31 December 2019 RMB' 000	2018 RMB' 000
Government grants	51,919	40,951
Investment income from financial assets at fair value through profit or loss	6,395	8,753
Sales of scrap materials	6,347	3,524
Net foreign exchange gains	6,430	29,728
Change in fair value of financial assets at fair value through profit or loss	3,788	1,725
Loss on disposal of property, plant and equipment	(1,620)	(612)
Others	5,776	2,134
Total other income and gains – net	79,035	86,203

9. FINANCE INCOME -NET

	Year ended 31 December 2019 RMB' 000	2018 RMB' 000
Finance Income		
– Interest income	23,679	10,071
Finance Costs		
– Interest of lease liabilities	(1,560)	—
Finance income -net	22,119	10,071

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	RMB' 000	RMB' 000
Current income tax	299,790	195,932
Deferred income tax credit		
– Origination and reversal of temporary differences	(1,175)	(13,335)
Income tax expense	298,615	182,597

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the Group's estimated assessable profit for the year ended 31 December 2019, the Group did not have any estimated assessable profits arising in or derived from Hong Kong during the year ended 31 December 2018.

(c) Overseas income tax

The Company's subsidiaries incorporated overseas are subject to overseas profits tax at 10% to 21% on estimated assessable profit for this year.

(d) 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 2019 and 2018, based on the existing legislation, interpretations and practices in respect thereof.

(e) **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 WHT at the rate of 10%. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be 5%.

As of 31 December 2019, the aggregate undistributed earnings of the Group's subsidiaries incorporated in the PRC are RMB1,658,732,000. In the opinion of the directors, except for the distribution of its retained earnings by a PRC subsidiary to its sole overseas shareholder, also a subsidiary of the Company, in 2019, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future, and that the Company has the ability to control the timing of the distribution from these subsidiaries. Accordingly, despite an assessable temporary difference on such retained earnings exists, no deferred income tax liability has been recognised in these financial statements.

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

	2019 **RMB' 000**	**2018** **RMB' 000**
Profit before income tax	1,093,620	730,501
Tax calculated at domestic tax rates applicable to profits in the respective countries	303,530	173,851
Expenses not deductible for tax purposes	9,180	8,950
Income not subject to tax	(34,095)	—
Withholding taxation on the distribution of profits of a PRC subsidiary to an overseas subsidiary during the year	20,000	—
Tax losses for which no deferred income tax asset was recognised	—	1,103
Recognition of previously unrecognised tax losses	—	(1,307)
Taxation charge	298,615	182,597

11. EARNINGS PER SHARE

a. Basic earnings per share

Basic earnings per share for each of the years ended 31 December 2019 and 2018 are calculated by dividing the profit of the Group attributable to the owners of the Company by the weighted average number of ordinary shares in issue less shares held for RSU Scheme during the year.

	Year ended 31 December	
	2019	**2018**
Profit attributable to owners of the Company (RMB'000)	718,634	517,793
Weighted average number of ordinary shares in issue less shares held for RSU Scheme (thousands)	969,884	969,801
Basic earnings per share (RMB cents)	74.1	53.4

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. During the year ended 31 December 2019, no diluted earnings per share have been presented since there was no potential dilutive ordinary share in issue for the year ended 31 December 2019.

	Year ended 31 December	
	2019	**2018**
Profit attributable to owners of the Company (RMB'000)	718,634	517,793
Weighted average number of ordinary shares in issue for basic earnings per share (thousands)	969,884	969,801
Adjustments for:		
– Restricted Shares granted and assumed vested (thousands)	—	6,293
Weighted average number of ordinary shares and potential ordinary shares for calculating diluted earnings per share (thousands)	969,884	976,094
Diluted earnings per share (RMB cents)	74.1	53.1

12. DIVIDENDS

(i) Ordinary shares

The total dividends paid in 2019 amounted to RMB148,643,000 or RMB15.2952 cents per share (2018: RMB48,291,000 or RMB4.9822 cents per share) (which are net of the dividend of RMB11,297,000 (2018: RMB3,867,000) attributable to the shares held for the RSU Scheme).

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

Pursuant to resolution passed on 25 March 2020, the board of directors of the Company proposed a final dividend of RMB20.593 cents per ordinary share of the Company, amounting to RMB215,588,000 for the year ended 31 December 2019 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 22 May 2020. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation from the share premium account for the year ending 31 December 2020.

13. EVENTS OCCURRING AFTER THE REPORTING PERIOD

The spread of the novel COVID-19 in Mainland China and other countries and regions since the beginning of 2020 have a certain impact on economic activities. We refer to announcements of Haidilao International Holding Ltd. dated 28 January 2020 and 2 February 2020 regarding the suspension of operation of restaurants of Haidilao Group in Mainland China due to the outbreak of COVID-19. According to the announcement of Haidilao International Holding Ltd. dated 11 March 2020 and as at the date of the report date, certain restaurants of Haidilao Group in Mainland China have resumed operation, and the remaining restaurants will resume operation in batches according to the development of the relief of the epidemic in the regions where the relevant restaurant is located. As Haidilao Group is the largest customer of the Group, closure of their restaurants for an extended period of time may affect the business, operations and financial results of the Group. The Group has taken all possible effective measures to respond to the impact from this epidemic on its business. Currently, the third party retail business of the Group is operating normally. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.

2019 PERFORMANCE REVIEW

In 2019, despite the challenges of rising domestic and external risks, the national economy of China remained stable in overall operation, while the quality of development improved steadily and major anticipated targets were achieved above expectation. Consumption as a major driving force of economic growth was further reinforced, and the total expenditure of consumption contributed 57.8% to GDP growth, 26.6 percentage points higher than the total amount of capital formation. The consumption of residents continued to upgrade with enhanced quality. Meanwhile, the percentage of online consumption in the total retail amount of private consumption increased further. Under the policies of continuous implementation of reforms and innovation, deepening of supply-side structural reforms, improvement in business environment, and large-scale reduction in taxes and fees, the vitality of market players was stimulated continuously. In 2019, the revenue size of the catering market continued growing steadily, and the general trend of the condiment industry also continued to improve.

In 2019, the Group's major businesses focused on continuous development of domestic and international sales channels, enhancing sales capabilities of channels, improving and enhancing the internal incentive mechanism continuously, as well as supplementing and optimizing the supply capabilities persistently. For the year ended 31 December 2019, the revenue of the Group was RMB4,282.5 million, representing a year-on-year increase of 59.7%; net profit was RMB795.0 million, representing a year-on-year increase of 45.1%.

In respect of the establishment of third-party sales channels, benefiting from the continuous development and penetration in both domestic and international markets, effective incentives for internal sales personnel, and increased importance on the satisfaction level of external distributors and point-of-sales services, the revenue from distributors continued to record rapid growth. As at 31 December 2019, the Group's distributors had covered 31 provincial regions in China, Hong Kong, Macau and Taiwan, as well as 49 overseas countries and regions.

For sales through e-commerce, the Group's self-operated flagship store was a major base for interactions of brands. Through featured promotional activities at various marketing events, the Group's brand image was enhanced among consumers. Further, through continuous improvement in the efficiency of delivery services and consumer experience, loyalty of users was enhanced. For the year ended 31 December 2019, the amount of online sales of the Group increased by 26.4% year-on-year from RMB217.4 million in 2018 to RMB274.9 million.

In terms of products, motivated by the "product-based system", the Group continued to increase the number of new products launched during the period, and developed 42 new products in 2019. Based on the existing three major categories of products, namely hot pot condiments, Chinese-style compound condiments and convenient ready-to-eat food products, new product categories were actively developed.

Regarding staff incentives, the Group continued to actively innovate the incentive system in line with its own features, and introduced "Partner Fission" in sales in 2019 for the purpose of resolving the problems of talent bottlenecks and extended motivation in deepening the development of sales channels. The details on competition and elimination mechanism among partners were amended during the second half of the year. The incentive mechanism continued optimizing and further enhanced the execution and sales motivation of sales staff.

In terms of product sales to related parties, the Group continued to support the products of "Thousand People Thousand Flavors" for promotions in hot pot restaurants of Haidilao International Holding Ltd. (stock code: 6862) ("**Haidilao**") during 2019. In line with the overseas development of Haidilao restaurants, hot pot flavorings suitable for local requirements were developed. Moreover, the Group also continued developing and innovating hot pot flavorings with various local features and flavors according to the trend of consumer tastes.

For the purpose of replenishing and optimizing the supply capacity, the Group continued expanding production capacity in line with the market demand and requirements of its own development in 2019. The south workshop in Phase I of the new production base in Bazhou, Hebei Province, formally commenced operation in September 2019. The north workshop in Phase I of the Bazhou base was expected to be fully completed and commence operation before August 2020. The Phase II of the new production base located in Maanshan, Anhui Province, was under preliminary planning and prepared to enter the civil construction stage. During the period, the Group signed a land transfer agreement in Luohe, Henan Province, and construction works of the construction project of the Luohe production base commenced during the second half of 2019. The successive construction and operation of the new plants were expected to alleviate the pressure on production capacity utilization rate brought by the rapid development of the Group's business.

BUSINESS REVIEW

In 2019, although trade negotiations between China and United States had brought plenty of uncertainties to the global market, with slower global economic growth and new downside pressure on the economy, in general, the national economy of China was operating steadily, and the development of major anticipated targets were achieved with better performance. As the supply-side structural reforms were implemented further, the economic structure continued optimization, income growth of residents was higher than economic growth, and the total amount of consumption of residents was steady with a rising trend. Under the macro environment of continuously rising growth rate and percentage of online retail sales, the catering and retail industries achieved stable growth, and the growth trend of the condiments industry continued rising. For the year ended 31 December 2019, the revenue of the Group was RMB4,282.5 million, representing a year-on-year growth of 59.7%; net profit was RMB795.0 million, representing a year-on-year growth of 45.1%.

Sales Channels

The Group continued to be the supplier of hot pot condiment products to Haidilao Group (that is, Haidilao and its subsidiaries), one of our related parties, while at the same time, it also provided cooking condiment solutions to Chinese family cooking customers, catering service providers and companies in the food industry. As of 2019, the major products of the Group included hot pot condiments, Chinese-style compound condiments and convenient ready-to-eat food products, and major channels for third-party sales included distributors, e-commerce and catering customers.

Expansion and penetration of third-party channels have always been the most important sales strategy of the Group. For actual implementation, the Group enhanced sales through several methods set out below, including wider coverage of more cities in China and overseas nations, increase in the number of domestic and international distributors, enhancement in positive brand awareness and sales enthusiasm at the point-of-sales through "family love" measures, high attention to the feedback from distributors on the services of internal sales partners, and continuous optimization in the incentive mechanism for internal sales staff.

In 2019, in order to resolve the issues of talent bottleneck and management structure that might be encountered in the process of channel development, we began to implement the "Partner Fission" system based on our existing "Partner" incentive mechanism by relying on the management relationship of the "apprenticeship system", but through authorizing partners to nurture assistants, such assistants would turn into "apprentice partners", and share the profit of the business unit with the "master partner". This would ensure the continuous supply of human resources required by sustainable development of channels, in other words, the "master partner" would have the time and motivation to "develop business beyond the existing areas, and develop more down-to-earth new channels". In 2019, the Group also developed the elimination of competition mechanism for the sales system, that is, the "PK system", aiming to eliminate incompetent partners and to incentivize partners with outstanding business development. And the "family style" was to be adopted to bundle the internal interests of the Partner team, enhance autonomy of partners and efficiency of achieving performance targets, and facilitate more effective implementation of the incentive mechanism.

The "Partner" incentive mechanism was the internal sales staff incentive mechanism adopted by the Group in early 2018. This mechanism replaced the previous appraisal method of achieving certain percentage of the sales target. The performance of each sales staff would be directly linked to the profit of the business unit they are responsible for, and sufficient authority on the right and method to use channel fees would be conferred. Under this strategy, sales staff in the capacity of "partners" would have more business autonomy, their passion for work was greatly encouraged and thus growth rate of sales and utilization efficiency of fees were also enhanced notably.

In addition to the "Partner" incentive mechanism for internal sales, during the first half of 2019, we established an incentive for external distributors through enhancing the efficiency and satisfaction of delivery service to such distributors. So far, the Group has been very strict on the control and management of channel inventories. In order to further refine management, and motivate distributors directly, the Group had established six regional logistics branch storages to shorten the goods release cycle and reduce the minimum order quantity for distributors, so that distributors would have more flexibility in orders and thus the purpose of reducing inventories of distributors would be achieved, the healthy development and control of channels would be further ensured, the production date and freshness of end products would be effectively assured, and the display of products would have greater competitiveness. Moreover, to further ensure the display and sales of key accounts (KA), the Group implemented "zero inventory" in hypermarkets that satisfied our requirements since the beginning of the year. "Zero inventory" replaced the previous method of delivery from distributors to key customers' hypermarket, the goods would be delivered directly from our branch storage to the warehouse of the hypermarket, aiming to reduce the number of logistic nodes and save delivery charges. While the specific distributors would be incentivized, the freshness of the products delivered to the supermarket would be improved.

In the development of e-commerce channel, the Group continued to adopt the strategy of enhancing interactive experience of consumers, using the flagship store as the major interactive base for brands, enhancing communication among consumers, and providing more heart touching shopping experience for consumers. During the year, the Group formulated targeted marketing plans on different festivals and promotional campaigns as usual, good performance was achieved in the key sales periods, such as "New Year Goods Festival", "Foodaholic Festival", "618", "Double 11" and "Hot Pot Festival". On the online platforms operated by others, such as channels like JD.com and Tmall.com, apart from participating in promotional activities of the platforms continuously, the Group also focused on bulk purchase sales, supplemented with free gifts and other benefits, to enhance the experience and sales at the e-commerce platforms of major customers. For the year ended 31 December 2019, the Group had 5 flagship stores on e-commerce platforms such as Tmall.com and JD.com. The sales revenue of the Group from e-commerce channels was RMB274.9 million, representing a year-on-year increase of 26.4%.

For sales to related parties (referring to Haidilao Group and its associated companies), with the background of stable growth in the catering industry and the hot pot catering consumption market in China, the catering business with Haidilao Group recorded continuous and stable growth during the year. For the year ended 31 December 2019, the revenue from sales to related parties of the Group was RMB1,663.2 million, representing a year-on-year increase of 41.4% as compared to 2018.

Products

In 2019, the Group continued to adopt the multi-brand strategy implemented since last year and optimized the mix of brands continuously, and motivated staff to develop more new products to satisfy market demand under the "project-based system for products". Meanwhile, we improved the formulae and upgraded the packaging of existing core products in order to reinforce the market leading position of core products. For the year ended 31 December 2019, new products of the Company included 8 Chinese-style compound condiment products, 7 hot pot condiment products, 2 self-serving small hot pot products, 3 self-serving rice products, 4 ready-to-eat sauce products, 4 snack products and 14 standardized catering pack products.

The "project-based system for products" was a research and development strategy for new products implemented by the Group since 2018. Under this incentive-based mechanism, relying on the Group's strong research and development platform and supporting channels, the staff might form a team to propose innovative new products, and the development project of such new product would be completed by the team throughout the whole process from proposal to market launch. After the project was launched into the market and received earnings, the project team would immediately receive the corresponding rewards. This policy provided opportunities for all staff to develop new products, enhanced the development efficiency of new products and the motivation of staff in exploring the markets. At present, the mechanism is operating well, and the number of new products launched in the market also increased during the period.

On the portfolio of retail products, during the year, the Group had different numbers of new product innovations in three existing categories, and enhanced the sales of new products through various marketing means along with various seasonal themes and promotional campaigns. Apart from the crawfish condiment and the "Haohao Chifan (好好吃飯)" sauce for rice which were promoted as key products during the first half of the year, the Group launched the butter hot pot soup flavoring and self-serving small hot pot product series as key promotions with the theme of "happy gathering moments in eating hot pot (歡聚時刻吃火鍋)" from September to December, and received encouraging response in the market during the peak season of demand for hot pot related products.

For hot pot soup flavoring products of related parties, in addition to continuous promotion of hot pot soup flavorings under the "Thousand People Thousand Flavors" series during the first half of 2019, the Group also upgraded a number of hot pot soup flavorings in line with feedback from consumers, and cooperated in the research and development of a number of new hot pot soup flavorings.

As at 31 December 2019, the Company had a total of 61 hot pot condiment products, 37 Chinese-style compound condiment products and 12 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					
	2019			2018		
	Revenue (RMB'000)	**Sales volume (tonnes)**	**Average selling price per kg (RMB)**	Revenue (RMB'000)	Sales volume (tonnes)	Average selling price per kg (RMB)
Hot pot condiments[1]						
Third parties	**1,221,033**	**42,311**	**28.9**	812,277	28,153	28.9
Related parties	**1,592,331**	**65,666**	**24.2**	1,143,243	43,772	26.1
Subtotal	**2,813,364**	**107,977**	**26.1**	1,955,520	71,925	27.2
Chinese-style compound condiments[2]						
Third parties	**345,477**	**13,775**	**25.1**	228,731	8,851	25.8
Related parties	**49,468**	**2,075**	**23.8**	26,784	963	27.8
Subtotal	**394,945**	**15,850**	**24.9**	255,515	9,814	26.0
Convenient ready-to-eat food products[3]						
Third parties	**978,475**	**22,817**	**42.9**	444,569	10,749	41.4
Related parties	**20,492**	**519**	**39.5**	4,704	89	52.9
Subtotal	**998,967**	**23,336**	**42.8**	449,273	10,838	41.5
Others[4]	**75,212**	**13,081**	**5.7**	21,065	2,985	7.1
Total	**4,282,488**	**160,244**	**26.7**	2,681,373	95,562	28.1

Notes:

(1) Mainly including the Group's sales of hot pot soup flavorings and hot pot dipping sauce products

(2) Mainly including the Group's sales of Chinese-style compound condiments and ready-to-eat sauce products

(3) Mainly including the Group's sales of self-serving small hot pot and self-serving rice products

(4) Mainly including the Group's sales of snack food, raw materials such as soya bean oil, golden popcorn and snail rice noodle.

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

	For the year ended 31 December			
	2019		2018	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Revenue from hot pot condiments	**2,813,364**	**65.7%**	1,955,520	72.9%
Revenue from Chinese-style compound condiments	**394,945**	**9.2%**	255,515	9.5%
Revenue from convenient ready-to-eat food products	**998,967**	**23.3%**	449,273	16.8%
Other revenue	**75,212**	**1.8%**	21,065	0.8%
Total revenue	**4,282,488**	**100.0%**	2,681,373	100.0%

For the year ended 31 December 2019, the three major product categories of the Group were hot pot condiments, Chinese-style compound condiments and convenient ready-to-eat food products, realized faster growth as compared to the full year of 2018. As at 31 December 2019, new products of the Company included 8 Chinese-style compound condiment products, 7 hot pot condiment products, 2 self-serving small hot pot products, 3 self-serving rice products, 4 ready-to-eat sauce products, 4 snack products and 14 standardized catering pack products. As at 31 December 2019, the Company had a total of 61 hot pot condiment products, 37 Chinese-style compound condiment products and 12 convenient ready-to-eat food products.

FINANCIAL REVIEW

Revenue

The revenue of the Group increased by 59.7% from RMB2,681.4 million for the year ended 31 December 2018 to RMB4,282.5 million for the year of 2019.

Revenue by product

	For the year ended 31 December			
	2019		2018	
	Revenue (RMB'000)	**% of revenue from hot pot condiments**	Revenue (RMB'000)	% of revenue from hot pot condiments
Revenue from hot pot condiments				
Revenue from third parties	**1,221,033**	**43.4%**	812,277	41.5%
Revenue from related parties	**1,592,331**	**56.6%**	1,143,243	58.5%
Total revenue from hot pot condiments	**2,813,364**	**100.0%**	1,955,520	100.0%

Revenue from hot pot condiment products increased by 43.9% from RMB1,955.5 million for the year ended 31 December 2018 to RMB2,813.4 million for the year of 2019, representing 65.7% of the revenue for the year ended 31 December 2019. Of it, the revenue from sales of hot pot condiment products to related parties increased by 39.3%, revenue from sales of hot pot condiment products to third parties increased by 50.3%. The growth of revenue from sales of hot pot soup condiment products to related parties was mainly influenced by, among other factors, the stable growth of the performance results of Haidilao and the growth in the number of its restaurants. As the Group further refined the management of third-party distributor channels in 2019, innovation of the incentive-based mechanism for internal sales staff, development of lower-tier sales regions, effective innovation of channel marketing, and enhancement in efficiency of terminal points of sales, together with the launching of new products, the growth of sales to third parties continued to record a rapid increase.

	For the year ended 31 December			
	2019		2018	
	Revenue (RMB'000)	**% of revenue from Chinese-style compound condiments**	Revenue (RMB'000)	% of revenue from Chinese-style compound condiments
Revenue from Chinese-style compound condiments				
Revenue from third parties	**345,477**	**87.5%**	228,731	89.5%
Revenue from related parties	**49,468**	**12.5%**	26,784	10.5%
Total revenue from Chinese-style compound condiments	**394,945**	**100.0%**	255,515	100.0%

Revenue from Chinese-style compound condiments increased by 54.6% from RMB255.5 million for the year ended 31 December 2018 to RMB394.9 million for the year of 2019, representing 9.2% of the revenue for the year ended 31 December 2019. Of it, the revenue from sales of Chinese-style compound condiments to related parties increased by 84.7%, and revenue from sales of Chinese-style compound condiments to third parties increased by 51.0%. In respect of sales to related parties, the Group continued to supply products and services to some of the catering customers in the Shuhai Supply Chain. The Group continued to improve existing individual products with strong performance, researched and developed new products satisfying the trend of market tastes, and conducted marketing activities by combining with product features and market positioning, so that sales of Chinese-style compound condiments to third parties continued to record a delightful growth.

	For the year ended 31 December			
	2019		2018	
	Revenue (RMB'000)	**% of revenue from convenient ready-to-eat food products**	Revenue (RMB'000)	% of revenue from convenient ready-to-eat food products
Revenue from convenient ready-to-eat food products				
Revenue from third parties	**978,475**	**97.9%**	444,569	99.0%
Revenue from related parties	**20,492**	**2.1%**	4,704	1.0%
Total revenue from convenient ready-to-eat food products	**998,967**	**100.0%**	449,273	100.0%

For the year ended 31 December 2019, convenient ready-to-eat products continued to record a faster growth. The Group kept on improving and upgrading the self-serving products, not only the materials of external packing box and the cutlery bag were upgraded, three different flavors of self-serving rice products and two self-serving small hot pot products were also launched. Benefiting from the persistent development of lower-tier distributor channels, the continuous expansion of new channels such as convenience stores, train stations and scenic sightseeing locations, cooperation with some cinemas and advertising media during the first half of the year to place pre-movie advertising and print advertisements on buildings, and promotional plans on various festivals, the revenue from this category of products recorded a persistent delightful growth rate. For the year ended 31 December 2019, revenue from convenient ready-to-eat food products increased by 122.3% from RMB449.3 million in 2018 to RMB999.0 million, representing 23.3% of the revenue for the year ended 31 December 2019.

Revenue by distribution network

	For the year ended 31 December			
	2019		2018	
	Revenue (RMB'000)	**% of total revenue**	Revenue (RMB'000)	% of total revenue
Related party customers				
Haidilao Group and its affiliates	**1,663,171**	**38.8%**	1,176,095	43.9%
Third party customers				
Distributors	**2,304,284**	**53.8%**	1,263,248	47.1%
E-commerce	**274,917**	**6.4%**	217,398	8.1%
Others				
Third party catering enterprises	**12,638**	**0.3%**	21,597	0.8%
One-off sales activities	**27,478**	**0.6%**	3,035	0.1%
Total revenue	**4,282,488**	**100.0%**	2,681,373	100.0%

With continuous stable growth and upgrading of consumption in the Chinese hot pot catering industry, the sales amount of the Company from Haidilao catering business recorded a stable growth persistently in 2019. Benefiting from continuous rapid growth in the number of Haidilao restaurants, the sales revenue of the Group from sales to related parties (mainly referring to the Haidilao Group) for the year ended 31 December 2019 was RMB1,663.2 million, representing a year-on-year increase of 41.4%.

For sales revenue of third-party distributors, through the Group's continuous development of lower-tier distribution network and increased density of points of sales, improvement to the incentive mechanism of internal sales, and enhancement of service quality to gain distributors' satisfaction, the overall product sales capabilities was boosted constantly. Also, new channels were created by combining with product features to strengthen the channel development potential. In e-commerce, while the advantages of flagship stores continued to take effect, by leveraging on the strong online platforms, such as Tmall.com and JD.com, the amount of sales maintained a fast growth. For the year ended 31 December 2019, sales revenue from sales to distributors was RMB2,304.3 million, representing a year-on-year increase of 82.4%; sales revenue from e-commerce channel was RMB274.9 million, representing a year-on-year increase of 26.4%;

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			
	2019		2018	
	(RMB'000)	**% of total revenue**	(RMB'000)	% of total revenue
Northern China[(5)]	**1,924,586**	**44.9%**	1,339,493	50.0%
Southern China[(6)]	**2,199,216**	**51.4%**	1,255,998	46.8%
Overseas markets	**158,686**	**3.7%**	85,882	3.2%
Total	**4,282,488**	**100.0%**	2,681,373	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 60.8% from RMB1,642.5 million for the year ended 31 December 2018 to RMB2,641.1 million for the same period of 2019.

Gross profit and gross profit margin

	For the year ended 31 December			
	2019		2018	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
Hot pot condiments	**1,116,862**	**39.7%**	768,809	39.3%
Third parties	**678,812**	**55.6%**	455,567	56.1%
Related parties	**438,050**	**27.5%**	313,242	27.4%
Chinese-style compound condiments	**185,178**	**46.9%**	125,423	49.1%
Third parties	**172,569**	**50.0%**	117,592	51.4%
Related parties	**12,609**	**25.5%**	7,831	29.2%
Convenient ready-to-eat food	**326,855**	**32.7%**	138,715	30.9%
Third parties	**319,616**	**32.7%**	136,927	30.8%
Related parties	**7,239**	**35.3%**	1,788	38.0%
Others	**12,505**	**16.6%**	5,950	28.2%
Total	**1,641,400**	**38.3%**	1,038,897	38.7%

The Group's gross profit increased by 58.0% from RMB1,038.9 million for the year ended 31 December 2018 to RMB1,641.4 million for the same period of 2019, and the gross profit margin decreased from 38.7% for the year ended 31 December 2018 to 38.3% for the same period of 2019. The slight decrease in gross profit margin was mainly due to the significant increase in percentage of revenue contributed by sales of convenient ready-to-eat food products with lower gross profit margin as compared to the same period last year.

Distribution Expenses

The Group's distribution expenses increased by 58.7% from RMB241.5 million for the year ended 31 December 2018 to RMB383.3 million for the same period of 2019. The Group's distribution expenses as a percentage of the Group's revenue was 9.0% in 2019, the same as in whole year 2018. The increase in distribution expenses was mainly due to the establishment of some branch storages that led to an increase in warehousing and transportation costs in order to enhance cooperation with distributors.

Administrative Expenses

The Group's administrative expenses increased by 62.7% from RMB163.2 million for the year ended 31 December 2018 to RMB265.6 million for the same period of 2019. The Group's administrative expenses as a percentage of the Group's revenue slightly increased from 6.1% in 2018 to 6.2% in 2019. The increase in administrative expenses was mainly due to the overly burdensome preliminary expenses incurred in preparation for the construction of Bazhou factory, Maanshan Phase II factory, Luohe factory and Malaysia factory, and the increase in administrative expenses as a result of business development.

Other Income and gains

The Group's net amount of other income and gains decreased by 8.4% from RMB86.2 million for the year ended 31 December 2018 to RMB79.0 million for the same period of 2019, mainly due to the amount of exchange gain from the appreciation of Hong Kong dollar decreased as compared to the same period of 2018.

Finance Income – net

The Group's net amount of finance income increased by 118.8% from RMB10.1 million for the year ended 31 December 2018 to RMB22.1 million of net finance income for the same period of 2019, mainly due to the increase of interest income on bank savings.

Profit before Tax

As a result of the foregoing, the Group's profit before income tax increased by 49.7% from RMB730.5 million for the year ended 31 December 2018 to RMB1,093.6 million for the same period of 2019.

Income Tax Expense

The Group's income tax expense increased by 63.5% from RMB182.6 million for the year ended 31 December 2018 to RMB298.6 million for the same period of 2019. The effective tax rate increased from 25.0% for the year ended 31 December 2018 to 27.3% for the corresponding period in 2019, mainly due to withholding tax on the dividend distribution by one of our subsidiaries in Mainland China to its sole shareholder in Hong Kong, also a subsidiary of the Company, in 2019.

Net Profit for the Year

As a result of the foregoing, net profit of the Group increased by 45.1% from RMB547.9 million for the year ended 31 December 2018 to RMB795.0 for the same period of 2019. Basic earnings per share increased from RMB0.534 for the year ended 31 December 2018 to RMB0.741 for the same period of 2019. Net profit margin decreased from 20.4% for the year ended 31 December 2018 to 18.6% for the same period of 2019.

Capital Liquidity and Financial Resources

For the year ended 31 December 2019, the Group's operations were mainly funded by cash generated from operating activities. The Group intended to utilize internal resources to provide funds for its business operations and expansion through organic growth and sustainable development.

Cash and Cash Equivalents

As at 31 December 2019, the Group's cash and cash equivalents were mainly composed of Renminbi, Hong Kong dollars and US dollars. Cash and cash equivalents amounted to approximately RMB1,036.4 million (31 December 2018: RMB1,179.9 million).

Asset-Liability Ratio

As at 31 December 2019, the Group's asset-liability ratio [7] was 17.6% (31 December 2018: 17.2%), and the increase was mainly due to the increase of lease liabilities, as well as other payables and accruals. The Group did not have any bank borrowings.

Note:

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

Inventories

Inventories mainly include raw materials and finished goods. As at 31 December 2019, the inventories amounted to approximately RMB297.3 million (31 December 2018: RMB275.8 million), the turnover days of inventories decreased from 46.4 days for the year ended 31 December 2018 to 39.1 days for the year ended 31 December 2019. The decrease in turnover days of inventories was mainly due to the Group's enhanced efficiency of inventory control.

Trade Receivables

Trade receivables represent the amounts due from customers in respect of sales of goods in the ordinary course of business. As at 31 December 2019, the trade receivables amounted to approximately RMB269.2 million (31 December 2018: RMB206.9 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 distributor clients) in 2019. The turnover days of trade receivables decreased from 22.7 days for the year ended 31 December 2018 to 20.0 days for 2019.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Due to the cyclical effects of low and peak seasons for production and sales and the seasonal procurement cycle, trade payables amounted to approximately RMB217.4 million as at 31 December 2019 (31 December 2018: RMB188.7 million). The turnover days of trade payables decreased from 35.6 days for the year ended 31 December 2018 to 27.7 days for the year ended 31 December 2019.

Contingent Liabilities

As at 31 December 2019, the Company did not have any contingent liabilities.

Charge of Assets

As at 31 December 2019, the Company did not charge any fixed assets as securities for borrowings.

Borrowings

As at 31 December 2019, the Company did not have any bank borrowings.

Debt-to-Equity Ratio

As at 31 December 2019, the debt-to-equity ratio [(8)] of the Company was 1.4%.

Note:

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

Foreign Exchange Risk and Hedging

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

Employees and Remuneration Policy

As at 31 December 2019, the Group had a total of 1,907 employees (including temporary workers), comprising 1,413 employees in production, 358 employees in marketing and 136 employees in administration and management functions.

For the twelve months ended 31 December 2019, the Group's total staff costs amounted to RMB453.6 million, including salaries, wages, allowances, benefits and costs of equity incentive plans. The Group continued to optimize the incentive-based system in line with business development needs and implemented remuneration policies with competitiveness.

Material Acquisitions and Disposals

For the year ended 31 December 2019, the Group did not have any material acquisition or disposal of subsidiaries, associates and joint ventures.

FUTURE PROSPECTS

Industry and Business Outlook

The growth of global economies and world trade has slowed down at the moment, with increased sources of volatility and points of risks. In the domestic economy, the issues of structural, systematic and cyclical intertwined with each other, and downside pressure on the economy remained intense. Meanwhile, due to the impact of the novel coronavirus outbreak, the year of 2020 is expected to face a challenging downside trend in the consumer market, and the economy will be subject to short-term pains and challenges, but the long-term, the optimistic development trend for the PRC economy as a whole will remain unchanged. Faced with this new situation, it is believed that the PRC government will adopt measures to stabilize growth, facilitate development, turn risks into opportunities and continue to go forward.

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

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

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

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

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

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

Material Investments and Prospects

In order to ease the pressure from a continuously increasing production capacity utilization rate, the Group mainly adopted the following measures in 2019:

Firstly, the construction project of the south workshop in Bazhou Phase I located in Hebei Province, China was basically completed, and had formally commenced production in September 2019. The north workshop of Bazhou Phase I is expected to commence formal production in August 2020. The project of Bazhou Phase I is expected to bring in more than 70,000 tonnes of production capacity , including the special production line for developing soup flavorings for the "Thousand People Thousand Flavors" series of Haidilao Group restaurants and the production line for retail products of hot pot soup flavorings. The Bazhou Phase II project is still under the planning stage, and is expected to be completed by the end of 2022. The project of Bazhou factories is located at the northern China central region, which will help the Group to control and manage logistics costs and peak season pressure more effectively.

Secondly, the Group entered into a land acquisition agreement with the local government at Maanshan, Anhui Province, in August 2018. The total planned production capacity was 150,000 tonnes, of which 60,000 tonnes of production capacity are expected to commence production before the end of 2021, and the whole project will be completed and commence production in 2023. As of the current date, the overall planning of the factory has been completed, and is preparing to enter the civil construction planning stage. The Maanshan Phase II project will be equipped with condiment production equipment, quality inspection instruments and technical process at domestic and international advanced level to enhance the Company's overall production line efficiency.

Thirdly, the Group entered into a land acquisition agreement with the Linying County Government in Luohe, Henan Province, during the first half of 2019. The Luohe production base has commenced construction in the second half of 2019 and will commence production before the end of 2021. The expected production capacity of Phase I will be 150,000 tonnes and the designed production capacity of Phase II will be 150,000 tonnes, which is expected to commence production in 2024.

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 2019, 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 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.

Due to good practice of corporate governance, with effect from 25 March 2020, Mr. Shi Yonghong has resigned from the post of chief executive officer and Mr. Guo Qiang has been appointed as the chief executive officer of the Company. Please refer to the announcement on change of chief executive officer dated 25 March 2020 for further details.

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 2019.

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 2019.

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 2019.

Audit Committee

The audit committee of the Board (the "**Audit Committee**") has three members comprising three independent non-executive Directors, being Mr. Yau Ka Chi (chairman of the Audit Committee), Mr. Qian Mingxing and Ms. Ye Shujun, with terms of reference in compliance with the Listing Rules.

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Company and the Group and discussed matters in relation to internal control and financial reporting with the management. The Audit Committee considers that the annual financial results for the year ended 31 December 2019 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 2019 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 2019, 748,000 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 all of the remaining RSUs (i.e. 8,392,000 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 2019, all of the 1,510,000 RSUs have been vested in accordance with the vesting period as set out in the announcement.

The Company approved and granted 750,000 RSUs pursuant to the RSU Scheme on 27 December 2019. Please refer to the announcement of the Company dated 27 December 2019 for details. As at December 2019, all of the 750,000 RSUs have been vested in accordance with the vesting period as set out in the announcement.

Events After the End of the 31 December 2019

The spread of the novel COVID-19 in Mainland China and other countries and regions since the beginning of 2020 has a certain impact on economic activities. We refer to announcements of Haidilao dated 28 January 2020 and 2 February 2020 regarding the suspension of operation of restaurants of Haidilao Group in Mainland China due to the outbreak of COVID-19. According to the announcement of Haidilao dated 11 March 2020 and as at the date of this announcement, certain restaurants of Haidilao Group in Mainland China have resumed operation, and the remaining restaurants will resume operation in batches according to the development of the relief of the epidemic in the regions where the relevant restaurant is located. As Haidilao Group is the largest customer of the Group, closure of their restaurants for an extended period of time may affect the business, operations and financial results of the Group. The Group has taken all possible effective measures to respond to the impact from this epidemic on our business. Currently, the third party retail business of the Group is operating normally. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.

FINAL DIVIDEND

The Board resolved to propose to the Shareholders in the forthcoming annual general meeting (the "**AGM**") on Friday, 22 May 2020 for the distribution of a final dividend of RMB20.593 cents per share for the year ended 31 December 2019. The final dividend is expected to be paid on or about Monday, 15 June 2020 to the Shareholders whose names are listed in the register of members of the Company on Monday, 1 June 2020, in an aggregate of approximately RMB215.6 million. The final dividend will be distributed in Hong Kong dollars and will be calculated based on the average benchmark exchange rate of RMB against Hong Kong dollar announced by the People's Bank of China in the five working days prior to but excluding the date of the Board meeting held on Wednesday, 25 March 2020. 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 Tuesday, 19 May 2020 to Friday, 22 May 2020, both days inclusive, in order to determine the eligibility of the Shareholders to attend and vote at the AGM to be held on Friday, 22 May 2020. The Shareholders whose names appear on the register of members of the Company at the close of business on Monday, 18 May 2020 (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 Monday, 18 May 2020.

The register of members of the Company will also be closed from Thursday, 28 May 2020 to Monday, 1 June 2020, both days inclusive, in order to determine the entitlement of the Shareholders to the final dividend. The Shareholders whose names appear on the register of members of the Company at the close of business on Monday, 1 June 2020 will be entitled to the final dividend. In order to be eligible to be entitled to the final dividend, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Wednesday, 27 May 2020.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The annual report for the year ended 31 December 2019 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the websites of the HKSE 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, 25 March 2020

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